CANCOM®

Leading provider of IT infrastructure and professional services

Annual report 2011

CANCOM AG

20 years of CANCOM, 20 years of success.

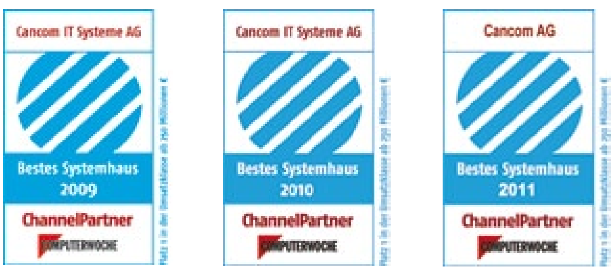
Munich-based CANCOM AG was founded in 1992. Today the company is a major player in the market for integrated IT solutions and is now one of the top three independent integrated systems providers in Germany.

The Group's integrated portfolio of products and services is geared towards the demands and needs of small, medium and large companies. It ranges from consulting and IT architecture design to IT procurement, integration and system operation.

CANCOM is a reliable and professional IT partner that offers its customers value added. With the highest level of partner certifications from leading technology manufacturers such as HP, Microsoft, IBM, SAP, Symantec, Citrix, VMware, Apple and Adobe, CANCOM has crucial expertise in the IT segments with the most promising future.

Best Integrated Systems Provider,
three times in a row.

In 2011 the leading German IT trade magazine Computerwoche conducted an exclusive study with ChannelPartner magazine to find the most customer-friendly integrated systems providers. For the third consecutive year, CANCOM won first prize among the systems houses.

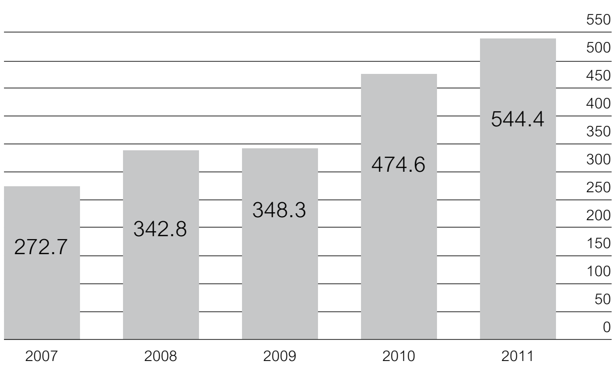


Overview of key figures CANCOM group (in € million)

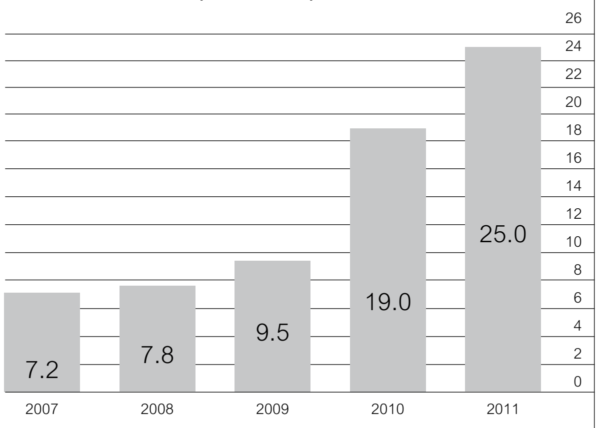
	2011	2010	2009	2008	2007
Revenues*	**544.4**	474.6	348.3	342.8	272.7
Gross profit*	**159.3**	142.9	110.5	102.8	81.0
Consolidated EBITDA*	**25.0**	19.0	9.5	7.8	7.2
EBITDA magin (%)*	**4.6**	4.0	2.7	2.3	2. 6
Consolidated EBIT*	**18.5**	15.2	7.1	5.6	5.5
Net income for the period*	**11.7**	7.9	5.1	2.7	5.2
Earnings per share from continuing operations €	**1.14**	0.92	0.48	0.31	0.41
Balance sheet total	**194.9**	177.4	134.9	120.7	100.4
Equity	**60.9**	51.0	43.9	38.9	36.3
Equity ratio (%)	**31.2**	28.7	32.5	32.2	36.2
Adjusted average number of shares (in 1,000) (diluted)	**10,391**	10,321	10,391	10,391	10,391
Employees as of December 31	**2,044**	1,943	1,740	1,643	1,263
Cash and cash equivalents as of December 31	**44.4**	31.5	25.8	18.3	11.8

* according to IFRS adjusted for discontinued operations in the years presented

Revenues 2007-2011* (in € million)



EBITDA 2007-2011* (in € million)



Publishey by
CANCOM AG
Ridlerstraße 37
D-80339 München
Germany
www.cancom.de

Investor Relations
Beate Rosenfeld
Telefon: +49 8225 996-1015
Fax: +49 8225 996-4-1015
E-Mail: ir@cancom.de

Designed and produced by
CANCOM AG, München, Germany
E-Mail: info@cancom.de

Photos
Umschlag:
istockphoto © shironosov
istockphoto © nyul
istockphoto © skynesher
fotolia.de © pressmaster
fotolia.de © willem169
istockphoto © alexsl

Seite 5: fotolia.de © krimar
Seite 5: fotolia.de © JENS SCHMIDT
Seite 29: © Christina Bleier
Seite 48: © Stefan Boesl
Seite 79: fotolia.de © Sergej Khackimullin
Seite 83: istockphoto © grybaz

Printed and bound by
F&W Mediencenter GmbH
Holzhauser Feld 2
D- 83361 Kienberg
Germany

Translation
Verbum versus Verbum, Rosbach v. d. H., Germany
E-Mail: verbum.versus.verbum@t-online.de

Table of contents

Letter to our shareholders

Dear Shareholders,

2011 was the best financial year for CANCOM in the history of the now 20-year-old company. The Group's revenues grew further and profits were significantly increased. This success is mainly due to the strong engagement of our employees. It is the most important "off balance asset" which enables our successful growth.

Additionally there were a number of positive developments during the past year. Our business benefited from the stable economic situation in Germany. The businesses acquired in the past years are now paying off, following initial restructuring costs. We have managed to expand our business further by extending our expertise and offering customers an even wider portfolio of products and services.

We are particularly proud to have been awarded three times in a row the title of Best Integrated Solutions Provider by our customers and the leading trade magazines, Computerwoche and ChannelPartner. This award underlines our strong positioning in the market and the sector.

Cloud computing continues to drive our business. We improve the flexibility and efficiency of our customers' IT systems and help them to achieve lasting reductions in costs. We have been building up expertise in this growth market for years and are one of only a few IT service providers to have our own tried and tested private cloud solution designed for small and medium-sized companies. Our private cloud solution earned us the IBM Bestseller Award as a cloud solutions partner in the spring of 2011. This attests to the quality, innovative potential and capability of both the company and the CANCOM AHP Private Cloud.

As in past years, in 2011 we placed great value on maintaining the strength of our balance sheet and developing a sustainable cash flow. Our comfortable cash position continues to provide us with a good basis both for further growth and for a sustainable dividend policy.

In 2012, CANCOM celebrates its 20th anniversary. On this occasion we would like to thank our employees, customers, partners and shareholders for their commitment, confidence and teamwork, not just in 2011 but for the past two decades.

We will continue to manage the company value-oriented and thereby rely on the increase in the long-term cash flow.

Klaus Weinmann　　Rudolf Hotter

Executive Board of CANCOM AG

The share

The share

Key figures relating to the capital market (in €)

	31 Dec. 2011	31 Dec. 2010	Percentage change
Stock exchange price at financial year-end (Xetra closing price in €)	8.81	9.35	– 5.8
Number of shares (at financial year-end, in million)	10.39	10.39	+ 0.0
Market capitalisation (at financial year-end, in € million)	91.60	97.15	– 5.7
Earnings per share (in €)	1.14	0.92	+ 23.9

The trend in the German equity market

The financial markets had a turbulent year in 2011. The German equity market recorded one of the worst years in its history. Worries about the European debt crisis and the global economy led to uncertainty among investors, especially from the middle of the year, ultimately resulting in dramatic price drops. The blue-chip index of Deutsche Börse, DAX, lost around 15 percent during the course of the year to close under the 6,000-point mark. Although it recovered after its crash following the natural disaster in Japan at the start of March, to reach its highest point at 7,500 points by May, the index slipped back almost to 5,000 points during August and September. It finally made a slight recovery towards the end of the year to close at 5,898 points. The selection index of Deutsche Börse for mid-sized companies from technology sectors, TecDax, also recorded a decline of 166 points during the year – around 19 percent – and finished at 685.06 points.

CANCOM share price performance

The CANCOM share was unable to escape this trend. It started the year 2011 at an opening price of € 9.25, and reached its highest point in February at € 11.30. Like the benchmark DAX index, the CANCOM share price initially suffered from the impact of the events in Japan. After a short but significant recovery period that lasted until May, the price began to fall in June, mirroring the stock market trend, until it reached its lowest point at € 6.70. From this point onwards the share price rose moderately, finally closing the year at € 8.81.

After the DAX had already regained the 6,000-point mark at the beginning of January 2012, the index rose up to above 7,000 points until the middle of March. The TecDAX also rose above the 700-point mark at the start of the year.

The CANCOM share made an optimistic start to the year 2012 on the stock market, raising up to nearly € 10.00 in February.

Concerning the outlook for the stock markets in the current year, the sentiment has brightened again, but will also be characterized by uncertainties.

Investor and public relations – dialogue with the shareholders

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 legal requirements and complying with stock exchange regulations regarding, for instance, ad hoc announcements and quarterly reporting, CANCOM puts a lot of effort into investor and public relations activities. As well as maintaining an up-to-date, 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 2011. It also took part in the German Equity Forum 2011 in 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.

CANCOM AG	
WKN / ISIN	541910 / DE0005419105

Combined management report for CANCOM AG and the CANCOM Group for the financial year from 1 January to 31 December 2011

1. Business and general economic situation

Organisational and legal structure of the CANCOM Group

CANCOM AG, based in Munich, Germany, performs the central financial and management role for the equity investments held by the CANCOM Group.

The e-commerce business segment comprises CANCOM Deutschland GmbH, CANCOM Computersysteme GmbH, CANCOM a + d IT solutions GmbH, CANCOM (Switzerland) AG, and CANCOM Ltd, minus 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 IT Solutions GmbH, CANCOM NSG GmbH, CANCOM NSG GIS GmbH, CANCOM NSG SCS GmbH, CANCOM NSG ICP GmbH, CANCOM physical infrastructure GmbH, acentrix GmbH, CANCOM Plaut Managed Services GmbH (since 5 March 2012 CANCOM cloud solutions GmbH), and the cost centres of CANCOM Deutschland GmbH allocated to CANCOM IT Solutions GmbH. This business segment offers comprehensive services relating to IT infrastructure and IT applications. The range of services offered includes IT strategy consulting, project planning and project implementation, system integration, maintenance and training, as well as numerous IT services, right through to full and integrated 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's main focus is on IT services, in addition to distributing hardware and software from prestigious manufacturers. Its IT services range includes design of IT architectures and IT 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.

Explanation of the control system used within the Group

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

Research and development activities

Innovation is very important for economic momentum and growth. However, as it is purely a service and trading enterprise, CANCOM does not conduct any research. Development work focuses mainly on software solutions and applications in IT trend areas such as cloud computing, virtualisation, mobile solutions, IT security and managed services. It is very limited in scope and is mainly used for the Group's own purposes.

In the cloud computing business, a high-tech platform, the CANCOM AHP Private Cloud, was developed in financial 2010; standard technologies were integrated and, based on these developments, an out-of-the-box solution was implemented. Companies, IT departments and users gain enormous advantages from the central provision of applications and desktops.

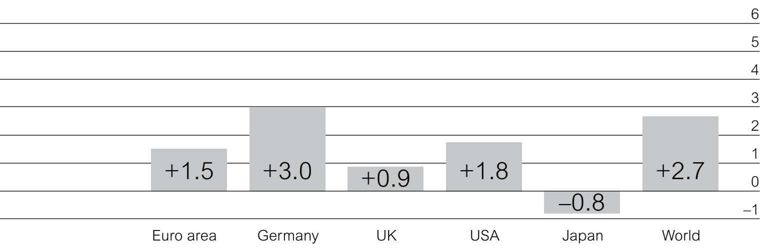
In addition to the continuing development of the CANCOM AHP Private Cloud, there was development work in the online segment as well as on additional modules for a new ERP system for a subsidiary.

The performance of the economy as a whole

There was strong growth in the German economy again in 2011. The high growth rates in private consumption and investments made a particularly significant contribution to the upturn. Gross domestic product (GDP) grew by 3.0 percent in 2011, compared with 3.7 percent in 2010. Economic growth slowed down somewhat in the fourth quarter, although GDP was up by around 1.5 percent year on year. In the third quarter, GDP was up by as much as 2.5 percent year on year.

Gross domestic product in 2011*

(real change compared with 2010, in percent)



*Forecast: Deutsche Bank Economic Research, 12 January 2012

According to the Federal Statistical Office of Germany, the price trend in Germany in 2011 was dominated by a relatively sharp increase in consumer prices, estimated at an average of 2.3 percent for the year. By contrast, the average inflation rate for the year 2010 was only 1.1 percent.

The European Central Bank's first reduction in the key interest rate of the eurozone in 2011 came in November, when it was lowered from 1.5 percent to 1.25 percent. This was followed in December by another reduction of a further 0.25 percentage points to 1.0 percent which brought the interest rate to its lowest point since 2009. In the UK, the Repo Rate has remained at an all-time low of 0.5 percent since 2009. The US Federal Reserve Bank (Fed) has kept the Federal Funds Rate at between 0 percent and 0.25 percent since December 2008.

According to the German Federal Employment Agency, the unemployment rate fell by 0.6 percent to 7.1 percent in 2011.

Economic experts expect a moderate 0.5 percent economic growth on average throughout the year 2012 as a whole.

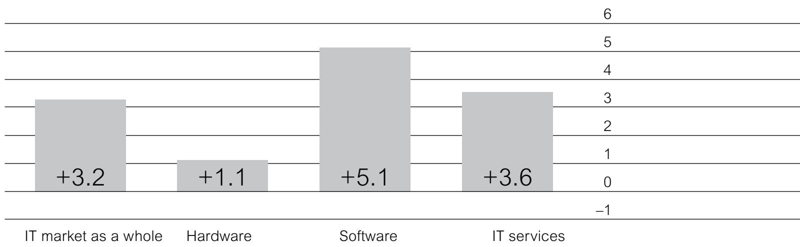
The performance of the information technology sector

The IT sector had a good year in 2011. According to the latest estimates by the German Association of the Information Industry, Telecommunications and New Media (BITKOM), the German IT market grew by 3.2 percent in 2011.

Within the sector, the IT hardware segment grew by 1.1 percent, the IT software segment by 5.1 percent and the IT services segment by 3.6 percent.

Performance of the German IT market in 2011**

(real change compared with 2010, as a percentage)



** Forecast: BITKOM, November 2011

Overview of the CANCOM Group's business performance

The CANCOM Group continued on its path of growth in the financial year 2011. Consolidated sales revenues and consolidated operating profits both exceeded the figures for the previous year, reaching the highest levels in the history of the company. To comply with the provisions of International Financial Reporting Standard (IFRS) 5, some adjustments had to be made to the consolidated figures for 2010 regarding areas that were classified as discontinued operations in 2011.

Consolidated sales revenues were up 14.7 percent in financial 2011, from € 474.6 million to € 544.4 million.

Consolidated gross profits rose by 11.5 percent year on year, from € 142.9 million to € 159.3 million. The gross profit margin fell over the course of the year from 30.1 percent to 29.3 percent.

Consolidated EBITDA rose by 31.6 percent year on year, from € 19.0 million to € 25.0 million.

Consolidated EBIT was up 21.7 percent year on year, from € 15.2 million to € 18.5 million.

The consolidated profit for the year rose from € 7.9 million to € 11.7 million. This resulted in earnings per share from continuing operations of € 1.14, compared with € 0.92 in 2010.

Total assets rose from € 177.4 million to € 194.9 million as a result of the company's continued growth. The nominal equity capital rose from € 51.0 million to € 60.9 million. This resulted in an equity ratio of 31.2 percent, compared with 28.7 percent in 2010.

The company's growth and the associated increase in current assets resulted in a significant positive operating cash flow of € 26.7 million in 2011, compared with € 16.9 million in 2010.

There was a significant increase in cash and cash equivalents, from € 31.5 million at 31 December 2010 to € 44.4 million at 31 December 2011.

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. Below is a description of events that had a significant effect on the Group's business performance, and other important events and investments in the financial year 2011:

- To expand its e-commerce business, CANCOM invested around € 1.5 million in a new web shop based on the most advanced technologies.
- A resolution was passed at the general meeting of shareholders on 8 June 2011 to change the company name to CANCOM AG (formerly CANCOM IT Systeme AG), and to relocate its registered office to Munich, Germany.
- On 27 June 2011, CANCOM Plaut Managed Services GmbH and Plaut System und Solutions GmbH signed an agreement to change the purchase price set out in the contract of sale dated 29 November 2011 for the acquisition of Plaut's SAP Hosting Business, Outsourcing and IT Services division. Instead of a variable purchase price, a fixed total price due for payment on 30 June 2011 was agreed.
- CANCOM IT Solutions GmbH, Munich, Germany, was merged into CANCOM SCC GmbH, Stuttgart, Germany, and the merged company was renamed CANCOM IT Solutions GmbH. This is documented in a contract signed on 8 May 2011, with retroactive effect from 1 January 2011. The company's registered office was relocated to Munich.
- CANCOM AG sold its entire shareholding in HOH Home of Hardware GmbH for € 3 million. The sale is documented by a contract dated 5 July 2011. HOH Home of Hardware GmbH is an online IT, telecommunications and home entertainment shop. The CANCOM Group's intention in selling HOH, which operates mainly in the consumer environment, is to concentrate on the higher-margin business customer segment.
- CANCOM AG sold its entire shareholding in the Austrian company Plaut Aktiengesellschaft over the counter at € 0.92 per share. The proceeds of the sale of this parcel of shares amounted to € 4.2 million. After deduction of the average acquisition costs, CANCOM made a profit of around € 360 thousand.

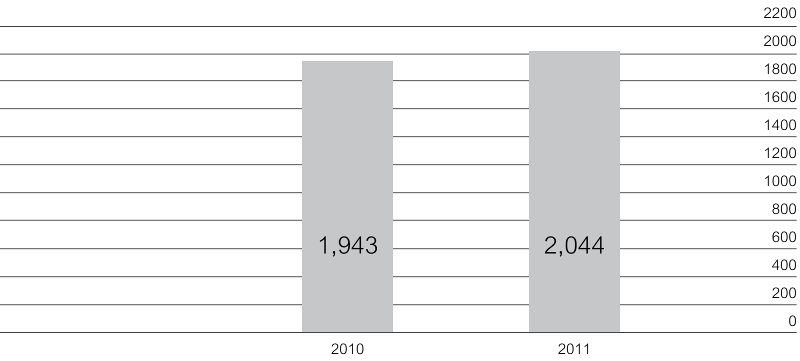
Employees

The CANCOM Group employed an average of 2,036 people in its continuing operations during the financial year 2011, as compared with 1,913 in 2010. As at 31 December 2011, the Group employed 2,044 people, compared with 1,943 the previous year.

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

Professional services:	1,423
Sales and distribution:	338
Central services:	283

Number of employees in the CANCOM Group, 2010 – 2011
(as at 31 December each year)



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

	2011	2010
Wages and salaries	91,551	81,372
Social security contributions	16,060	15,330
Pension provisions	350	312
Total	**107,961**	**97,014**

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.

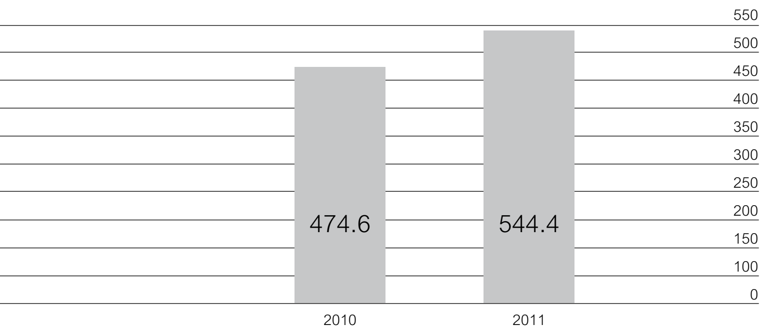
CANCOM offers innovative green IT products and solutions, including cloud computing, in order to make a professional contribution to the environmentally-friendly and resource-conserving use of information and communications technology over the whole life cycle of the equipment. For instance, CANCOM offers 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's use of advanced, intelligent systems, such as video conferencing, enables energy and resources to be conserved. 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 sharply again in the financial year 2011, from € 474.6 million to € 544.4 million. This represented an increase of 14.7 percent, of which 13.4 percent was organic growth. The CANCOM Group succeeded in widening its portfolio in the cloud services segment, among other things by its acquisition of Plaut's SAP Hosting and IT Services division at the end of 2010, so expanding its business further. The steady demand from customers and the continuing strength of the economy also contributed to this gratifying growth.

Sales revenues of the CANCOM Group, 2010 – 2011 (in € million)

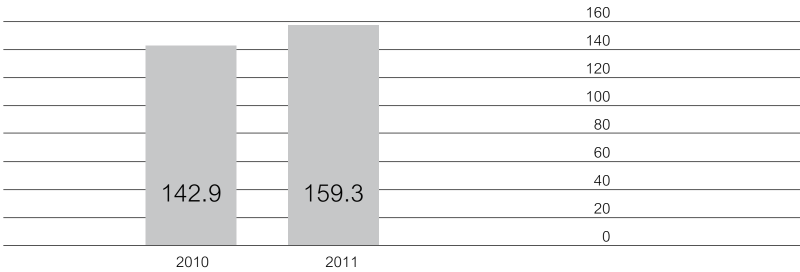


Sales revenues in Germany rose by 13.7 percent in 2011, from € 441.7 million to € 502.0 million. In international business, Group sales revenues were up 28.9 percent, from € 32.9 million to € 42.4 million.

In the e-commerce business segment, sales revenues were up 10.5 percent to € 188.4 million, compared with € 170.5 million in 2010. In the IT solutions segment, sales revenues were up 17.1 percent, from € 304.1 million to € 356.0 million.

The Group's gross profit rose by 11.5 percent year on year, from € 142.9 million to € 159.3 million. The gross profit margin fell year on year from 30.1 percent to 29.3 percent.

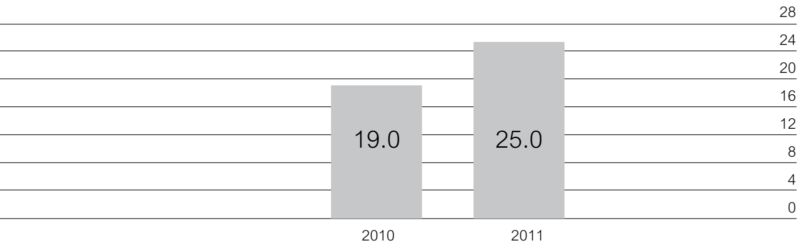
Gross profit of the CANCOM Group, 2010 – 2011 (in € million)



Owing to the expansion of the Group's activities in the higher-margin services segment, there has been an increase in personnel expenditure from € 97.0 million to € 108.0 million. Other operating expenses fell slightly to € 26.4 million.

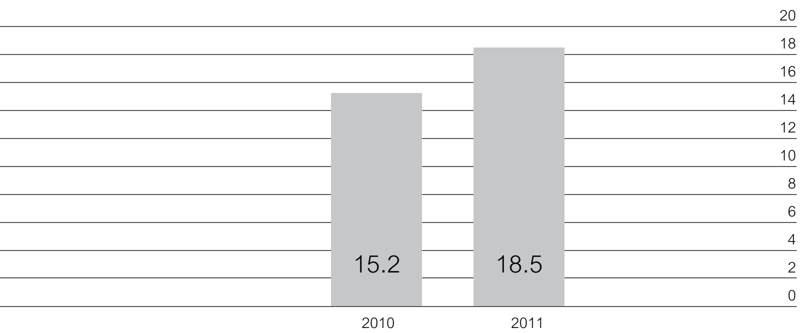
Consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) rose by 31.6 percent in 2011, from € 19.0 million to € 25.0 million.

EBITDA of the CANCOM Group, 2010 – 2011 (in € million)



Consolidated earnings before interest and tax (EBIT) were up 21.7 percent, from € 15.2 million to € 18.5 million.

EBIT of the CANCOM Group 2010 – 2011 (in € million)



The CANCOM Group succeeded in increasing its profits further in 2011, partly owing to the positive contribution of the acquisitions made since 2008. The Group has also improved the quality of its results by focusing on high-income and high-growth market segments such as IT solutions, IT consulting and managed services, and by gearing the portfolio towards emerging trends such as cloud computing,

The consolidated profit for the year rose from € 7.9 million to € 11.7 million. This resulted in earnings per share from continuing operations of € 1.14, compared with € 0.92 in 2010.

The order position

In the e-commerce 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 order volume looks set to continue on a positive course.

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

The positive order position in 2011 has continued in the first quarter of 2012 up to the time of preparation of this combined management report.

Explanations of individual items on the statement of income

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 € 109.2 million (2010: € 89.8 million), include the component of long-term debt due within a year, trade accounts payable, provisions and other current liabilities. The increase in current liabilities in comparison with 2010 is mainly attributable to two factors. The first of these is an increase in the short-term portion of the profit-participation capital and subordinated loans owing to the fact that the profit participation rights (PREPS) are due to mature in 2012. In 2005, the CANCOM Group 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 second factor in the increase in current liabilities is the increase in trade accounts payable, although against this there was an increase in the volume of accounts receivable and in cash and cash equivalents.

The non-current liabilities, which amount to € 24.2 million (2010: € 36.6 million), are liabilities with a residual term of at least one year.

In the financial year 2010, CANCOM AG received a commitment from the German publicly-owned development bank, Kreditanstalt für Wiederaufbau (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).

In financial 2007, CANCOM AG concluded a contract with Bayern Mezzaninekapital GmbH & Co. KG for the provision of mezzanine capital amounting to € 4 million. This must be repaid in full by 31 December 2015; a portion of € 1 million was repaid early on 31 December 2011 under an early repayment agreement. 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.

The financing structure was shifted in favour of short-term financing over the course of the year. Short-term liabilities and the current component of long-term debt amount to € 9.1 million (2010: € 1.6 million) and mainly consist of the short-term portion of the profit-participation capital and long-term loans. Interest-bearing liabilities amount to € 14.2 million (2010: € 24.0 million), consisting of long-term loans and profit-participation capital, and subordinated loans at approximately 50 percent each. However, the liable equity capital was raised by retention of profits.

There was a significant increase in nominal equity capital during the year to € 60.9 million (2010: € 51.0 million) due to raised profits. There was also an increase in the equity ratio from 28.7 percent in 2010 to 31.2 percent as at 31 December 2011.

On the assets side, there was an increase in current assets to € 140.1 million. The main reasons for this were a 41.0 percent increase in cash and cash equivalents from € 31.5 million to € 44.4 million and a 6.2 percent increase in trade accounts receivable from € 68.0 million to € 72.2 million. The latter is owing to the continued strong expansion of business activities in 2011.

Non-current assets fell to € 54.5 million, mainly owing to the sale of the shares in the Austrian company Plaut Aktiengesellschaft.

The balance sheet total rose to € 194.9 million, compared with € 177.4 million in 2010.

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 – and the higher profits for the year before taxes and minority interests, the cash flow from operating activities amounted to € 26.7 million in 2011, compared with € 16.9 million in 2010. There was a negative cash flow from investing activities of € 8.0 million, compared with a negative cash flow of € 17.3 million in 2010. There was a negative cash flow from financing activities of € 5.8 million, compared with a positive cash flow of € 5.9 million in 2010. This is mainly owing to the repayment of loans. Overall, this gave rise to cash and cash equivalents of € 44.4 million, compared with € 31.5 million in 2010.

On balance, the earnings, financial and assets position of the Group improved further in the financial year 2011.

3. Earnings, financial and assets position of CANCOM AG

CANCOM AG performs the central financial and management role with regard to the equity investments held by the CANCOM Group. The risks and opportunities of CANCOM AG 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 AG's sales revenues amounted to € 7.5 million in 2011, compared with € 6.6 million in 2010. The net income for the year was € 11.2 million, compared with € 8.0 million in 2010.

Total assets as at 31 December 2011 were 17.5 percent higher than in 2010, at € 79.9 million (2010: € 68.0 million). The company's equity capital was up 21.1 percent, from € 46.0 million to € 55.7 million. As a result, the equity ratio rose to 69.7 percent (2010: 67.6 percent).

The share capital of CANCOM AG remained unchanged in 2011, at € 10,390,751 divided into 10,390,751 shares of € 1 each.

Cash and cash equivalents as at 31 December 2011 were higher than on the same date in 2010, at € 17.3 million compared with € 12.9 million. Net liquidity (cash and cash equivalents less liabilities due to banks) rose to € 11.7 million compared with € 7.3 million in 2010.

Overall, there was a further improvement in the assets, earnings and financial position of CANCOM AG in 2011.

4. Events of particular significance after the reporting date

There were no events of particular significance after the reporting date up to 12 March 2012, the time of preparation of the combined management report of CANCOM AG and the CANCOM Group by the Executive Board.

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

German Accounting Amendment Standard (Deutscher Rechnungslegungs Änderungsstandard, DRÄS) No. 5, which was adopted by the German Accounting Standards Board (Deutscher Standardisierungsrat, DSR) on 5 January 2010, amended the German Accounting Standard (Deutscher Rechnungslegungs Standard (DRS) 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 4 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 AG as at 31 December 2011 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 and utilisation of the company's own shares

The annual general meeting of shareholders of CANCOM AG (formerly CANCOM IT Systeme AG) has authorised the Company on 22 June 2010 to buy its own shares up to 10 percent of the share capital as at 22 June 2010.

According to the resolution, the Company can purchase its own shares under exclusion of the purchase right of the shareholders for all legally allowed purposes and especially for the purposes fixed in the resolution, and to retire them.

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 d and 71 e of the German Stock Companies Act, account for more than 10 percent of the share capital.

The authorisations to purchase own shares, to retire, to sell or to use them otherwise may be exercised one time or several times, single or combined or respectively in tranches.

The shares may be purchased on the stock exchange, via public offer to all shareholders or via a public request to all shareholders for submission of sales offers.

The authorisation resolved by the general meeting of shareholders of 24 June 2009 ended as soon as the new authorisation became effective.

In 2011 no use was made of this authorization to purchase own shares.

5.3. Direct or indirect equity investments of 10 percent or more

For details of direct or indirect equity investments 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 (Aktiengesetz, AktG) apply to changes to the articles of association.

5.6. Significant agreements entered into by CANCOM AG 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 total remuneration of the Executive Board of CANCOM AG, and explains the structure and level of Executive Board members' emoluments. The report also covers the remuneration of the Supervisory Board members. The report is based on the recommendations of the German Corporate Governance Code and contains details in compliance with the requirements of the German Commercial Code (Handelsgesetzbuch, HGB) as well as International Financial Reporting Standards (IFRS). The remuneration report forms a part of the notes to the consolidated accounts.

6.1. Remuneration of the Executive Board

The Supervisory Board is responsible for setting and monitoring the remuneration of Executive Board members. The remuneration depends, inter alia, on factors such as the size of the company, its financial situation and the level of remuneration of the executive boards of comparable companies, both within and outside the IT sector. The tasks and the contribution of the relevant Executive Board member are also taken into account. The system of Executive Board remuneration used at CANCOM AG is geared towards the sustainable development of the company.

Additionally, in the spring of 2011 the Executive and Supervisory Boards resolved to present the adjusted Executive Board remuneration system for a vote at the general meeting of shareholders. The remuneration system was approved by the annual general meeting on 8 June 2011. Both the principles for setting the remuneration of Executive Board members for the financial year 2010 and the changes to take effect from the financial year 2011 were explained in the annual report for 2010.

Basic salary and variable pay (bonus)
The remuneration of the Executive Board is performance-related. In 2011, the remuneration of Klaus Weinmann and Rudolf Hotter consisted of a fixed payment (basic salary) and a variable bonus.

The fixed remuneration is paid as a monthly salary. Whether the variable bonus is paid, and how much is paid, depends on whether the target EBITDA of the CANCOM Group for the financial year 2011 is achieved. Half of the variable bonus 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 is 1.0 percent of the EBITDA generated, while Rudolf Hotter‘s bonus will be 0.5 percent of the achieved 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 2011 (rounded figures):

The remuneration of the CEO, Klaus Weinmann, consists of a fixed payment of € 480.0 thousand, an annual bonus of € 500.0 thousand and other remuneration components amounting to € 20.5 thousand. His total remuneration is € 1,000.5 thousand. The remuneration of the other Executive Board member, Rudolf Hotter, consists of a fixed payment of € 320.0 thousand, an annual bonus of € 250.0 thousand and other remuneration components amounting to € 4.7 thousand. His total remuneration is € 574.7 thousand. The total remuneration of the Executive Board for the financial year 2011 is € 1,575.3 thousand.

6.2. Remuneration of the Supervisory Board
The current rules on remuneration of the Supervisory Board are set out in article 10 of the articles of association. Contrary to a recommendation by the German Corporate Governance Code (Deutscher Corporate Government Kodex), the Supervisory Board’s remuneration consists purely of a fixed salary. The Deputy Chairperson is paid the same as the other members 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 € 10 thousand 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 in direct connection 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 2011 (rounded figures):

The remuneration of the Chairperson of the Supervisory Board, Walter von Szczytnicki, was € 26.0 thousand. Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann each received € 13.0 thousand as well as Petra Neureither received € 7.3 thousand and Dr. Klaus F. Bauer received € 5.0 thousand. The total remuneration of the Supervisory Board members in 2011 was € 90.3 thousand.

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 AG and the Chairperson of its Supervisory Board, Walter von Szczytnicki. The contract was drawn up in accordance with Section 114 paragraph1 of the German Stock Companies Act (Aktiengesetz, AktG) and provides for an annual remuneration of € 60 thousand. The remuneration paid in the financial year 2011 thus amounted to € 60 thousand.

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 CANCOM AG Supervisory Board of Walter Krejci, managing director of Auriga Corporate Finance GmbH. The agreement was signed on 7 March 2007 and complies with Section 114 paragraph 1 of the German Stock Companies Act (Aktiengesetz, AktG). No payments were made to the company on the basis of the consultancy agreement in 2011.

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

The new Section 289a was added to the German Commercial Code 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 AG 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, as well as an outline of possible future developments or events that would have a negative impact on the CANCOM Group.

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 and assets 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 its risk analysis procedure, CANCOM regularly classifies and measures risks according to the probability of their occurrence and their severity, and then arranges the information 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 to whom the particular risk has been assigned.

For risks to the company as a going concern, CANCOM's system for early identification of risks defines 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 ongoing and timely control of existing and future risks. They also provide 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 the business.

External business risks

Economic experts anticipate that the downturn in the global economy and the continuing debt crisis in the eurozone will put a damper on Germany's economy. This could also influence companies' willingness to invest in IT, so that spending in this area will be postponed, although generally companies will catch up on IT investment at a later point.

CANCOM's business activities throughout Europe expose it to strong competition in the various national sales markets through its range of products and services. As the IT sector is characterised by particularly fast and frequent changes, 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.

In addition, there is a risk from dependence on individual large customers. Thanks to 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 Atos Group, particularly Atos Solutions and Services GmbH. A significant reduction in orders from companies in the Atos Group could have a considerable negative impact on the sales and results of the CANCOM Group. The risk connected with dependence on the Atos 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. We cannot rule out the risk that these business fields might not perform as well as anticipated, with resulting consequential risks for the assets, financial and earnings position. 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.

There are also 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. CANCOM tries to reduce these risks by keeping in close contact with major manufacturers and distributors and by 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 as the company grows, 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, by tried, tested and trusted administration and controlling systems, and by 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.

Additionally, the shortage of specialist staff in the IT sector could make recruitment more difficult.

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 million. Of this amount, € 11 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.

CANCOM AG is mainly financed by long-term loans and especially subordinated loans. The company does not currently see any financing risks or other risks that could jeopardise its continued existence.

• 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, deliveries to CANCOM's customers are generally only made 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, sales statistics are automatically drawn up as part of a product range analysis. 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.

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 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 AG is to acquire, hold and sell equity investments in companies, as well as to carry out activities connected with raising capital.

Dealing in derivatives 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 reporting date CANCOM AG did not hold any derivatives or structured products. The financial market risk is limited to the price risk connected with the securities held by the company as at the balance sheet date.

The authority to purchase or sell derivatives and 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 financial position of CANCOM 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 AG's internal control system and the risk management system with regard to the (Group) accounting process

The main features of CANCOM AG's internal control system and the risk management system with regard to the (Group) accounting process can be described as follows:

- CANCOM AG has a clear management and corporate structure, in addition to a schedule of responsibilities. Cross-departmental key functions are centrally controlled by CANCOM 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 area 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 in order to ensure they are complete and correct. This is done by means of spot checks, among other methods. 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 the process ensures that assets and liabilities in the annual and consolidated financial statements are accurately recognised, 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 opportunities, potential future developments and events that could have a positive impact on the CANCOM Group:

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

CANCOM's acquisition of Plaut's SAP Hosting and IT Services business division in November 2010 considerably expanded the CANCOM's cloud computing business, adding cloud services to the product portfolio. With the aid of the CANCOM AHP Private Cloud platform, CANCOM is therefore now able to offer customers complete, integrated 'IT as a service' for a fixed monthly fee.

CANCOM's business policy is based on continuing 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 through both organic and acquisition-based growth.

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 Group's dependence on hardware price trends.

Companies' willingness to invest in IT continues to be governed by cost-saving IT solutions and services that bring a sustained improvement in their productivity. Better gearing of IT services to the needs of the various specialist departments, and ultimately the users, is also gaining increasing importance.

With the deterioration in the economic outlook, the consolidation process could accelerate again in some industries. Increasing takeover activities and subsequent IT restructuring would give the market additional impetus, which should also benefit CANCOM.

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

The German Association of the Information Industry, Telecommunications and New Media (BITKOM) and the German and international market research companies regularly identify the most important IT trends of the future. They all agree that **Cloud Computing** remains the most important trend for 2012. In cloud computing, IT services (for instance, storage space, computer capacity or various applications) are provided in realtime 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. According to the experts, the market volume of the cloud computing segment in Germany could rise from € 2 billion to € 9 billion within five years. This is equivalent to average annual growth of 36 percent.

A study by market research company Kelton Research on the topic of cloud computing shows that users prefer the private cloud to the public cloud model. For them, the important points are security and data protection in the cloud. For this reason, the private cloud model plays a significant role in the cloud strategy of almost every second company in Germany. Analyst firm Canalys estimates the global private cloud market for 2011 at USD 50 billion, and forecasts annual growth of 25 percent up to 2015. With CANCOM AHP Private Cloud, CANCOM has its own field-tested private desktop cloud solution, enabling it to position itself as a strong and reliable IT partner in the consumer market.

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. The latest trend in the area of mobile applications is **'bring your own device'** computing, in which employees use their personal smartphones, notebooks and tablets at work. These developments will have a positive impact on CANCOM's business as a leading provider of IT infrastructure and professional services.

Companies have to invest a certain amount to prepare their IT systems for cloud computing before the actual implementation process, particularly in the areas of **IT security**, networks, storage and **virtualisation**. This is because, as cloud computing and mobile applications become more widely used, data protection and security requirements are being stepped up. CANCOM's portfolio of security solutions brings positive opportunities for the Group's business development.

Virtualisation and consolidation solutions also offer effective instruments for reducing IT costs. These solutions provide central, shared use of IT resources, including joint use of entire data centres. 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. 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, Google+ and Xing, are becoming increasingly important for corporate communication and online trading. They facilitate fast, direct communication with customers, business partners, potential employees and other interested parties. Companies are taking advantage of the opportunities social networks offer to inform people about their products and services and strengthen customer loyalty. Social media applications also offer companies an opportunity to get a feel for what customers want, and respond accordingly. Certain technological and organisational conditions must be in place 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 with the technological implementation of social media systems and their integration into existing IT landscapes.

According to researchers, the rapid development of social media, among other things, presents a further challenge to companies and opportunities for IT service providers, such as CANCOM. This is the subject of **big data** – analysing, managing and using the growing quantities of data generated in many different forms. The trend is towards high-capacity, central data centres with high standards of security. With its many years of expertise in the data centre market, CANCOM has a lot to offer its customers.

Outsourcing and the purchasing of business processes or IT systems as **cloud services** will continue to be in particular demand in 2012. According to market research experts at International Data Corporation (IDC) and the European Information Technology Observatory (EITO), the volume of the German outsourcing market amounted to € 20 billion in 2011. IDC forecasts that cloud services will enjoy the largest growth in the market for IT services in 2012. The use of cloud services is already part of the strategy of two-thirds of companies across Europe, and IDC expects that possible cost reduction measures in the year 2012 will not have any impact on these services. 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.

CANCOM offers two decades of experience in IT consultancy and integration combined with innovative services; it gives 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, further develop and retain high-potential employees – highly qualified skilled staff and managers.

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

CANCOM's concepts and solutions help its 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.

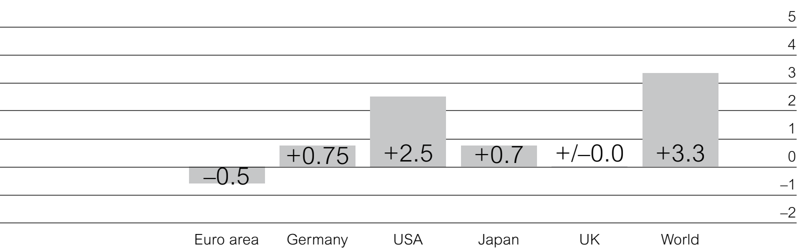
In the trading business, there are opportunities in e-commerce. Instead of using phone or fax, companies are increasingly switching to placing orders by email, the Internet or their own e-procurement systems. The importance of e-commerce solutions for procurement and purchasing is therefore increasing. The German Retail Federation (Handelsverband Deutschland) anticipates that turnover from online trading in Germany will grow by 12 percent to € 29.3 billion in 2012. With e-procurement solutions and customised shops, for instance, corporate procurement processes can be even more efficiently organised. 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's expertise is in offering customers individual e-commerce solutions, ranging from the conventional web shop to the electronic linking of the product range to the customer's merchandise management systems.

10. Forecast

After the strong economic performance in Germany in 2011, expectations for 2012 are more subdued. However, despite the debt crisis, the austerity packages and the cooling-off of the global economy, companies in many sectors are confident about the outlook for 2012. The significant improvement in the expectations of the Centre for European Economic Research in January supports the view that there will be, at worst, a moderate economic slowdown. The German Federal Government expects an increase in GDP of 0.75 percent in 2012. The German Institute for Economic Research, DIW, forecasts growth of 0.6 percent, and the German Bundesbank expects GDP growth of 0.6 percent in 2012.

Gross domestic product in 2012*

(real change in comparison with 2011 as a percentage)



* Forecasts: Deutsche Bank Economic Research, 12 January 2012, German Federal Government, 18 January 2012

According to the latest market figures from the German Association of the Information Industry, Telecommunications and New Media (BITKOM), experts anticipate that the German IT market will grow by 4.5 percent in 2012, compared with 3.2 percent in 2011.

Growth of 5.2 percent is forecast for IT hardware, compared with 1.1 percent in 2011, and the software segment is expected to grow by 5.2 percent, compared with 5.1 percent in 2011. Growth of 3.8 percent is anticipated for the IT services segment, compared with 3.6 percent in 2011. New devices for mobile Internet access have the strongest potential for growth. For instance, turnover in tablet PCs, which are included in the IT hardware segment, is expected to grow by almost 19 percent. Turnover in software will also rise particularly sharply, not least owing to the rapid development of the app market. There could also be growth in the IT services segment, thanks to outsourcing and cloud computing.

IT research specialists IDC are also optimistic about the prospects of the German IT market. Overall, spending on IT products and services in Germany could amount to approximately € 69 billion in 2012. This represents an increase of 4.1 percent. Analysts believe there will be growth in all three market segments, although they anticipate that the software market will benefit most, with growth of 5.1 percent. However, the markets for hardware and services could also grow by 4.4 percent and 3.2 percent respectively.

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. The expansion of the e-commerce business and the new CANCOM web shop have brought further reductions in process and transaction costs both for customers and for the CANCOM Group, which should result in greater profitability of the Group's trading business.

In order to take advantage of the trends and efficiently translate them into solutions for customers, CANCOM provides ongoing 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 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 market continues to offer favourable conditions for this policy.

As part of its commitment to quality management, CANCOM, inter alia, strives to achieve a steady improvement in customer satisfaction and in the efficiency of specific business and work processes.

The financial and assets position was improved further in the financial year 2011. Sales revenues and operating profits were considerably higher than in 2010.

CANCOM intends to continue growing faster than the IT market, thanks to its proven expertise and outstanding market position in the IT trend areas described.

Owing to the investments in the e-commerce division and the Group's good positioning in the growth market of cloud computing, the Executive Board expects further increases in the sales revenues and profits of the e-commerce division and the IT solutions segment if the demand for IT products and services remains steady or rises.

In view of the Group's positive performance in 2011, the Executive Board currently expects that, provided economic conditions continue to be positive in the years 2012 and 2013, there will be a good development in the sales revenues and profits of the Group as a whole, and that its financial situation will continue to be positive.

Munich, Germany, 12 March 2012

Klaus Weinmann Rudolf Hotter

CANCOM AG

The Executive Board

This document contains statements and information about the future that are based on the assumptions and estimates of the Executive Board of CANCOM AG. 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 statements and comments are based on realistic expectations, 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, among others, 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 position and 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

The year 2011 was another very positive financial year for CANCOM, and we congratulate the Executive Board and the employees on their success. The record sales revenues of € 544.4 million and consolidated profits of € 11.7 million achieved in 2011 have given CANCOM an excellent start to the year 2012 and laid the foundation for the future growth of the Group. The members of the CANCOM Supervisory Board are proud to have had a hand in the growth of this now 20-year-old company.

The Supervisory Board's work in the past year was guided by the requirements of the German Corporate Governance Code, and its main focus was the further implementation of the Code's recommendations. The subjects of risk management and compliance, which are gaining in importance for corporate governance, are particularly strongly reflected in the work of the Supervisory Board.

The Company's dividend policy was also discussed. Since the Group has reported good and sustainable profits, the management has decided to propose to the shareholders at their annual general meeting that a dividend of € 0.30 per share be paid 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 15 March, 8 June, 12 September and 13 December 2011. The Executive Board also promptly informed the Supervisory Board of matters arising by a combination of comprehensive written reports, phone calls and 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, the German Corporate Governance Code and the articles of association, requesting 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.

The main focus of the Supervisory Board's activities

In view of the technology trend towards cloud computing, the IT sector continues to face great challenges and profound change. This was the subject of meetings and discussions on the Company's strategic orientation and on potential acquisitions.

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 reports of CANCOM 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:

- Stefan Kober was elected Deputy Chairperson of the Supervisory Board in January 2011 following the resignation of Dr Klaus F Bauer with effect from 31 December 2010. The vote was carried by a resolution in writing. After an in-depth discussion in the regular meeting on 7 December 2010 regarding Executive Board contract extensions and remuneration, in January 2011 the Supervisory Board passed a resolution in writing to extend Rudolf Hotter's contract of service.
- The annual financial statements of CANCOM AG and the consolidated annual financial statements were approved at the regular meeting in March. The Supervisory Board discussed the annual report for 2010, particularly the corporate governance report included in it. The internal audit process and the risk management of the Group were another focus of this meeting. In the same meeting the Supervisory Board passed a resolution on the proposals and agenda for the annual general meeting of shareholders on 8 June 2011.
- In the meeting held on 8 June 2011, immediately after the general meeting of shareholders, Petra Neureither was elected to the Supervisory Board of CANCOM AG as an independent, professional financial expert in accordance with Section 100, paragraph 5 of the German Stock Companies Act (Aktiengesetz, AktG).
- In June 2011, the Supervisory Board approved a change to the purchase price set out in the contract of sale for the acquisition of the SAP Hosting Business, Outsourcing and IT Services division of Plaut. It also approved the merger of CANCOM IT Solutions GmbH and CANCOM SCC GmbH. Also in June 2011, the Supervisory Board approved the sale of HOH Home of Hardware GmbH to DÜBAG AG, now getgoods.de AG. All three resolutions were passed in writing.
- In the December meeting, the business plan for 2012 was approved following a presentation by the Executive Board on the Group strategy. Another item on the agenda was the report of the risk officer of CANCOM AG on risk and compliance management and internal audit. The Supervisory Board discussed the extent to which the recommendations in the latest German Corporate Governance Code were applicable to the Company, and agreed the declaration of conformity with the Code. CANCOM conforms to the Code in all but three of its recommendations. The Supervisory Board also undertook a self-appraisal to assess its own efficiency. It found that its work was being carried out in accordance with the regulations, and there was no apparent need for improvement.

Annual financial statements approved

The annual financial statements prepared by the Executive Board for CANCOM AG and the CANCOM Group for the year ended 31 December 2011, and the combined management report for the Group and the company, were available for examination at the Supervisory Board meeting on 20 March 2012. The financial statements were audited and the management reports examined by S&P GmbH Wirtschaftsprüfungsgesellschaft, Augsburg, Germany – the auditing firm appointed by the shareholders at their annual general meeting. The auditor gave his unqualified approval to all the financial statements. He was present at the meeting to approve the balance sheet on 20 March 2012, 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).

The CANCOM Group took advantage of the opportunities that presented themselves in the past financial year and has set the course in view of the upcoming events. So we can look back with satisfaction on excellent results, and also look forward to the future growth of the company with optimism.

The members of the Supervisory Board would like to thank the Executive Board for their reliable and constructive work with us in the financial year 2011. And we thank CANCOM's employees for their outstanding commitment, which was a major contributor to this success.

We would also like to thank the shareholders for their confidence in CANCOM.

Munich, Germany, March 2012

On behalf of
the Supervisory Board

Walter von Szczytnicki
Chairperson

Corporate Governance at CANCOM

Joint report of the Supervisory and Executive Boards of CANCOM AG

Supervisory and Executive Board report on the Corporate Governance at CANCOM according to Section 3.10 of the German Corporate Governance Code.

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.

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 three exceptions. On 13 December 2011, 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 35 of this report. The declaration is also published on our website and will continue to be updated during the year to reflect any changes.

CANCOM is conscious not only of its business responsibilities, but also of its social responsibilities. In order to underline its position, by the autumn of 2005 the Company had already 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 provisions and internal guidelines and so 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 should approach the Compliance Officer trustfully. CANCOM values and positively encourages open and objective feedback.

2. Basic principles of our corporate governance policy

Transparency

Through its quarterly reports four times per financial year or through the annual report one time per year, CANCOM reports to its shareholders on the Company's performance and its financial and earnings position. In a financial calendar, which is published in the annual report (see page 96) and on the Internet, shareholders are provided with regular and timely information on the dates of important publications and events.

All information and company reports published by CANCOM can also be obtained through the Company's website. Ad hoc announcements and important corporate news are also available in English.

Shareholders and their general meeting

Within the CANCOM AG hierarchy of responsibilities, 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 determines the company's articles of association and its corporate purpose, and decides on any changes to the articles of association and important managerial measures such as company agreements. It also makes decisions on issuing new shares, convertible bonds and/or 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 21 June 2012 in Munich, 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/hauptversammlung.

Audit of the annual financial statements by S&P GmbH Wirtschaftsprüfungsgesellschaft

The general meeting of shareholders of 8 June 2011 appointed the auditing firm S&P Wirtschaftsprüfungsgesellschaft, Augsburg, Germany, to audit the annual statements for the financial year 2011. In order to monitor the effectiveness of the financial statement auditing process, and to check that the auditor fulfils the requirements regarding auditor independence, the Supervisory Board obtained an independence declaration from the auditors.

The Executive Board – working closely with the Supervisory Board

The Executive Board of CANCOM 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 is responsible for the following areas: Finance/Controlling, Investor Relations/Public Relations, Mergers and Acquisitions, Legal, Corporate Strategy, Human Capital, Marketing, Purchasing and Logistics. Rudolf Hotter is responsible for 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. The members of the Executive Board bear joint responsibility for the management of the business as a whole. Executive responsibilities include determining the company's business policy and strategy, planning and setting the corporate budget, and preparing the interim and annual financial statements of CANCOM AG and the CANCOM Group. The Executive Board works closely with the Supervisory Board and informs it regularly, comprehensively and without delay about any issues relevant to the Company as a whole, including budgeting, business performance, the financial and earnings position and compliance, as well as corporate risks. This means that, for instance, the interim and quarterly reports are discussed by the Executive Board in telephone conferences before they are published. The rules of procedure for the Executive Board require that the approval of the Supervisory Board be obtained before certain important decisions are made.

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

The Supervisory Board of CANCOM AG oversees the work of the Executive Board and advises it in matters relating to the management of the business. Since 8 June 2011 it comprises six members: Chairperson Walter von Szczytnicki, Deputy Chairperson Stefan Kober, Raymond Kober, Walter Krejci, Regina Weinmann and Petra Neureither, all of whom bring proven business expertise into the company.

The Supervisory Board meets at regular intervals to discuss, among other things, business performance and planning, as well as the business strategy and its implementation. It approves the annual financial statements of CANCOM AG 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.

The Company adopted a system of information provision in 2008 in accordance with a recommendation 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 being practised at CANCOM AG, some of which, incidentally, go beyond the legal requirements.

Since 2010, concrete objectives have been set regarding the composition of the Supervisory Board, in line with the recommendation of No. 5.4.1 of the German Corporate Governance Code and allowing for the specific situation of the Group. The aim is to achieve a balance within the Supervisory Board in terms of the professional qualifications of its members, but also, by introducing an age limit for Supervisory Board members, to achieve diversity in terms of age and nationality, and a proportionate representation of women. When nominating new members for the Supervisory Board, existing Supervisory Board members should base their nominations primarily on the interests of the company, while also taking into consideration these objectives. The following concrete objectives were resolved:

- Take into account knowledge and experience, especially knowledge of the Company's business and the sector
- Time input and availability of the Supervisory Board. Members of the Supervisory Board should have enough time to fulfil the mandate so that it can be done properly and with the necessary care.
- Maintain the proportion of women at a ratio of at least 1:6 until the Supervisory Board is re-elected in 2012. Further increase in the involvement of women in the Supervisory Board at the next regular election.
- Appropriate filling of Supervisory Board positions with members with an international background, bearing in mind the Company's current sales area and the area designated in the strategic plan.
- Take into account special knowledge and experience of applying accounting principles and internal control procedures.
- Impartiality of Supervisory Board members.
- Avoid conflicts of interest, especially those arising from fulfilling other roles or functions in the sector in which the Company operates.
- Set an age limit of 70 years at the time of appointment.

The Supervisory Board has already taken some of these criteria into account in the past, for example in the nomination of Walter Krejci, Regina Weinmann and Petra Neureither for election at the general meetings of shareholders in 2007, 2009 and 2011 respectively. The Supervisory Board will take into account this requirement and these objectives in its future nominations.

In the December meeting, the Supervisory Board carried out a self-appraisal in line with the recommendations of the German Corporate Governance Code to establish how efficient its work was. It found that its work was being carried out in accordance with the regulations, and that there was no apparent need for improvement. The applicability of the latest changes to the German Corporate Governance Code was also discussed, and the declaration of conformity with the Code was agreed. CANCOM conforms to the Code in all but three 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. The employees are also regularly reminded of the compliance rules and audit processes as a preventative measure. 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 AG has a comprehensive system for recording, mapping and controlling 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 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 continuously improve them. The Executive Board of CANCOM AG defines the topics that need closer analysis in the interests of the Company.

3. Joint declaration of conformity with the German Corporate Governance Code by the Executive Board and the Supervisory Board of CANCOM AG in accordance with Section 161 of the German Stock Companies Act (Aktiengesetz, AktG)

At their meeting on 13 December 2011, the Supervisory Board and Executive Board of CANCOM AG 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 (Aktiengesetz, AktG):

Since its last declaration of conformity published on 7 December 2010, CANCOM AG has conformed to the recommendations of the German Corporate Governance Code issued on 26 May 2010, and published in the electronic German Federal Gazette (Bundesanzeiger) on 2 July 2010, with the following exceptions:

3.1 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 AG 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 held by CANCOM for the Supervisory Board.

3.2. 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 AG consists of six members, a number appropriately proportionate to the size of the company. In the opinion of CANCOM AG, 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.

3.3. 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 AG 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.

4. Remuneration report

The remuneration report summarises the basic principles applied to setting the total remuneration of the Executive Board of CANCOM AG, and explains the structure and level of Executive Board members' emoluments. The report also covers the remuneration of the Supervisory Board members. The report is based on the recommendations of the German Corporate Governance Code and contains details in compliance with the requirements of the German Commercial Code (Handelsgesetzbuch, HGB) as well as International Financial Reporting Standards (IFRS). The remuneration report forms a part of the notes to the consolidated accounts.

4.1. Remuneration of the Executive Board

The Supervisory Board is responsible for setting and monitoring the remuneration of Executive Board members. The remuneration depends, inter alia, on factors such as the size of the company, its financial situation and the level of remuneration of the executive boards of comparable companies, both within and outside the IT sector. The tasks and the contribution of the relevant Executive Board member are also taken into account. The system of Executive Board remuneration used at CANCOM AG is geared towards the sustainable development of the company.

Additionally, in the spring of 2011 the Executive and Supervisory Boards resolved to present the adjusted Executive Board remuneration system for a vote at the general meeting of shareholders. The remuneration system was approved by the annual general meeting on 8 June 2011. Both the principles for setting the remuneration of Executive Board members for the financial year 2010 and the changes to take effect from the financial year 2011 were explained in the annual report for 2010.

Basic salary and variable pay (bonus)

The remuneration of the Executive Board is performance-related. In 2011, the remuneration of Klaus Weinmann and Rudolf Hotter consisted of a fixed payment (basic salary) and a variable bonus.

The fixed remuneration is paid as a monthly salary. Whether the variable bonus is paid, and how much is paid, depends on whether the target EBITDA of the CANCOM Group for the financial year 2011 is achieved. Half of the variable bonus 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 is 1.0 percent of the EBITDA generated, while Rudolf Hotter's bonus will be 0.5 percent of the achieved 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 2011 (rounded figures):

The remuneration of the CEO, Klaus Weinmann, consists of a fixed payment of € 480.0 thousand, an annual bonus of € 500.0 thousand and other remuneration components amounting to € 20.5 thousand. His total remuneration is € 1,000.5 thousand. The remuneration of the other Executive Board member, Rudolf Hotter, consists of a fixed payment of € 320.0 thousand, an annual bonus of € 250.0 thousand and other remuneration components amounting to € 4.7 thousand. His total remuneration is € 574.7 thousand. The total remuneration of the Executive Board for the financial year 2011 is € 1,575.3 thousand.

4.2. Remuneration of the Supervisory Board

The current rules on remuneration of the Supervisory Board are set out in article 10 of the articles of association. Contrary to a recommendation by the German Corporate Governance Code (Deutscher Corporate Government Kodex), the Supervisory Board's remuneration consists purely of a fixed salary. The Deputy Chairperson is paid the same as the other members 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 € 10 thousand 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 in direct connection 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 2011 (rounded figures):

The remuneration of the Chairperson of the Supervisory Board, Walter von Szczytnicki, was € 26.0 thousand. Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann each received € 13.0 thousand as well as Petra Neureither received € 7.3 thousand and Dr. Klaus F. Bauer received € 5.0 thousand. The total remuneration of the Supervisory Board members in 2011 was € 90.3 thousand.

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 AG and the Chairperson of its Supervisory Board, Walter von Szczytnicki. The contract was drawn up in accordance with Section 114 paragraph1 of the German Stock Companies Act (Aktiengesetz, AktG) and provides for an annual remuneration of € 60 thousand. The remuneration paid in the financial year 2011 thus amounted to € 60 thousand.

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 CANCOM AG Supervisory Board of Walter Krejci, managing director of Auriga Corporate Finance GmbH. The agreement was signed on 7 March 2007 and complies with Section 114 paragraph 1 of the German Stock Companies Act (Aktiengesetz, AktG). No payments were made to the company on the basis of the consultancy agreement in 2011.

5. Shareholdings of the Executive and Supervisory Boards as at 31 December 2011

The shareholdings of the individual members of the Executive and Supervisory Boards of CANCOM AG are as follows:

Number of shares in CANCOM AG – Executive Board

	Number of shares	Percentage of share capital
Klaus Weinmann	209,864	2.0%
Rudolf Hotter	0	0.0%

Number of shares in CANCOM AG – Supervisory Board

	Number of shares	Percentage of share capital
Walter von Szczytnicki	6,252	0.1 %
Stefan Kober	261,289	2.5 %
Raymond Kober	260,891	2.5 %
Walter Krejci	0	0.0 %
Regina Weinmann	0	0.0 %
Petra Neureither	11,511*	0.1 %*

* Shares held by PEN GmbH

6. Purchase or sale of shares in the Company

In accordance with Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), the members of the Executive and Supervisory Boards are obliged to disclose any purchase or sale of shares in CANCOM AG or of any financial instruments based on them if the value of the transactions executed by the member and any persons related to the member reaches or exceeds € 5,000 within a calendar year. The transactions reported in the past financial year in CANCOM AG were published according to the rules.

7. Declaration on Corporate Governance

The Declaration on Corporate Governance in accordance with Section 289a of the German Commercial Code (Handelsgesetzbuch, HGB) is published on our webpage www. cancom.de and includes a description of the operating principles of the Management Board and the Supervisiory Board, the declaration of conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Companies Act (Aktiengesetz, AktG) as well as details on fundamental governance practices.

Consolidated balance sheet as at 31 December 2011

Assets (in €'000)	Notes		Financial statements 31/12/2011	Financial statements 31/12/2010
Current assets				
Cash	C.1.		44,365	31,472
Assets held for sale	C.2.		2,080	0
Trade accounts receivable	C.3.		72,212	68,014
Other current financial assets	C.4.		5,297	4,663
Inventories	C.5.		14,992	13,363
Orders in process	C.6.		572	730
Prepaid expenses and other current assets	C.7.		861	2,025
Total current assets			**140,379**	**120,267**
Long-term assets				
Property, plant and equipment	C.8.1.		12,901	9,677
Intangible assets	C.8.2.		15,928	18,860
Goodwill	C.8.3.		23,667	23,682
Investments	C.8.4.		70	3,211
Notes receivable/loans	C.8.5.		52	43
Other financial assets			1,229	920
Deferred taxes arising from temporary differences	C.9.		628	406
Deferred taxes arising from tax loss carryover	C.9.		8	294
Other assets			29	81
Total long-term assets			**54,512**	**57,174**
Total assets			**194,891**	**177,441**

Equity and liabilities (in € ‘000)	Notes		Financial statements 31/12/2011	Financial statements 31/12/2010
Current liabilities				
Short-term debt and current portion of long-term debt	C.10.		2,324	1,196
Profit-participation capital and subordinated loans short-term portion	C.16.		6,824	413
Trade accounts payable			72,906	64,437
Advance payments received			1,872	1,525
Other current financial liabilities	C.11.		1,487	3,460
Accrued expenses	C.12.		1,555	1,579
Prepaid expenses and deferred charges			1,042	989
Income tax payable	C.13.		6,008	1,634
Other current liabilities	C.14.		13,666	14,614
Liabilities related to assets held for sale	C.2.		2,080	0
Total current liabilities			**109,764**	**89,847**
Long-term liabilities				
Long-term debt, less current portion	C.15.		7,358	9,607
Profit-participation capital and subordinated loans	C.16.		6,797	14,364
Prepaid expenses and deferred charges	C.17.		4,538	5,048
Deferred taxes arising from temporary differences	C.18.		2,653	4,309
Pension provisions	C.19.		87	80
Other long-term financial liabilities	C.20.		1,081	1,519
Other long-term liabilites	C.12.		1,701	1,654
Total long-term liabilities			**24,215**	**36,581**
Equity				
Share capital	C.21.		10,391	10,391
Additional paid-in capital	C.21.		15,904	15,904
Net profit (incl. retained earnings)			34,735	24,768
Currency translation difference and exchange rate difference			–291	–134
Minority interest	C.22.		173	84
Total equity			**60,912**	**51,013**
Total equity and liabilities			**194,891**	**177,441**

Consolidated income statement

(in €'000)	Notes	**01/01/2011 – 31/12/2011**	01/01/2010 – 31/12/2010
Revenues	E.1.	544,379	474,567
Other operating income	E.2.	678	3,360
Other capitalised services rendererd for own account	E.3.	900	1,270
Total operating income		**545,957**	**479,197**
Cost of purchased materials and services		–386,626	–336,299
Gross profit		**159.331**	**142,898**
Personnel expenses	E.4.	–107,961	–97,014
Depreciation on property, plant and equipment and amortisation of intangible assets		–6,552	–3,845
Other operating expenses	E.5.	-–26,366	-–26,882
Operating income		**18,452**	**15,157**
Interest and similar income	E.6.	302	131
Interest and other expenses		–2,228	–1,905
Income from equity investments		380	1
Foreign currency exchange gains		–7	–50
Profit before taxes (and minority interest)		**16,899**	**13,334**
Income tax expense	E.7.	–4,871	–3,746
After-tax profit/loss from continuing operations		**12,028**	**9,588**
Profit/loss from discontinued operations	E.8.	–338	–1,690
Net income for the period		**11,690**	**7,898**
thereof attributable to the shareholders of the parent		11,526	7,820
thereof attributable to minority interests	E.9.	164	78
Average number of shares outstanding (basic)		10,390,751	10,320,712
Average number of shares outstanding (diluted)		10,390,751	10,320.,712
Earnings per share from continuing operations (non-diluted)		**1.14**	**0.92**
Earnings per share from continuing operations (diluted)		**1.14**	**0.92**
Earnings per share from discontinued operations (non-diluted)		**–0.03**	**–0.16**
Earnings per share from discontinued operations (diluted)		**–0.03**	**–0.16**

(in €'000)	**01/01/2011 – 31/12/2011**	01/01/2010 – 31/12/2010
Net income for the period	**11,690**	**7,898**
Other income		
Currency translation difference	–2	–14
Exchange rate difference	–222	224
Income taxes	67	–64
Other after-tax income for the period	**–157**	**146**
Comprehensive income for the period	**11,533**	**8,044**
thereof attributable to the shareholder of the parent	11,369	7,966
thereof attributable to the minority interests	164	78

Consolidated cash flow statement – IFRS

(in €'000)		Notes	01/01/2011 – 31/12/2011	01/01/2010 – 31/12/2010
Cash flow from ordinary activities				
Profit for the year before tax and minority interest			16,899	13,334
Adjustments				
+/–	Depreciation on property, pland and equipment and amortisation of intangible assets		6,552	3,845
+/–	Changes in long-term provisions		54	290
+/–	Changes in short-term provisions		30	–1,665
+/–	Gains/losses on the sale of intangible assets, property, plant and equipment and financial assets		–352	49
+	Interest expenditure		1,926	1,774
+/–	Changes in inventories		–6,255	477
+/–	Changes in trade accounts receivable and other accounts receivable		–5,201	–14,740
+/–	Changes in trade accounts payable and other accounts payable		15,274	17,155
+/–	Interest payments and rebates		–254	–388
+/–	Income tax payments and rebates		–1,461	–177
+/–	Non-cash expenses and income		–110	–2,264
+/–	Cash inflow/outflow from discontinued operations		–366	–812
Net cash from operating activities			**26,736**	**16,878**
Cash flow from investing activities				
+/–	Acquisition of subsidiaries and equity instruments of other companies		–3,604	–10,501
+/–	Cash from acquisitions		0	776
–	Payments for additions to intangible assets and property, pland and equipment		–9,407	–8,010
+	Income from disposal of intangible assets, property, plant and equipment and financial assets		4,452	–8,010
–	Cash transferred on the sale of financial assets		–643	0
+	Interest received		302	131
+/–	Cash inflow / outflow from discontinued operations		1,000	0
Net cash used in investing activities			**–7,900**	**–17,251**
Cash flow from financing activities				
+	Take-up of long-term financial liabilities		0	8,935
–	Repayment of long-term financial liabilities (incl. short-term portions)		–2,659	–596
+/–	Changes in short-term liabilities		0	–48
–	Interest paid		–1,592	–1,367
–	Dividendes paid		–1,634	–1,547
+	Inflows from sale of own shares		0	722
–	Outflows from purchases of own shares		0	–94
+/–	Cash inflow / outflow finance lease		71	–221
+/–	Cash inflow / outflow from discontinued operations		0	100
Net cash used in financing activities			**–5,814**	**5,884**
Net change in cash and cash equivalents			**13,022**	**5,511**
+/–	Changes in value resulting from foreign currency exchange		–19	125
+/–	Cash as at beginning of period		31,472	25,836
Cash and cash equivalents as at end of period		F	**44,475**	**31,472**
Breakdown:				
Cash			44,365	30,556
Cash from discontinued operations		F	110	916
			44,475	**31,472**

	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 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. Dezember 2010	**10,391**	**10,391**	**15,904**	**10,623**	**–289**	**155**	**–153**	**14,298**	**0**	**50,929**	**84**	**51,013**
Changes in reserves:												
Transfer net profit / retained earnings				6.465				–6.465		0		0
Payout in financial year								–1,559		–1,559	–75	–1,634
Comprehensive income for the period					–2	–155		11,526		11,369	164	11,533
31. December 2011	**10,391**	**10,391**	**15,904**	**17,088**	**–291**	**0**	**–153**	**17,800**	**0**	**60,739**	**173**	**60,912**

Segment information – IFRS

	e-commerce		IT Solutions	
	12/31/11	12/31/10	12/31/11	12/31/10
	€'000	€'000	€'000	€'000
Sales revenues				
– External sales	188,392	170,515	355,987	304,052
– Intersegment sales	3,327	5,835	63,034	40,907
– Total sales revenues	191,719	176,350	419,021	344,959
– Cost of purchased materials and services	–160,461	–147,481	–273,970	–224,932
– Personnel expenses	–16,230	–15,161	–87,500	–78,058
– Other operative income and expenses	–3,761	–4,443	–38,061	–26,795
EBITDA	11,267	9,265	19,490	15,174
– calculated depreciation and amortisation	1,279	1,390	5,099	2,291
Operating income (EBIT)	**9,988**	**7,875**	**14,391**	**12,883**
– Interest income	186	45	73	121
– Interest expenditure	–636	–412	–636	–440
– Income from investments				
Result from ordinary activities	9,538	7,508	13,828	12,564
– Foreign currency exchange gains / losses				
Pre-tax profit	9,538	7,508	13,828	12,564
– Income taxes				
– discontinued operations	–1,335	–498	0	
Consolidated income for the year				
thereof attributable to the shareholders of the parent				
thereof attributable to minority interests				
Other information				
– Assets [1]	118,612	102,875	55,218	55,436
– Investments [1]	3,122	1,372	6,153	18,733

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

2) Tax assets

Totals		Other companies		Reconciliation		consolidated	
12/31/11	12/31/10	12/31/11	12/310	12/31/11	12/31/10	12/31/11	12/31/10
€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
544,379	474,567	0	0				
66,361	46,742	0	0	–66,361	–46,742		
610,740	521,309	0	0	–66,361	–46,742	544,379	474,567
–434,431	–372,413	0	0	47,805	36,114	–386,626	–336,299
–103,730	–93,219	–4,231	–3,795	0	0	–107,961	–97,014
–41,822	–31,238	–1,522	–1,642	18,556	10,628	–24,788	–22,252
30,757	24,439	–5,753	–5,437	0	0	25,004	19,002
6,378	3,681	174	164	0	0	6,552	3,845
24,379	**20,758**	**–5,927**	**–5,601**	**0**	**0**	**18,452**	**15,157**
259	166	631	389	–588	–424	302	131
–1,272	–852	–1,544	–1,477	588	424	–2,228	–1,905
				380	1	380	1
23,366	20,072	–6,840	–6,689	380	1	16,906	13,384
0	0		0	–7	–50	–7	–50
23,366	20,072	–6,840	–6,689	373	–49	16,899	13,334
				–4,871	–3,746	–4,871	–3,746
–1,335	–498	997	–1,192	0	0	–338	–1,690
						11,690	**7,898**
						11,526	7,820
						164	78
				Reconciliation 2)			
173,830	158,311	20,340	18,104	721	1,026	194,891	177,441
9,275	20,105	1,265	3,881			10,540	23,986

Schedule of fixed assets – IFRS

(in €'000)	Acquisition or manufacturing costs At 01/01/2011	Additions 2011	Disposals 2011	Transfers 2011
Property, plant and equipment	18,471	6.,672	2,415	–495
Intangible assets	22,609	2,801	4,196	0
Goodwill	42,967	0	15	0
Investments	3,221	1,058	4,199	0
Notes receivable/loans	43	9	0	0
Total	**87,311**	**10,540**	**10,825**	**–495**

Geschäftsjahr 2010

(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**

	Depreciation and amortisation					**Earning amounts**	
At 31/12/2011	At 01/01/2011	Additions 2011	Transfers 2011	Disposals 2011	At 31/12/2011	At 31/12/2011	At 31/12/2010
22,233	8,794	3,093	–337	2,218	9,332	12,901	9,677
21,214	3,749	3,718	0	2,181	5,286	15,928	18,860
42,952	19,285	0	0	0	19,285	23,667	23,682
80	10	0	0	0	10	70	3,211
52	0	0	0	0	0	52	43
86,531	**31,838**	**6,811**	**-337**	**4,399**	**33,913**	**52,618**	**55,473**

	Depreciation and amortisation					**Earning amounts**	
At 31/12/2010	At 01/01/2010	Add. from first consol. 2010	Additions 2010	Disposals 2010	At 31/12/2010	At 31/12/2010	At 31/12/2009
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**

Notes to the consolidated financial statements for the financial year from 1 January 2011 to 31 December 2011

Notes to the consolidated financial statements for the financial year from 1 January 2011 to 31 December 2011

A.The principles adopted for the consolidated financial statements

1. General information

The consolidated financial statements of CANCOM AG (formerly CANCOM IT Systeme Aktiengesellschaft) and its subsidiaries ('the CANCOM Group' or 'the Group') for the financial year 2011 were drawn up according to the International Financial Reporting Standards or the International Accounting Standards (IFRS/IAS).

The main corporate objective of CANCOM AG 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. All amounts are shown in euro thousand (€ thousand) unless stated otherwise. Any roundings may lead in certain cases to the fact that figures in this report not add up exactly to the reported sum and that percentages not exactly result in the shown figures.

The financial year covers the period from 1 January to 31 December 2011. The address of the company's registered office is Ridlerstrasse 37, 80339 München, 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 IFRS and IAS that are mandatory for the 2011 financial year were fully taken into account, as were the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) or Standing Interpretations Committee (SIC). 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 recently adopted the following standards, interpretations and amendments, which are not yet compulsory for the financial year 2011. 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 20 – Stripping Costs in the Production Phase of a Surface Mine:
Effective for reporting periods starting on or after 1 January 2013
.

IFRS und IAS Standards

In November 2009 / October 2010 the IASB published changes in the IFRS 9 "Financial instruments" (classification, valuation and accounting of financial liabilities and write-offs), that are effective for annual periods starting after 1 January 2005.

In May 2011, the IASB published IFRS 10 Financial Statements. The standard replaces the provisions on consolidated financial statements set out in IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The standard is effective for annual periods starting on or after 1 January 2013.

In May 2011, the IASB published IFRS 11 Joint Arrangements. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It is effective for annual periods starting on or after 1 January 2013.

In May 2011, the IASB published IFRS 12 Disclosures of Interests in Other Entities. The standard replaces disclosure requirements from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. It is effective for annual periods starting on or after 1 January 2013.

In May 2011 the IASB published amendments to IAS 27 Separate Financial Statements. The consolidation requirements previously contained in IAS 27 (2008) were revised and now form part of IFRS 10 Consolidated Financial Statements. The standard is effective for annual periods starting on or after 1 January 2013.

In May 2011 the IASB published amendments to IAS 28 Investments in Associates and Joint Ventures. This version supersedes the previous version of IAS 28 published in 2008. The standard is effective for annual periods starting on or after 1 January 2013.

In May 2011, the IASB published IAS 13 Fair Value Measurement. The standard is effective for annual periods starting on or after 1 January 2013.

In June 2011, the IASB published amendments to IAS 1 Presentation of Financial Statements relating to the presentation of other comprehensive income. The standard is effective for annual periods starting on or after 1 July 2012.

In June 2011, the IASB published amendments to IAS 19 Employee Benefits as a result of projects to improve the accounting requirements for employee benefits and termination benefits. The standard is effective for annual periods starting on or after 1 January 2013.

In December 2011, the IASB published amendments to IFRS 7 Financial Instruments to improve the disclosures in relation to the offsetting of financial assets and financial liabilities. The amendments are effective for annual periods starting on or after 1 January 2013.

In the same month, the IASB published further amendments to IFRS 7 Financial Instruments on the requirement for disclosures on transition to IFRS 9. These amendments are effective for annual periods starting on or after 1 January 2015.

In December 2011, the IASB published amendments to IAS 32 Financial Instruments to improve the disclosures in relation to the offsetting of financial assets and financial liabilities. The standard is effective for annual periods starting on or after 1 January 2014.

3. Reporting entity – scope of consolidation

The consolidated financial statements include CANCOM AG and all subsidiaries in which CANCOM AG 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 AG has sold its shares in HOH Home of Hardware GmbH with effect from 31 July 2011. The sale is documented in a share purchase and transfer agreement drawn up on 5 July 2011 by notary Klaus Racky.

The purchase price was € 3,000,000.

The disposal of HOH Home of Hardware GmbH and its impact on the reporting entity is as shown below:

	Balance as at (in T €)
Cash and cash equivalents	–643
Trade accounts receivable	–2,826
Other current financial assets	–382
Accounts receivable from related parties	–3
Inventories	–263
Prepaid expenses and other current assets	–32
Total current assets	**–4,149**
Property, plant and equipment	–84
Intangible assets	–1,996
Deferred taxes arising from tax loss carryover	0
Total non-current assets	**–2,080**
Total assets	**–6,229**
Trade accounts payable	–2,779
Accounts payable to related parties	–77
Advance payments received	–139
Other current liabilities	–31
Accrued expenses	–96
Other current liabilities	–611
Total current liabilities	**–3,733**
Deferred taxes from temporary differences	–508
Other non-current financial liabilities	–242
Total non-current liabilities	**–750**
Total liabilities	**–4,483**
Net assets disposed	**–1,746**

The consolidated financial statements for CANCOM AG for the year ended 31 December 2011 include the German and non-German subsidiaries shown in the statement of shareholdings under F.13, in accordance with the principles of full consolidation.

4. Accounting and valuation policies

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 non-German companies included in the consolidated financial statements were prepared as at the balance sheet date for CANCOM AG.

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 AG.

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 that are subject to these uncertainties can be found in the balance sheet and/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 2011 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 other operating income.

Currency	2011	2010	2009
Swiss francs			
• Rate on reporting date	1 € = 1.216 SFR	1 € = 1.252 SFR	1 € = 1.484 SFR
• Average rate	1 € = 1.233 SFR	1 € = 1.380 SFR	1 € = 1.510 SFR
Pounds sterling			
• Rate on reporting date	1 € = 0.837 GBP	1 € = 0.862 GBP	1 € = 0.889 GBP
• Average rate	1 € = 0.868 GBP	1 € = 0.858 GBP	1 € = 0.891 GBP

The currency translation differences recorded in the results amount to € 7 thousand in expenses. The currency translation differences shown as a separate item under equity capital amount to a loss of € 2 thousand (2010: loss of € 10 thousand). As at 31 December 2011, the reserve for currency translation amounts to minus € 291 thousand (2010: minus € 289 thousand).

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 (POC) 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 E.1.

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.

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	10	–	0	–	0	–	–	10
Finance Lease	1,058	976	1,299	1,214	0	0	167	–

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	–	2,239	–	4,834	–	3,463	–	0	3,196
Finance Lease	567	147	124	485	443	0	0	762	0

*only minimum lease payments

In finance leases where the company is the lessor, the total minimum lease payments amount to € 2,357 thousand, less the interest income not yet fully realised of € 167 thousand, resulting in a total present value of € 2,190 thousand.

In finance leases where the company is the lessee, the total minimum lease payments amount to € 632 thousand, less the total discount of € 65 thousand, resulting in a total present value of € 567 thousand.

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 (sale in 2007), 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.

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 interests 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.

Orders in progress are valued by the percentage of completion method, in which revenue and costs are recognised in proportion to the stage of completion of contract activity, 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, if necessary less value adjustments.

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 maximum 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 and manufacturing costs include expenditure directly attributable to acquisition. Subsequent acquisition and manufacturing costs are only recorded as a part of the acquisition and 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 to 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 interests in the fair values of assets and liabilities not acquired are shown under minority interests.

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'.)

The total costs recognised as income or expense for each of the following components is shown under personnel expenses:

- expenses for pension entitlements earned in the year under report (current service costs)
- actuarial gains
- interest costs
- expected return on plan assets

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 in line with IAS 39 and IFRS 7	Carrying amount 31 Dec. 2011	Fair value Dec. 2011	Carrying amount 31 Dec. 2010	Fair Value 31.12.2010
Assets					
Cash and cash equivalents	LaR	44,365	44,365	31,472	31,472
Long-term investments	AfS	70	70	3,211	3,211
Trade accounts receivable	LaR	72,212	72,212	68,014	68,014
Other financial assets	LaR	6,526	6,526	5,583	5,583
Other assets	LaR	387	387	1,477	1,477
Liabilities					
Short-term loans and current component of long-term loans	FLAC	2,324	2,324	1,196	1,196
Capital from profit participation rights and subordinated loans (short-term portion)	FLAC	6,824	6,824	413	413
Trade accounts payable	FLAC	72,906	72,906	64,437	64,437
Long-term loans	FLAC	7,358	7,358	9,607	9,607
Capital from profit participation rights and subordinated loans	FLAC	6,797	6,797	14,364	14,364
Other financial liabilities	FLAC	2,568	2,568	4,979	4,979
Other liabilities	FLAC	15,367	15,367	16,268	16,268
of which aggregated according to categories in line with IAS 39:					
Loans and receivables (LaR)		123,490	123,490	106,546	106,546
Held-to-maturity investments (HtM)		0	0	0	0
Available-for-sale financial assets (AfS)		70	70	3,211	3,211
Financial assets held for trading (FAHfT)		0	0	0	0
Financial liabilities measured at amortised cost (FLAC)		114,144	114,144	111,264	111,264
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.

level, following segment reporting. In this process the carrying amounts of cash generating units are compared with the recoverable amount.

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:

	2012 € '000	2013 € '000	2014–2016 € '000	2017 and thereafter € '000
Trade accounts payable	72,906	0	0	0
Liabilities to banks	2,324	1,153	3,278	2,927
Capital from profit participation rights and subordinated loans	6,824	413	2,958	3,426
Other financial liabilities	1,363	465	173	0
Financial leases	124	443	0	
Other financial liabilities	4.,70	3,096	5,611	3,927
Interest expense	1,631	1,202	3,353	2,151

The Group has access to credit facilities totalling € 12,105 thousand. The full amount not yet utilised as at the balance sheet date is € 11,071 thousand. There were no delays in the payment of interest or capital on loans during the financial year 2011.

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 € 100 thousand there is an approval system where hedging decisions are taken on an individual basis.

At 31 December 2011, the carrying amount of the Group's monetary assets and liabilities in foreign currencies is as follows:

	31 Dec. 2011	31 Dec. 2010
Assets in GBP	1,741	2,056
Liabilities in GBP	1,301	1,440
Assets in CHF	0	0
Liabilities in CHF	0	1
	440	615

Interest risk

Due to the mainly 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 shown. 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 € 1 thousand. There would be no change in EBIT.

A rise of 5 percent in the value of the euro against the Swiss franc would not result in any change in equity capital or EBIT.

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 (0.5 percent from 2012) as earnings-related remuneration. The additional interest payments are € 41 thousand per annum (€ 15 thousand from 2012). As the loan runs until December 2015, the maximum overall risk is € 61 thousand.

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 € 60 thousand per annum, and € 120 thousand per annum at 2 percent. As the agreement runs until December 2012, the maximum overall risk is € 120 thousand.

Financial market risk

CANCOM AG's risk manual was reviewed in 2011 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 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.

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 avert the possibility of any inexperienced person carrying out transactions of this kind.

C. Notes to the consolidated balance sheet

1. Cash and cash equivalents

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

2. Assets held for sale

Since April 2011 there have been plans to sell CANCOM Ltd.

The assets and liabilities of CANCOM Ltd are presented as held for sale in the consolidated balance sheet as at 31 December 2011. The disposal group consists of the following:

	31 Dec. 2011 € '000
Cash and cash equivalents	110
Trade accounts receivables	917
Other current financial assets	56
Inventories	686
Prepaid expenses, deferred charges and other current assets	152
Property, plant and equipment	159
Assets held for sale	**2,080**
Trade accounts payable	824
Other current financial liabilities	215
Provisions	771
Other current liabilities	270
Liabilities associated with held-for-sale assets	**2,080**

3. Trade accounts receivable

The trade accounts receivable are as follows:

	31 Dec. 2011 € '000	31 Dec. 2010 € '000
Accounts receivable before write-downs	72,347	68,255
Write-downs	135	241
Carrying amount of accounts receivable	72,212	68,014

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

Group receivables are written down on balanced age structures, 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. No receivables were 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 more than 50 percent. At the reporting date, the value of these receivables was less than 0.5 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.

There were no impairments for trade accounts receivable totalling € 19,059 thousand (2010: € 16,561 thousand) that 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.

4. Other current financial assets

This item includes a claim to the payment of a purchase price (€ 2,975 thousand; 2010: € 584 thousand), bonuses due from suppliers (€ 1,755 thousand; 2010: € 2,777 thousand), marketing revenue (€ 288 thousand; 2010: € 310 thousand), receivables from employees (€ 173 thousand; 2010: € 236 thousand) and creditors with a debit balance (€ 106 thousand; 2010: € 372 thousand). In 2010, this item also included claims in respect of loans (€ 203 thousand), receivables from suppliers for returned goods (€ 135 thousand) and receivables from former shareholders (€ 46 thousand).

5. Inventories

Inventories consist almost exclusively of merchandise, particularly hardware components and software.

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

	31 Dec. 2011 € '000	31 Dec. 2010 € '000
Finished products and goods	14,987	13,325
Down-payments rendered	5	38
	14,992	13,363

The cost of goods, raw materials and supplies in the financial year 2011 was € 356,834 thousand.

Inventories were written down by € 229 thousand (2010: € 768 thousand) 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.

No inventories were pledged as security.

6. Orders in process

The orders in process are orders calculated according to the percentage of completion method. They amount to € 584 thousand (2010: € 735 thousand) less down-payments of € 12 thousand (2010: € 5 thousand). The costs accumulated for current projects as at the balance sheet date amounted to € 532 thousand. Gains resulting from current projects as at the balance sheet date totalled € 52 thousand.

7.Prepaid expenses, deferred charges and other current assets

This item mainly consists of other current assets such as tax refunds (€ 168 thousand; 2010: € 1,105 thousand), compensation for damages (€ 112 thousand; 2010: € 80 thousand), rent receivable (€ 31 thousand; 2010: € 15 thousand), receivables from the German Federal Employment Agency (€ 18 thousand; 2010: € 36 thousand) and receivables from social insurance institutions (€ 14 thousand; 2010: € 65 thousand).

The prepaid expenses and deferred charges (€ 503 thousand; 2010: € 629 thousand) also include deferred insurance premiums.

8. Non-current assets

Changes in, and the composition of, non-current assets in 2011 are shown in the consolidated statement of changes in non-current assets (page 46-47). The depreciation of the current year shown in the statement of changes in non-current assets include depreciation concerning discontinued operations of € 259 thousand.

8.1 Property, plant and equipment

The item of property, plant and equipment mainly consists of motor vehicles (€ 8,426 thousand), the equipment necessary for the logistics centre (€ 603 thousand) and the data centre (€ 328 thousand). Computer equipment, tenant's fittings, and office furnishings and equipment are also shown under this item.
Motor vehicles valued at € 2,001 thousand were pledged as security for the loans from Stadtsparkasse Augsburg.

.

8.2 Intangible assets

The intangible assets include purchased software (€ 3,776 thousand; 2010: € 1,815 thousand), capitalised development costs (€ 1,563 thousand; 2010: € 2,001 thousand), brand rights (€ 288 thousand; 2010: € 2,044 thousand), customer list (€ 10,295 thousand; 2010: € 11,671 thousand) and orders in hand (€ 6 thousand; 2010: € 1,329 thousand).
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.

8.3 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 (€ 11,426 thousand; 2010: € 11,426 thousand), CANCOM IT Solutions GmbH (€ 7,942 thousand; 2010: € 7,942 thousand), CANCOM NSG GmbH (€ 2,522 thousand; 2010: € 2,522 thousand) and CANCOM a+d IT solutions GmbH (€ 1,717 thousand; 2010: € 1,732 thousand).

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 2012 vary between a decline of 12.4 percent (CANCOM a+d IT solutions GmbH) and growth of 5.9 percent (CANCOM cloud solutions 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 2012. For the years 2013 to 2015, it is assumed that the trend in sales revenues will range between a decline of 4.9 percent and growth of 7.6 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 and software increasing by 5.2 percent and IT services by 3.8 percent (figures from BITKOM, the German Association for Information Technology, Telecommunications and New Media, for the German IT market in 2012.

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:

	2011	2010
Risk-free interest	3.25%	3.25%
Market risk premium	5.00%	5.00%
Beta coefficient	1.3	1.3
Capitalisation interest rate	8.11%	8.18%
Input tax - WACC:	11.59%	11.68%

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.

There are no variable components in the purchase price.

8.4 Financial assets

In the financial years 2010 and 2011, CANCOM AG acquired shares in Plaut Aktiengesellschaft, all of which were sold with effect from 31 December 2011.

8.5 Loans

The loans consist of the asset value from reinsurance, amounting to € 52 thousand.

9. 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 2011	406	294
Disposal from revaluation of financial instruments recognised directly in equity	–1	0
Tax expenditure from profit and loss calculation	223	-56
Tax saving from profit and loss calculation included in discontinued operations	0	–230
As at 31 December 2011	**628**	**8**

As at 31 December 2011 there are corporation tax loss carryovers of € 9.5 million (2010: € 10.1 million) and trade tax loss carryovers of € 8.1 million (2010: € 9.1 million) for the CANCOM Group. The unused corporation tax losses for which no deferred tax claim was recognised in the balance sheet amounted to € 9.4 million (2010: € 9.2 million), and the trade tax loss carryovers for which no deferred tax claim was recognised amounted to € 8.1 million (2010: € 8.1 million). The amounts referred to include a component of € 8.6 thousand (corporation tax) and € 8.1 thousand (trade tax) which has been called into question because of the EU Commission's legal interpretation of the restructuring clause in Section 8 c of the German Corporate Tax Act (Körperschaftsteuergesetz, KStG), and therefore cannot at present be claimed as tax exempt.

The deferred taxes from temporary differences are mainly the result of differences in intangible assets (€ 140 thousand), goodwill (€ 134 thousand), property, plant and equipment (€ 123 thousand), other provisions (€ 123 thousand), elimination of sales within the Group (€ 66 thousand) and other liabilities (€ 38 thousand).

10.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.

11. Other current financial liabilities

This item includes debtors with a credit balance (€ 795 thousand; 2010: € 1,172 thousand), outstanding bills of charges (€ 533 thousand; 2010: € 578 thousand), purchase price liabilities (€ 124 thousand; 2010: € 1.675 thousand) and Supervisory Board remuneration (€ 35 thousand; 2010: € 35 thousand).

12. Other provisions

The changes in other provisions during 2011 are detailed below:

The total provisions include long-term provisions of € 1,701 thousand (2010: € 2,920 thousand) which are disclosed under other non-current liabilities. These provisions are for guarantees and warranties (€ 777 thousand; 2010: € 653 thousand), termination payments legally mandatory in Austria (€ 476 thousand; 2010: € 469 thousand), anniversaries (€ 205 thousand; 2010: € 184 thousand), partial retirement (€ 118 thousand; 2010: € 91 thousand), additional leasing costs (€ 113 thousand; 2010: € 178 thousand) and contingent risks (€ 12 thousand; 2010: € 79 thousand). Also included in 2010 was a long-term provision of € 1,266 thousand for the purchase price for the asset deal relating to Plaut, which was disclosed under other non-current financial liabilities.

	expected maturity
provisions for guarantees and warranties	warranty by law
provisions for termination payments	date of termination of employee
provision for anniversaries	with current payment
provisions for partial retirement	4 years
additional leasing costs	4 years
provisions for contingent risks	1 - 2 years

13. Income tax liabilities

Income tax liabilities mainly consist of obligations for 2011..

14. Other current liabilities

Other current liabilities mainly include bonus payments to Board members and employees (€ 4,093 thousand; 2010: € 3,692 thousand), sales tax (€ 3,761 thousand; 2010: € 7,007 thousand), tax on wages and salaries and church tax (€ 2,150 thousand; 2010: € 1,289 thousand), holiday and overtime entitlements (€ 1,867 thousand; 2010: € 1,076 thousand), trade association payments (€ 569 thousand; 2010: € 619 thousand), wages and salaries (€ 291 thousand; 2010: € 175 thousand), social security contributions (€ 172 thousand; 2010: € 179 thousand) and the compensation levy for non-employment of the severely handicapped (€ 145 thousand; 2010: € 170 thousand).

15. 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, Kreditanstalt für Wiederaufbau (KfW), for the loans are distributed over the term. The market interest rate is between 4.5 percent and 5.53 percent.

	1 Jan. 2011 € '000	Used transfer € '000	Reversal and € '000	Addition € '000	31 Dec. 2011 € '000
Guarantees and warranties	1,450	878	0	988	1.560
Purchase price for shares in affiliated companies	1,296	1,281	15	0	0
Termination payments and salaries	889	130	16	376	1,119
Additional leasing costs	439	177	99	223	386
Acquisition costs	114	88	26	56	56
Contingent risks	249	149	17	1	84
Other	62	5	22	16	51
	4,499	2,708	195	1,660	3,256

16.Capital from profit participation rights and subordinated loans

Capital from 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 € 2,957,507.67 (loan proceeds € 4,000,000.00) from Bayern Mezzaninekapital GmbH & Co. KG, minus a repayment of € 1,000,000.00 in 2011; a subordinated loan from Sparkasse Günzburg-Krumbach of € 1,237,000.00; two subordinated loans from Sparkasse Günzburg-Krumbach of € 561,269.43 each (loan proceeds € 1,000,000.00 each; and four subordinated loans from Stadtsparkasse Augsburg of € 1,152,837.67 (loan proceeds € 1,995,600,00); € 222,474.24 (loan proceeds € 392,500.00), € 609,620.88 (loan proceeds € 1,621,000.00); and € 319,027.24 (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, Kreditanstalt für Wiederaufbau (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 dated 27 December 2007 between CANCOM AG and Bayern Mezzaninekapital GmbH & Co. KG. The funds were paid out on 31 December 2007. A partial repayment of € 1,000,000.00 was made on 30 December 2011. The remaining mezzanine capital of € 3,000,000.00 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 (0.5 percent from 2012) 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, Kreditanstalt für Wiederaufbau (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 Kreditanstalt für Wiederaufbau (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 Kreditanstalt für Wiederaufbau (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 Kreditanstalt für Wiederaufbau (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 Kreditanstalt für Wiederaufbau (KfW). Repayment will begin on 30 March 2018, in 12 quarterly instalments of € 70,500.00.

17. 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 € 4,076 thousand. (See comments under E.2. Other operating income)

18. Deferred tax liabilities

The deferred tax liabilities are as follows:

	€ '000
As at 1 January 2011	4,309
Disposal from revaluation of financial instruments recognised directly in equity	–68
Tax expenditure from profit and loss calculation	–1,066
Tax saving from profit and loss calculation included in discontinued operations	–522
As at 31 December 2011	**2,653**

The deferred tax liabilities arise from deviations from the tax balance sheets. They are the result of the recognition and revaluation of intangible assets (€ 2,487 thousand), other financial assets (€ 124 thousand), orders in process (€ 16 thousand), other provisions (€ 13 thousand) and capital from profit participation rights and subordinated loans (€ 13 thousand).

In line with IAS 12.39, deferred tax liabilities are not recognised for temporary differences connected with shares in subsidiaries, which amount to € 6,425 thousand.

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

19. Pension provisions

This item comprises only provisions for employee pensions (€ 87 thousand; 2010: € 80 thousand) 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 € 1 thousand 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:

	2011 € '000	2010 € '000
Changes in pension obligation		
Defined benefit obligation as at 1 January	80	26
Service cost: present value of claims accrued in 2011	4	2
Actuarial loss/gain	–1	–1
Interest costs	4	2
Addition/release of pension obligations	0	51
Defined benefit obligation as at 31 December	**87**	**80**
Changes in plan assets		
Fair value of plan assets as at 1 January	43	0
Expected return on plan assets	9	0
Release/addition to plan assets	0	43
Fair value of plan assets as at 31 December	**52**	**43**
Excess in fund = balance sheet amount	35	37
Composition:		
Provisions for pensions	87	80
Other loans	–52	–43
	35	**37**

The changes over time in the present value of the defined benefit obligation and the fair value of the plan assets are shown below:

	31 Dec. 2011 € '000	31 Dec. 2010 € '000	31 Dec. 2009 € '000	31 Dec. 2008 € '000	1 Jan. 2008 € '000
Defined benefit obligation	87	80	26	150	168
Fair value of plan assets	52	43	0	199	182

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

	2011 %	2010 %
Interest rate	6.00	6.00
Expected return on plan assets	5.00	5.00
Salary trend	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 is broken down as follows:

	2011 € '000	2010 € '000
Current service costs	4	2
Actuarial gain	–1	–1
Interest costs	4	2
Expected return on plan assets	–9	0
	–2	**3**

In the financial year 2012 expenses for pension payments are expected of € 3 thousand.

20. Other non-current financial liabilities

The item of other non-current financial liabilities includes debtors with a credit balance, amounting to € 638 thousand, and purchase price liabilities of € 443 thousand (2010: € 1,519 thousand). .

21. Equity capital

Changes in the equity capital are shown on page 43.

Share capital

The company's share capital at 31 December 2011 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 2011 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 2011 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 2011.

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

Net profit

In accordance with the resolution of the general meeting of shareholders, a dividend of € 0.15 per share (total € 1,559 thousand) was paid in 2011 from the net profit made in the previous year.

22. Minority interests

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

23. 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 objectives of the capital management system 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:

		31 Dec. 2011	31 Dec. 2010
Equity capital	€ million	60.9	51.0
Equity capital as a percentage of the total capital	%	31.2	28.7
Borrowed capital	€ million	134.0	126.4
Borrowed capital as a percentage of the total capital	%	68.8	71.3
Total capital (equity and borrowed capital)	€ million	194.9	177.4

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 as part of the risk management process.

D. Segment information

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, and IT solutions.

Description of the segments subject to mandatory reporting

The e-commerce operating segment includes CANCOM Deutschland 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 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 NSG GmbH, CANCOM NSG GIS GmbH, CANCOM NSG SCS GmbH, CANCOM NSG ICP GmbH, CANCOM physical infrastructure GmbH, acentrix GmbH and CANCOM Plaut Managed Services GmbH (since 5 March 2012 CANCOM cloud solutions GmbH) and the cost centres of CANCOM Deutschland GmbH allocated to CANCOM IT Solutions 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 AG, CANCOM VVM GmbH and CANCOM Financial Services GmbH. CANCOM AG 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	
	2011 € '000	2010 € '000	2011 € '000	2010 € '000
Germany	489,455	432,980	502,023	441,691
Outside Germany	54,924	41,587	42,356	32,876
Group	544,379	474,567	544,379	474,567

	Non-current assets	
	31.12.11 € '000	31.12.10 € '000
Germany	51,729	50,795
Outside Germany	2,025	2,425
Group	53,754	53,220

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.

E. Notes to the consolidated statement of income

For reasons of comparability, the figures shown below for the previous year have been recalculated in compliance with IFRS 5.34 to take into account the income and expenditure included in the loss from discontinued operations.

1. Sales revenues

The sales revenues, which amount to € 544,379 thousand, include order revenue of € 431 thousand calculated using the POC method.

2. Other operating income

The other operating income is made up of the following:

	2011 € '000	2010 € '000
Rent	7	37
Negative goodwill from capital consolidation	0	2,346
Income from repayment of long-term loans	136	0
Income not relating to the period	60	504
Government grants	405	324
Other operating income	70	149
Total	**678**	**3,360**

The gain from repayment of longterm liabilities includes an adjustment of the variable purchase price (contingent consideration) for the assets of Plaut Systems & Solutions GmbH acquired during 2010.

Income not relating to the period mainly includes income from derecognition of debtors with a credit balance, and the proceeds of the sale of non-current assets.

Government grants include the profit allocated to the financial year 2011 from availing of loans at a favourable interest rate (€ 364 thousand) and a subsidy from the German Federal Employment Agency (€ 41 thousand).
For more information see details on loans in sections C 14 and C 15.

3. Other own work capitalised

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

Other own work capitalised comprises the following:

	2011 € '000	2010 € '000
Capitalised development costs	0	1,257
Own work capitalised related to intangible assets acquired	900	0
Work capitalised for tenant´s fittings	0	13
Total	**900**	**1,270**

Research and development costs in 2011 amounted to € 0.5 million; They are not capitalised.

4 Personnel expenses

The personnel expenses consist of the following:

	2011 € '000	2010 € '000
Wages and salaries	91,551	81,372
Social security contributions	16,060	15,330
Pension expenses	350	312
Total	**107,961**	**97,014**

5. Other operating expenses

The other operating expenses refer to the following items:

	2011 € '000	2010 € '000
Office space	5,073	5,566
Insurance and other charges	760	815
Motor vehicles	5,889	6,226
Advertising	1,137	1,162
Stock exchange and entertainment	386	471
Hospitality and travelling expenses	2,945	2,302
Delivery costs	2,223	2,207
Third-party services	2,053	2,080
Repairs, maintenance, leasing	918	1,195
Communication and office expenses	1,862	1,785
Legal and consultancy expenses	541	689
Fees and charges; costs of money transactions	368	409
Other operating expenses	2,211	1,975
Total	**26,366**	**26,882**

6. Interest income and expenses

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

7. Income tax

The rate of income tax for the German companies was 30.62 percent (2010: 30.29 percent). This is made up of corporation tax, trade tax and the solidarity surcharge. The slight increase in the income tax rate is owing to the increase in the average rate of trade tax.

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

	2011 € '000	2010 € '000
Earnings before tax	**16,899**	**13,334**
Expected tax expense at rate for German companies (30.62 percent; 2010: 30.29 percent)	**5,174**	**4,039**
- Difference from tax paid outside Germany	–19	–113
- Change in value adjustment of deferred tax assets on loss carryforwards	–4	254
- Tax-exempt income / non tax-relevant capital losses	–249	–312
- Actual income not relating to the period	46	0
- Permanent differences: non-deductible operating expenses and additions and reductions due to trade tax	323	582
- Earnings from differences from consolidation of capital	0	–682
- Tax savings recognised under discontinued operations	–380	0
- Miscellaneous	–20	–22
Total Group income tax	**4,871**	**3,746**

The actual tax rate is calculated as follows:

	€ '000
Income before tax	16,899
Income tax	4,871
Actual tax expense rate	28.82 %

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

	2011 € '000	2010 € '000
Actual income tax paid	6,104	1,743
Deferred taxes		
Assets	–167	1,843
Liabilities	–1,066	160
	–1,233	2,003
Group income tax	**4,871**	**3,746**

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.

8. Discontinued operations

The impact of discontinued operations on the consolidated statement of income is a loss of € 338 thousand (2010: a loss of € 1,690 thousand).

This amount consists of income (including other operating income and income from equity investments) of € 46,503 thousand (2010: € 77,155 thousand), expenditure of € 46,869 thousand (2010: € 78,851 thousand) and pre-tax loss of € 366 thousand (2010: pre-tax loss of € 1,696 thousand). The related income tax gain was € 28 thousand (2010: € 6 thousand).

The discontinued operations are detailed below.

HOH Home of Hardware GmbH:
Since CANCOM sold its shareholding in HOH Home of Hardware GmbH with effect from 31 July 2011, the results of the company were shown under discontinued operations. The previous year was recalculated accordingly. The profit attributable to HOH Home of Hardware GmbH was € 884 thousand (2010: loss of € 49 thousand). This includes an positive effect of deconsolidation of € 1,093 thousand realised by the sale.
The CANCOM Group sold HOH Home of Hardware GmbH, which mainly operates in the business-to-consumer (B2C) environment, in order to concentrate on the higher-margin business-to-business (B2B) segment.

CANCOM Ltd:
CANCOM plans to sell its shareholding in CANCOM Ltd, UK, in the very near future. For this reason, the results of CANCOM Ltd were recorded under discontinued operations and the previous year was recalculated accordingly. The loss attributable to CANCOM Ltd was € 1,222 thousand (2010: € 1,641 thousand).
CANCOM's decision to sell CANCOM Ltd is based on the Group's intention to withdraw from the business-to-consumer (B2C) segment.

9. Minority interests

Minority interests account for 49 percent of acentrix GmbH's net income. Please see page 43 for changes in minority interests in the equity capital.

F.Notes to the statement of cash flows

The consolidated statement of cash flows is prepared in accordance with IAS 7 Statement of cash flows. 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 statement of cash flows 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 € 9.9 million compared with 2010.
The cash resources of € 44,475 thousand (2010: € 31,472 thousand) include the cash and cash equivalents shown in the balance sheet. This comprises cash in hand and cash at banks, as well as cash of € 110 thousand from discontinued operations (2010: € 916 thousand).

G. Other disclosures

1. Related party disclosures

CANCOM AG 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 AG. Rudolf Hotter, the other Executive Board member, is also a related party for the purposes of IAS 24, as are the members of the Supervisory Board. Other related parties for the purpose of IAS 24.9 b are considered to be:
- AL-KO Kober AG and its subsidiaries
- PEN GmbH
- WFO Vermögensverwaltung GmbH
- AURIGA Corporate Finance GmbH and
- SNP Schneider-Neureither & Partner AG

The following level of remuneration was set for the Executive Board members in the financial year 2011:

The remuneration of the CEO, Klaus Weinmann, consisted of a fixed payment of € 480 thousand, a bonus of € 500 thousand and other remuneration components amounting to € 20 thousand. His total remuneration was € 1,000 thousand. The remuneration of Rudolf Hotter consisted of a fixed payment of € 320 thousand, a bonus of € 250 thousand and other remuneration components amounting to € 5 thousand. His total remuneration was € 575 thousand. The total remuneration of the Executive Board for the financial year 2011 was € 1,575 thousand.

The Supervisory Board members received the following remuneration in the financial year 2011:

The remuneration of the Chairperson of the Supervisory Board, Walter von Szczytnicki, was € 26 thousand. Stefan Kober, Raymond Kober, Walter Krejci and Regina Weinmann each received € 13 thousand. Petra Neureither received € 7 thousand and Dr. Klaus F. Bauer € 5 thousand. The total remuneration of the Supervisory Board members in 2011 was € 90 thousand.

Transactions with related parties were settled in the same way as arm's length transactions net between 10 and 30 days.

Concerning deliveries and services to related parties according to IAS 24 there were following businesses: receivables of AL-KO Kober AG and its subsidiaries of total gross amount € 2,414, of which were unpaid € 137 thousand at the balance sheet date.

Concerning deliveries and services from related parties according to IAS 24 there were following businesses: receivables from AL-KO Kober AG and its subsidiaries of total gross amount € 8, all at the balance sheet date

Since 1 July 2007, a consultancy agreement has been in place between CANCOM AG 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 2011 therefore amounted to € 60,000.

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

Shareholder	Number of shares	%
Klaus Weinmann	209,864	2.0197
Walter von Szczytnicki	6,252	0.0602
Stefan Kober	261,289	2.5146
Raymond Kober	260,891	2.5108
Petra Neureither	11,511	0.1108
Free float	9,640,944	92.7839
	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	2012 € '000	2013 € '000	2014 € '000	2015 € '000	2016 € '000	later € '000	total € '000
under tenancy agreements	3,373	2,169	1,714	1,626	1,333	3,927	14,142
under leasing agreements	1,497	927	719	212	7	0	3,362
	4,870	**3,096**	**2,433**	**1,838**	**1,340**	**3,927**	**17,504**

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)

IIn addition to obtaining financing through the parent company, CANCOM AG 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 AG 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 AG made a statement of conformity in 2011 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 15 December 2011.

6. Auditors' fees

The following fees (total fees plus expenses, excluding value-added tax) were charged in the financial year 2011 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	23

* thereof attributable to financial year 2010: € 17 thousand

7. Employees

	2011	2010
Average over the year	2,101	2,011
At year-end	2,097	2,039

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

CANCOM AG did not receive written notice from any shareholder disclosing a majority shareholding as defined in Section 20 of the above Act in 2011.

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

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).

Memberships of Board members in other supervisory boards:

- Klaus Weinmann in:
  - SNP Schneider-Neureither & Partner AG

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

The members of the Supervisory Board are:

- Walter von Szczytnicki, self-employed management consultant, Kirchseeon, Germany (Chairperson)
- Stefan Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany (Deputy Chairperson)
- Raymond Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany
- Walter Krejci, managing director of AURIGA Corporate Finance GmbH, Munich, Germany
- Regina Weinmann, graduate in business administration (Dipl.-Kauffrau), self-employed real estate agent and managing director of WFO Vermögensverwaltung GmbH, Aystetten, Germany
- Petra Neureither, economist (Dipl.-Volkswirtin), managing director of PEN GmbH, Heidelberg, Germany (since 8 June 2011)

Memberships of other supervisory boards:

- Walter von Szczytnicki:
  - AL-KO Kober 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 AG
The Executive Board of CANCOM AG has resolved to propose to the Supervisory Board and the general meeting of shareholders that the € 11,235,102.96 retained profit from the financial year 2011 be used for a dividend payment of € 0.30 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 12 March 2012.

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	Graz-Thondorf, Austria	100.0
and its subsidiaries		
– 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	Munich, Germany	100.0
and its subsidiaries		
– acentrix GmbH	Jettingen-Scheppach, Germany	51.0
4. CANCOM physical infrastructure GmbH	Jettingen-Scheppach, Germany	100.0
5. CANCOM cloud solutions GmbH	Munich, Germany	100.0
6. CANCOM Ltd.	Guildford, UK	100.0
7. CANCOM Financial Services GmbH	Jettingen-Scheppach, Germany	100.0
8. CANCOM VVM GmbH (equity € 16,460k, net income € 264k)	Jettingen-Scheppach, Germany	100.0

München, den 12. März 2012

Klaus Weinmann Rudolf Hotter

Executive Board of CANCOM AG

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.

Munich, Germany, 12 March 2012

Klaus Weinmann Rudolf Hotter

Executive Board of CANCOM AG

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 AG, as well as the management report of CANCOM AG and the CANCOM Group for the financial year from 1 January to 31 December 2011. It is the responsibility of the Executive Board of CANCOM AG 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 combined management report of CANCOM AG and the CANCOM Group, 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 the combined management report of CANCOM AG and the CANCOM Group 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 combined management report of CANCOM AG and the CANCOM 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 combined management report of CANCOM AG and the CANCOM Group 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, 12 March 2012

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Tobias Wolf	Johann Dieminger
Certified auditor	Certified auditor

Company financial statements

Company balance sheet as at 31 December 2011

Assets

in €	31/12/2011	31/12/2010
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	7,653,75	17,549.09
	7,653,75	**17,549.09**
II. Property, plant and equipment		
1. Plant and machinery	188,464.90	228,093.13
2. Other plant, fixtures, fittings and equipment	613,065.07	623,797.20
	801,529.97	**851,890.33**
III. Financial assets		
1. Shares in affiliated companies and subsidiaries	39,565,045.37	40,503,469.23
2. Investments	0.00	2,919,373.23
	39,565,045.37	**43,422,842.46**
B. CURRENT ASSETS		
I. Accounts receivable and other assets		
1. Accounts receivable due from affiliated companies and subsidiaries	20,063,049.74	9,692,219.43
2. Other assets	2,078,217.54	1,129,517.39
	22,141,267.28	**10,821,736.82**
II. Cash and cash equivalents due from banks	**17,308,583.85**	**12,890,312.57**
C. PREPA ID EXPENSES	**37,764,00.77**	**18,680.77**
	79,861,844.22	**68,023,012.04**

Equity and Liabilities in €	31/12/2011	31/12/2010
A. EQUITY		
I. Share capital	10,390,751.00	10,390,751.00
II. Additional paid-in capital	16,975,841.56	16,975,841.56
III. Retained earnings		
1. Statutory reserves	6,665.71	6,665.71
2. Other reserves	17,063,190.55	10,597,990.63
	17,069,856.26	10,604,656.34
IV. Unappropriated profit	11,235,102.96	8,023,812.57
	55,671,551.78	**45,995,061.47**
B. PROVISIONS		
1. Deferred taxes	3,925,872.95	1,080,008.57
2. Other provisions	1,115,823.00	750,367.39
	5,041,695.95	**1,830,375.96**
C. LIABILITIES		
1. Profit participation capital and subordinated loans	12,625,600.00	14,038,100.00
2. Liabilities due to banks	5,861,707.74	5,608,175.87
3. Trade accounts payable	131,857.02	124,486.01
4. Liabilities to affiliated companies and subsidiaries	0.00	23,416.94
5. Other liabilities	529,431.73	403,395.79
	19,148,596.49	**20,197,574.61**
	79,861,844.22	**68,023,012.04**

Company income statement for the period from 1 January 2011 to 31 December 2011

in €	01/01/2011 – 31/12/2011	01/01/2010 – 31/12/2010
1. Revenues	7,490,000.00	6,599,000.00
2. Other operating income	1,415,918.95	3,906,849.01
3. Personnel expenes		
a) Wages and salaries	–3,892,671.65	–3,452,495.39
b) Social security, pension and other benefit costs	–400,853.05	–376,168.27
	–4,293,524.70	–3,828,663.66
4. Depreciation and amortisation:		
a) on intangible and tangible fixed assets	–247,536.59	–340,097.20
b) on current assets and liabilities to the extent that it exceeds depreations normal for the company	–977,409.16	0.00
	–1,224,945.75	–340,097.20
5. Other operating expenses	–3,196,009.29	–3,568,932.17
6. Income from equity investments	3,854,209.47	232,921.93
7. Profits gained on the basis of a profit transfer agreement	12,262,132.31	8,359,969.59
8. Other interest and similar income	631,006.89	389,488.17
9. Depreciation on investments	–438,916.00	–1,182,523.00
10. Interest and similar expenses	–1,382,624.10	–1,340,632.70
11. Profit / loss from ordinary activities	**15,117,247.78**	**9,227,379.97**
12. Taxes on income	–3,869,645.82	–1,199,913.90
13. Other taxes	–12,499.00	–3,653.50
14. Net profit for the year	**11,235,102.96**	**8,023,812.57**
15. Net profit carried forward	8,023,812.57	11,980,851.92
16. Allocation to retained earnings	–6,465,199.92	–10,433,388.62
17. Payout	–1,558,612.65	–1,547,463.30
18. Balance sheet profit	**11,235,102.96**	**8,023,812.57**

Statement of Changes in Fixed Assets

Statement of Changes in Fixed Assets

	Acquisition or manufacturing costs		
	Balances at 01/01/2011 in €	Additions 2011 in €	Disposals 2011 in €
I.Intangible assets and goodwill			
1. Concessions, industrial property rights and similar rights and values as well as licences	60,990.27	0.00	39,795.27
	60,990.27	0.00	39,795.27
II. Property, plant and equipment			
1. Technical equipment and machinery	481,578.88	0.00	568.56
2. Other plants, fixtures, fittings and equipment	922,716.19	209,307.66	176,789.21
	1,404,295.07	209,307.66	177,357.77
III. Financial assets			
1. Shares in affiliated companies	44,049,216.26	32,886.50	532,394.36
2. Equity investments	2,919,373.23	1,055,580.40	3,974,953.63
	46,968,589.49	1,088,466.90	4,507,347.99
Total	48,433,874.83	1,297,774.56	4,724,501.03

	development of depreciation and amortization				Earning amounts	
Balance as at 31/12/2011 in €	Balance as at 01/01/2011 in €	Additions 2011 in €	Disposals 2011 in €	Balance as at 31/12/2011 in €	Balance as at 31/12/2011 in €	Balance as at 31/12/2010 in €
21,195.00	43,441.18	9,895.34	39,795.27	13,541.25	7,653.75	17,549.09
21,195.00	43,441.18	9,895.34	39,795.27	13,541.25	7,653.75	17,549.09
481,010.32	253,485.75	39,628.23	568.56	292,545.42	188,464.90	228,093.13
955,234.64	298,918.99	198,013.02	154,762.44	342,169.57	613,065.07	623,797.20
1,436,244.96	552,404.74	237,641.25	155,331.00	634,714.99	801,529.97	851,890.33
43,549,708.40	3,545,747.03	438,916.00	0.00	3,984,663.03	39,565,045.37	40,503,469.23
0.00	0.00	0.00	0.00	0.00	0.00	2,919,373.23
43,549,708.40	3,545,747.03	438,916.00	0.00	3,984,663.03	39,565,045.37	43,422,842.46
45,007,148.36	4,141,592.95	686,452.59	195,126.27	4,632,919.27	40,374,229.09	44,292,281.88

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).

A resolution was passed at the general meeting of shareholders on 8 June 2011 to change the company name to CANCOM AG (previously CANCOM IT Systeme Aktiengesellschaft) and to relocate the company's head office to Munich, Germany (previously Jettingen-Scheppach, Germany). These changes were registered on 17 June 2011 in the commercial register at Munich Local Court (Amtsgericht).

B. Accounting and valuation principles

Intangible assets
Intangible assets are valued at acquisition cost less scheduled pro-rata amortisation (based on a useful life of three to five 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 by 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. The depreciation period is the anticipated useful life of the asset.

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. If 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 AG.

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 29.97 percent (2010: 30.11 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 2010 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 are converted at the average spot rate 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 financial assets and the results of the subsidiaries, please see the statement of shareholdings in companies (page 93).

Accounts receivable and other assets

All accounts receivable and other assets have a residual term of less than one year.

Accounts receivable from subsidiaries and affiliated companies amount to € 20,063 thousand (2010: € 9,692 thousand). These relate to CANCOM Deutschland GmbH (€ 9,753 thousand; 2010: € 1,403 thousand), CANCOM NSG GmbH (€ 3,585 thousand; 2010: € 2,829 thousand), CANCOM Plaut Managed Services GmbH (since 05 March 2012 CANCOM cloud solutions GmbH) (€ 3,515 thousand; 2010: € 3,010 thousand), CANCOM Computersysteme GmbH (€ 1,536 thousand; 2010: € 1,773 thousand), CANCOM IT Solutions GmbH (€ 1,053 thousand; 2010: € 111 thousand), CANCOM physical infrastructure GmbH (€ 502 thousand; 2010: € 3 thousand), acentrix GmbH (€ 58 thousand; 2010: € 209 thousand), CANCOM a+d IT solutions GmbH (€ 36 thousand; 2010: € 36 thousand), CANCOM NSG ICP GmbH (€ 14 thousand; 2010: € 71 thousand), CANCOM NSG GIS GmbH (€ 8 thousand; 2010: € 6 thousand) and CANCOM NSG SCS GmbH (€ 3 thousand; 2010: € 1 thousand). In the previous year, an account receivable from CANCOM Limited amounting € 217 thousand and from HOH Home of Hardware GmbH amounting to € 23 thousand was also reported.

Share capital

As at 31 December 2011, 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 2011, 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 preemptive 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 2011 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 is not aware of any restrictions on voting rights or on the transfer of shares.

Other revenue reserves

The other revenue reserves consist of the following::

	2011	2010
	€ '000	€ '000
Other reserves at 1 January	10,598	0
Transfer of capital redemption reserves	0	116
Transfer of retained profit	6,465	10,482
Other reserves	17,063	10,598

Retained profit

Retained profit consists of the following:

	2011	2010
	€ '000	€ '000
Amount brought forward at 1 January	8,024	11,981
Transfer to/ reversal of capital redemption reserves	0	49
Dividend distribution	–1,559	–1,548
Transfer to other revenue reserves	–6,465	–10,482
Net income for the year	11,235	8,024
Retained profit	11,235	8,024

Provisions

The other provisions are mainly for bonuses (€ 799 thousand; 2010: € 557 thousand), outstanding invoices (€ 88 thousand; 2010: € 27 thousand), financial statements and audit fees (€ 77 thousand; 2010: € 77 thousand), severance payments (€ 37 thousand; 2010: € 0), emoluments to Supervisory Board members (€ 35 thousand; 2010: € 35 thousand), variable salary components (€ 32 thousand; 2010: € 0), overtime and holiday entitlements (€ 13 thousand; 2010: € 32 thousand) and printing costs annual financial statements (€ 12 thousand; 2010: € 13 thousand).

Liabilities

For a breakdown of liabilities, please see the statement of liabilities on pages 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 € 3,000,000 (Bayern Mezzaninekapital GmbH & Co. KG), and subordinated loans of € 1,237,500 (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 rights 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 AG or the consolidated net profit of the CANCOM AG 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 2011 for PREPS 2005-2 and PREPS 2005-1 was € 60 thousand.

Mezzanine capital of € 4,000,000 was granted under a mezzanine capital agreement of 27 December 2007 between CANCOM AG and Bayern Mezzaninekapital GmbH & Co. KG. The funds were paid out on 31 December 2007. A repayment of € 1,000,000 of the mezzanine capital was made in the financial year 2011. The remainder 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 (0.5 percent from 2012) 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, Kreditanstalt für den Wiederaufbau (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 Kreditanstalt für den Wiederaufbau (KfW). Repayment in 11 quarterly instalments of € 32,709 and a final instalment of € 32,701 will commence on 30 December 2016.

D. Explanations and disclosures concerning the statement of income

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

Revenues for 2011 consist solely of Group allocations (€ 7,490 thousand; 2010: € 6,599 thousand).

Other operating income consists of income not relating to the period, amounting to € 4 thousand (2010: € 2,488 thousand). 2010 mainly comprises income from a write-up of financial assets (€ 2,473 thousand).

Depreciation and amortisation on tangible and intangible fixed assets includes extraordinary depreciation of property, plant and equipment amounting to € 73 thousand. In 2010 it also included amortisation of goodwill amounting to € 146 thousand.

Income from equity investments amounting to € 3,854 thousand (2010: € 233 thousand) includes the dividend for CANCOM NSG GmbH (€ 500 thousand; 2010: € 0) and CANCOM physical structure GmbH (€ 500 thousand; 2010: € 233 thousand) as well as profits from the sale of equity investments (€ 2,854 thousand; 2010: € 0).

Profits made on the basis of a profit transfer agreement consists of CANCOM Deutschland GmbH's profit for the year (€ 9,454 thousand; 2010: € 5,641 thousand) and that of CANCOM NSG GmbH (€ 2,808 thousand; 2010: € 2,719 thousand), which were transferred to CANCOM AG.

Interest and similar income comprises interest income of € 588 thousand (2010: € 380 thousand) from subsidiaries and affiliated companies.

Write-downs of financial assets of € 439 thousand (2010: € 1,183 thousand) are included in the financial assets in 2010. These relate to a write-down following the revaluation of the company's wholly-owned subsidiary CANCOM Ltd. in the UK. In 2010, an amount of € 13 thousand was recorded under interest and other expenses; this was attributable to subsidiaries and affiliated companies.

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 leaseback 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 2011, there were differences between the financial balance sheet and the tax balance sheet 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 other provisions.

Other financial obligations
Obligations under current tenancy and lease agreements are as follows:

	Due in 2012 € ' 000	Total € '000
Tenancy agreements	856	7,608
Lease agreements	30	91
of which from subsidiaries and affiliated companies	*77*	*77*

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

Contingent liabilities

As at the reporting date there are guarantees for CANCOM Deutschland GmbH (€ 11,642 thousand; 2010: € 11,642 thousand), CANCOM NSG GmbH (€ 3,692 thousand; 2010: € 3,692 thousand), CANCOM Ltd. (€ 597 thousand; 2010: € 0), CANCOM physical infrastructure GmbH (€ 150 thousand; 2010: € 150 thousand) and a joint guarantee of € 200 thousand (2010: € 200 thousand) for CANCOM IT Solutions GmbH, CANCOM physical infrastructure GmbH, CANCOM NSG GIS GmbH, CANCOM NSG SCS GmbH, CANCOM NSG ICP GmbH, acentrix GmbH and CANCOM Plaut Managed Services GmbH (since 05 March 2012 CANCOM cloud solutions GmbH).
In 2010 there was also a joint guarantee of € 7,200 thousand for CANCOM IT Solutions GmbH and CANCOM Deutschland GmbH, as well as individual guarantees for HOH Home of Hardware (€ 1,650 thousand) and CANCOM NSG ICP GmbH (€ 100 thousand).

	31 Dec. 2011 € '000	31 Dec. 2010 € '000
Joint and serveral liability for financial guarantees and other loans	396	339

Contingent liabilities, which amount to € 283 thousand (2010: €339 thousand) relate entirely to subsidiaries and affiliated companies.

CANCOM AG 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 AG anticipates at present that the commitments on which the contingent liabilities are based can be fulfilled by the principal debtors. CANCOM AG therefore assesses the likelihood of a loss on any of the contingent liabilities listed as remote.

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

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 Executive Board members are also members of other supervisory boards:

- Klaus Weinmann in:
  - SNP Schneider-Neureither & Partner AG
  - CANCOM NSG GmbH (until 31 March 2012)

Holder of general commercial power of attorney ('Prokura' under German commercial law):

- Thomas Stark, graduate in industrial engineering (Dipl.-Wirtsch.-Ing.), Wittislingen, Germany

Remaining term Up to 1 year €	 Over 1 year €	 Over 5 years €	12/31/2011 €	12/31/2010 €	Secured by lien or similar rights €	Type
6,825,000.00	3,611,509.00	2,189,091.00	12,625,600.00	14,038,100.00	0.00	
2,372,908.93	2,667,907.81	820,891.00	5,861,707.74	5,608,175.87	1,280,000.00 2,000,744.97	Pledging of shares, deed no. B 876/2008 Assignment of motor vehicle as security
131,857.02	0.00	0.00	131,857.02	124,486.01	0.00	
20.00	0.00	0.00	0.00	23,416.94	0.00	
529,431.73	0.00	0.00	529,431.73	403,395.79	0.00	
349,229.85	*0.00*	*0.00*	*349,229.85*	*49,621.95*		
0.00	*0,00*	*0.00*	*0.00*	*0,00*		
9,859,197.68	6,279,416.81	3,009,982.00	19,148,596.49	20,197,574.61	3,280,744.97	

Supervisory Board
The members of the Supervisory Board are:

- Walter von Szczytnicki,
  self-employed management consultant, Kirchseeon, Germany (Chairperson)
- Stefan Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany (deputy Chairperson)
- Raymond Kober, member of the board of management of AL-KO Kober AG, Kötz, Germany
- Walter Krejci, managing director of AURIGA Corporate Finance GmbH, Munich, Germany
- Regina Weinmann, graduate in business administration (Dipl.-Kauffrau), managing director of WFO Vermögensverwaltung GmbH, Aystetten, Germany
- Petra Neureither, graduate in economy (Dipl.-Volkswirtin), managing director of PEN GmbH, Heidelberg, Germany (from 8 June 2011) (Dipl.-Kauffrau), managing director of WFO Finanzberatung GmbH, Aystetten, Germany

The following members of the Supervisory Board are also members of other supervisory boards:

- Walter von Szczytnicki:
  - AL-KO Kober AG

Employees
The average number of employees working for the company during 2011 was 59, including part-time employees but excluding trainees, interns and the 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 AG.

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 2011 and then published for the information of the shareholders on the website of CANCOM AG.

Total emoluments paid to the Executive Board and the Supervisory Board
The total emoluments paid to the Executive Board in 2011 amounted to € 1,575 thousand.

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 2011.

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 € 90 thousand.

Direct or indirect shareholdings exceeding 10 percent
As at 31 December 2011, 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 of € 11,235,102.96 for the financial year 2011 be used for a dividend payment of € 0.30 per eligible notional no-par-value share and that the balance of the retained profit remaining after the dividend payment be transferred to other reserves.

Parent company
CANCOM AG, Munich, Germany, is the company that prepares the consolidated financial statements. The consolidated financial statements of CANCOM AG are published on the company's website. They are also available on the electronic Federal Gazette's website at www.bundesanzeiger.de.

Munich, Germany, 12 March 2012

Klaus Weinmann   Rudolf Hotter

Executive Board of CANCOM AG

Statement of shareholdings in companies

Subsidiaries	Shareholding as a percentage	Equity capital as at 31 Dec 2011 €' 000	Net income for the year 2011 €' 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	3,261	0 *
3. CANCOM IT Solutions GmbH, Munich, Germany	100.0	6,787	2,069
4. CANCOM physical infrastructure GmbH, Jettingen-Scheppach, Germany	100.0	405	249
5. CANCOM NSG GIS GmbH, Jettingen-Scheppach, Germany	100.0	B) 43	168
6. acentrix GmbH, Jettingen-Scheppach, Germany	51.0	C) 328	288
7. CANCOM NSG SCS GmbH, Jettingen-Scheppach, Germany	100.0	B) 45	5
8. CANCOM NSG ICP GmbH, Jettingen-Scheppach, Germany	100.0	B) 56	453
9. CANCOM cloud solutions GmbH, Munich, Germany	100.0	88	77
10. CANCOM Financial Services GmbH, Jettingen-Scheppach, Germany	100.0	94	0
11. CANCOM VVM GmbH, Jettingen-Scheppach, Germany	100.0	24	0
12. CANCOM Computersysteme GmbH, Graz-Thondorf, Austria	100.0	A) 1,374	939
13. CANCOM a+d IT Solutions GmbH, Perchtoldsdorf, Austria	100.0	D) 1,249	377
14. CANCOM Limited, Guilford, UK	100.0	18[1)]	-179
15. CANCOM (Switzerland) AG, Caslano, Switzerland	100.0[A)]	0[2)]	1
		19,705	4,447

Shareholdings

Plaut Aktiengesellschaft, Vienna, Austria

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 = 0,84 EURO

2) = Converted at the reporting date rate of CHF 1 = E1,23 EURO

* Profit transfer agreement with CANCOM AG

Responsibility Statement of the company financial statement CANCOM AG

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.

Munich, Germany, 12 March 2012

Klaus Weinmann　　　　Rudolf Hotter

Executive Board of CANCOM AG

We have audited the annual financial statements (consisting of the balance sheet, income statement and notes to the accounts) of CANCOM AG, Munich, Germany, including the accounts and combined management report of CANCOM AG and the CANCOM Group for the financial year from 1 January to 31 December 2011. 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 combined management report of CANCOM AG and the CANCOM Group.

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 combined management report of CANCOM AG and the CANCOM Group, 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 combined management report of CANCOM AG and the CANCOM 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 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 combined management report of CANCOM AG and the CANCOM Group 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, 12 March 2012

S&P GmbH
Wirtschaftsprüfungsgesellschaft

Tobias Wolf	Johann Dieminger
Certified auditor	Certified auditor

CANCOM AG financial calendar

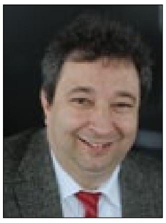
Important dates

Interim Report Q1 / 2012	**11 May 2012**
Annual General Meeting in Munich, Germany Start: 11 a. m. Munich Location: Haus der Bayerischen Wirtschaft Max-Joseph-Straße 5 80333 Munich, Germany	**21 June 2012**
Interim Report Q2 / 2012	**09 August 2012**
Interim Report Q3 / 2012	**8 November 2012**
Analysts' Conference at the German Equity Forum in Frankfurt, Germany Start: Time is not yet determined Location: Congress Center of Messe Frankfurt Ludwig-Erhard-Anlage 1 60327 Frankfurt, Germany	**12 - 14 November 2012**

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

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

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

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

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

Petra Neureither
Member of the Supervisory Board,
managing director of
PEN GmbH, Heidelberg, Germany

CANCOM AG
Ridlerstraße 37
D-80339 München
www.cancom.de