INTEGRALIS

ANNUAL REPORT 2010

INTEGRALIS GROUP AT A GLANCE

	Revenue	EBITDA	EBIT	Net Income	Earnings per share undiluted	Earnings per share diluted
	M€	M€	M€	M€	€	€
GJ 2010	188.2	3.0	0.3	1.4	0.12	0.12
GJ 2009	166.4	-1.2	-3.7	-6.4	- 0.57	-0.56
GJ 2008	168.9	7.8	6.0	9.3	0.86	0.85
GJ 2007	158.3	7.1	5.0	5.2	0.48	0.47
GJ 2006	136.7	4.3	2.9	2.8	0.25	0.24

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DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES

The challenges posed by the global markets are changing in ever shorter cycles for us all. No sooner have we overcome at least the worst of the global financial crisis than we are faced with the nuclear catastrophe in Japan and its still uncertain consequences for the world's economy.
Yet, panic is a poor advisor, something that we know only too well from our own IT security business. Using a raised finger and overhyping potential risks to sell things that customers don't want is not a good recipe for sustained business success.
Although IT security continues to be crucially guided by the underlying importance of protecting IT systems, more and more IT security processes are moving away from their role of averting risks and adopting the function of business enablers allowing new business ideas to be implemented in the first place.
Our consultants have recognised this and many other trends in good time. It is not least of all because of this that we have been able to further enhance our reputation in the market substantially, with consulting business generating the greatest revenue growth within the Group.
However, all of the Group's other segments posted gratifying top-line growth as well. In fact, the previous year's figure was exceeded by more than 13 percent, thus resulting in a new sales record.
Following last year's slump in earnings caused by expenditure in connection with the takeover bid and other exceptional expenses, we returned to the black in 2010.

Still, we are far from satisfied with our earnings. We know that we still have considerable potential, which we now want to harness.
For this reason, we have implemented the PERFORM! programme to meet our shareholders' strategic expectations and to not only reach but also exceed our long-term financial targets. Currently, all members of our management in all of our Group's regions are working at full stretch on putting this ambitious programme into practice.
Looking ahead over the next few years, I consider the particular challenges awaiting Integralis to lie in the creation of sustained profitable structures, the optimisation of earnings potential, innovative solutions and global positioning.
I referred above to the still unknown consequences of the Japanese natural disaster for the global economy. This event has, of course, not only an economic dimension but, above all else, a human one as well.
We maintain close relations with our Japanese principal shareholder NTT Communications and hope that the many families who stand behind it will come through this difficult situation unscathed.

On behalf of my fellow Board member, I wish to thank our shareholders, business partners and all our employees.

Georg Magg

Chief Executive Officer

REPORT OF THE SUPERVISORY BOARD 2010

During the year under review, the Supervisory Board performed the duties imposed on it by law and by the Company's articles of incorporation, monitoring and advising the Company's Management Board on an ongoing basis. The Management Board briefed the Supervisory Board in detail on the Company's condition, compliance with the principles of good corporate governance, the risk situation and risk management as well as planned business strategies including corporate forecasts in written and oral reports submitted at a total of six meetings as well as numerous telephone conferences. No committees were formed.

All material investment decisions as well as decisions of fundamental and strategic importance were reviewed and approved by the Supervisory Board.

The Management Board and the Supervisory Board worked together closely and consulted on the Company's strategic orientation in regular intervals. For this purpose, the Management Board kept us regularly informed in both written and oral reports of all relevant aspects of the Group's plans and strategic development, its business and financial performance, the course of business and its status on a timely and comprehensive basis. In addition to the risk situation and risk management, the Supervisory Board also devoted its attention to Integralis' compliance programme. As well as this, the remuneration system for the Management Board including the main contractual elements was regularly reviewed. For more details, reference should be made to the remuneration report on pages 35-37. At its meetings, the Supervisory Board also discussed the semi-annual and quarterly financial reports with the Management Board prior to their publication. The details of any departures in business performance from targets and plans were submitted to the Supervisory Board and examined on the basis of the documents provided.

No conflicts of interests on the part of the members of the Management Board and the Supervisory Board, which must be disclosed to the Supervisory Board and reported to the shareholders at the annual general meeting, arose in the year under review.
No member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board.

Meetings of and resolutions passed by the Supervisory Board

At the first meeting of the Supervisory Board for 2010 held on 18 February, the Management Board and the Supervisory Board discussed the budget and agreed on its main points. In addition to the Company's general business performance, the preliminary figures for 2009 constituted a further item on the agenda.

At its meeting on 14 April, the Supervisory Board approved the annual financial statements of Integralis AG as of 31 December 2009. In addition, the dependence report for 2009 stipulated by Section 312 of the German Stock Corporation Act was discussed and approved. During this meeting, the Management Board reported on the Company's profitability, particularly the return on capital in accordance with Sec-tion 90 (1) No. 2 of the German Stock Corporation Act. Following lengthy deliberations with the statutory auditors, we approved Integralis AG's annual financial statements and the consolidated financial statements as of 31 December 2009. At the same meeting, we finalised the agenda and worded the proposed solutions for the annual general meeting held on 29 June 2010. Thereupon, the Management Board reported on the current state of the Company's business and elaborated on the forecast for the rest of 2010. Finally, we submitted the declaration of conformity to the Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act in consultation with the Management Board.

At its meeting on 29 June 2010 held after the annual general meeting, the Supervisory Board elected a chairman and a deputy chairman from its number. Mr. Luc Loos was reelected chairman and Mr. Makoto Takei deputy chairman. In addition to reviewing the annual general meeting, the Supervisory Board discussed future potential for harnessing synergistic benefits and the Company's strategic alignment in Asian markets.

The main item on the agenda of the Supervisory Board's meeting held on 7 October 2010 concerned the results of an internal audit. In addition, there was detailed discussion on the future of the Company's Swedish operations.

The two-day meeting of the Supervisory Board held on 4-5 November was dominated by the planning of the budget for 2011 and related goals.

The agenda for the final meeting of the Supervisory Board for the year held on 16 December entailed a joint master plan for creating permanently profitability-oriented structures. In addition to this, the details of the deconsolidation of Swedish subsidiary Integralis AB as well as possible targets for regional expansion and organisational changes were discussed.

Corporate governance

The German Corporate Governance Code was modified and supplemented in a number of areas. The Supervisory Board consulted with the Management Board on the recommendations contained in the Code and submitted the Declaration of Conformity stipulated by Section 161 of the German Stock Corporation Act in conjunction with the Management Board. The current Declaration of Conformity stipulated by Section 161 of the German Stock Corporation Act has been included in the annual report and made permanently available to shareholders on the Company's website.

Annual and consolidated financial statements

The annual financial statements for 2010, the consolidated financial statements and the management report and Group management report were audited by auditing company KPMG Deutsche Treuhand Gesellschaft AG, Munich, which issued an unqualified auditors' report.

In connection with their activities, the statutory auditors were also required to assess whether the Management Board had complied with the statutory requirements and, in particular, had established a monitoring system for the early detection of any events liable to impair the status of the Company or the Group as a going concern. The statutory auditors were satisfied that the Management Board had established an appropriate information and monitoring system whose structure and operation are suitable for the timely detection of any threats to the Company's going-concern status.

At its meeting on 24 March 2011, the Supervisory Board deliberated at length with the Management Board and in the presence of the statutory auditors on the report on the audit of the annual financial statements and the management report as well as the consolidated financial statements and Group management report as of 31 December 2010. The statutory auditors presented the material results of their audit to the Supervisory Board at its meeting on 24 March 2011. The Supervisory Board approved the results of the audit. The audit of the management reports revealed that they were consistent with the reports which the Management Board had submitted to the Supervisory Board in the course of the year.

In addition, the Supervisory Board examined the annual financial statements as of 31 December 2010, the management report, the consolidated financial statements and the Group management report. As no grounds for any objections were found, the Supervisory Board approved the Company's annual financial statements and the consolidated financial statements. Accordingly, the annual financial statements are duly adopted.

Related parties

The statutory auditors also examined the related parties report stipulated by Section 312 of the German Stock Corporation Act and issued the following unqualified auditors' report:

"Having examined and assessed the related parties report in accordance with our duties, we hereby confirm that

1. the facts stated in the report are correct,
2. the Company's transactions as detailed in the Report were not unreasonably high and that any disadvantages were duly eliminated,
3. in the measures described in the report there are no circumstances warranting a materially different assessment to that provided by the Management Board."

The related parties report was submitted to the Supervisory Board together with statutory auditors' report. It was discussed with the Management Board at the Supervisory Board's meeting on 24 March 2011 in the presence of the statutory auditors and particularly checked for any errors or omissions. The statutory auditors reported on the main findings of their audit and were available to the Supervisory Board for any additional questions.

On the basis of its conclusive review, the Supervisory Board did not raise any objections to the related parties report and the Management Board's declaration which it contains and is therefore in agreement with the results of the audit performed by the statutory auditors.

Composition of the Supervisory Board and the Management Board

At the annual general meeting held on 29 June 2010, the shareholders elected a new Supervisory Board. As all the previous members of the Supervisory Board were reelected, there was no change in its composition in 2010. The following changes to the composition of Integralis AG's Management Board arose in the year under review: Mr. Heiner Luntz was appointed new Chief Financial Officer of Integralis AG in April 2010 to replace Roger Friederich, who left the Company at the end of March 2010.

The Supervisory Board wishes to thank all employees of the Integralis Group as well as the members of the Management Board for their great personal dedication and service.

Luc Loos

Chairman of the Supervisory Board

INTEGRALIS STOCK

ISIN: DE0005155030
WKN: 515503
Reuters: AAGGn.DE
Bloomberg: AAGN:GY

INTEGRALIS STOCK – CONTINUING ON ITS UPWARD TRAJECTORY WITH NEW PRINCIPAL SHAREHOLDER

With the global financial crisis overcome, capital markets took their cues from the EU sovereign debt crisis in 2010. In the first half of the year, credit markets particularly watched Greece in view of fears of an impending state bankruptcy. As the year progressed, Ireland also came under mounting pressure, with speculation of the possible insolvency of individual EU countries also spreading to the likes of Spain, Portugal and Italy. This caused the spreads on the sovereign debt of what became known as the "PIIGS countries" (Portugal, Italy, Ireland, Greece and Spain) to widen substantially, triggering a massive flight into what was perceived to be secure sovereign debt such as German "Bunds".

Whereas the main focus of attention had been on Europe at the beginning of the year, accompanied by a substantial depreciation of the euro against the US dollar, this effect subsided as the year unfolded as the quantitative easing policy being pursued by the US Federal Reserve Bank sparked fears of a surge in global inflation.

Equities markets were left largely unscathed by the turbulence afflicting exchange rates and sovereign debt. Although other asset classes – predominantly commodities such as gold, silver and copper – gained ground more substantially, the performance of the global stock markets - with the exception of those of the PIIGS countries – was also quite respectable. Thus, the German DAX advanced by a further 16 percent. After the strong gains of the previous year, technology stocks rose only relatively marginally in 2010. Whereas the TecDax Index was dragged down by the weak performance of solar stocks, gaining only 4 percent, the broader TecAll Shares closed the year 9 percent up.

Integralis stock hit its low for the year as early as in mid February. After a sideways move on a slight incline accompanied by relatively small trading volumes, Integralis stock regained its wings at the beginning of October, with speculative buying propelling it to a high for the year of € 9.25, its highest level in more than eight years, after which profit-taking exerted some pressure on its price.

In the first year following the acquisition of a majority stake by NTT Communications Corporation (NTT Com), the stock still managed to advance by a respectable 17.5 percent, with market capitalisation coming close to the magic EUR 100 million mark at the end of the year.

Accordingly, Integralis stock again outperformed all relevant benchmark indices in 2010.

Main figures	2010	2009
End-of-year price	8.40	7.15
High for the year	9.25	7.45
Low for the year	6.81	2.14
Performance of Integralis stock	17.5%	222.7%
Performance of Tec All Shares	9.0%	58.0%
Performance of TecDax	4.0%	53.1%
Performance of the Dax	16.1%	23.8%
Number of shares at the end of the year	11,585,137	11,585,137
Market capitalisation at the end of the year	97.3 M€	82.8 M€
Earnings per share	**0.12**	**-0.57**

INSIDE INTEGRALIS

INTEGRALIS HIGHLIGHTS 2010 – COMPANY NEWS AND ACTIVITIES

17 March	Integralis published its preliminary figures for 2009: strong top-line growth / bottom line dragged down heavily by exceptionals
24 March	CFO Roger Friederich left the Company
1 April	Heiner Luntz was appointed new CFO
19 April	Integralis confirmed the preliminary figures with the publication of its consolidated financial statements for 2010
14 May	Integralis reported substantially higher revenues and solid earnings for the first quarter
30 June	Existing members of the Supervisory Board were confirmed by a large majority at the annual general meeting at which there was high shareholder attendance
13 August	Integralis reported a swifter increase in revenues and a strong cash flow in the first half of the year
15 November	Integralis recorded a sharp rise in revenues and dynamic growth in consulting business in the third quarter

WHEN YOU THINK INFORMATION SECURITY – THINK INTEGRALIS

Integralis Security World 2010 – The IT world met at Integralis' security summit

Held for the third year, the Integralis Security World 2010 was a complete success once more.
More than 600 guests from Germany, Austria and Switzerland accepted Integralis' invitation in 2010 and attended the 3rd Integralis Security World, which was held in Stuttgart on 22 - 23 June. "We again managed to assemble the top 40 IT security solutions providers as well as a select audience of experts from the IT security industry under a single roof in Stuttgart," says Johann Miller, managing director of Integralis Central Europe.

Keynote speaker Marty Roesch and many expert presentations

Marty Roesch, the founder and CTO of Sourcefire and inventor of Snort, opened ISW by holding a presentation entitled "Effective Network Security in a Virtual World" before an audience of over 300 people. In addition to Roesch, many renowned international experts such as Dan Mrvos (VP Technical Sales & Services Proofpoint), Will Matthews (Palo Alto Networks), Sandy Bird (CTO of Q1Labs), Dan Sarel (VP Products of Sentrigo) and Nigel Ashworth (EMEA Solution Architect at F5) attended, contributing to the global flair of this conference. All told, ISW visitors were able to select from over 50 presentations by OEMs and partners, a number of customers and Integralis consultants.

Main focus in 2010 on governance, risk and compliance (GRC)

Governance, risk and compliance were amongst the main topics this year. On both days, panel discussions with top specialists, who critically evaluated the tools available in the market and discussed hands-on compliance and risk management approaches with participants, were well attended.

Sharing information and networking on two days

Needless to say, ISW again offered countless opportunities for sharing with experts from leading solutions providers as well as with the Integralis specialists. Extensive use was also made of these possibilities during the exhibition taking place at the same time.
The "Security Night" was also a tremendous success, with over 500 guests partying well into the night to music and a performance by the legendary Blues Brothers. Over cocktails, they were able to share experience with colleagues from the IT world.

The Integralis Customer Lab and Solution Campus

Integralis unveiled the "Customer Lab" for the first time at ISW. This installation is a close-to-production laboratory environment allowing a wide variety of different testing scenarios to be utilised at the Integralis data centre. For the second time, Integralis provided an opportunity of testing different security solutions at its Solution Campus. The demo area aroused great interest again and was used intensively.

Participant feedback

Feedback from participants, vendors and Integralis partners alike was exceedingly favourable. Here's a small extract:

"This year, Integralis again managed to bring together innovative solutions providers and companies seeking information as input for their decision-making processes. We thought it was very successful. We were able to conduct many interesting talks on both days and will soon be opting for a vendor"

Oliver Rödel, SKL

"I was at ISW for the first time in 2009. This time I was again impressed at what Integralis had managed to achieve"

Robert Wisolek, Telefonica O_2 Germany

"ISW was an important event in our planning in 2010 and did not disappoint us this year either. On the contrary, we were able to gain a great deal of first-hand information on the various approaches favoured by individual providers. We were even able to test interesting solutions in the Customer Lab, something which made a key contribution to our decision-making process,"

Manfred Gattinger, Energie AG, Oberösterreich

Integralis Partner Awards

The 2010 Partner Awards were a further highlight. Thus, Integralis selected six producers from the 40 main ones in recognition of their outstanding services. CheckPoint received an award for "Best Performance", F5 for "Best Product Quality", Avedos for "Best Newcomer", Juniper for "Best Global Partner", Websense for "Best Service Quality" and Bluecoat for "Best Growth". "We were thrilled to receive the award," says Michael Scheffler, Regional Director Central Europe at Websense. "It came as a complete surprise". Samuel Brandstätter of Avedos was also surprised: "It is a particular honour for us to have received the Best Newcomer Award".
Integralis Security World will be taking place again this year on 28 - 29 June 2011 at the same popular venue, namely Mövenpick Airport Hotel in Stuttgart.

Integralis' road shows in Germany, Austria and Switzerland

Once again, Integralis organised the popular IT security road shows across 10 cities in the three German-speaking countries. This year, the focus was on sensitive data, security in virtualised IT environments and "Windows 7 – the most secure Windows of all time". During the full-day events, Integralis specialists worked together with external experts to demonstrate the best processes and describe current strategies and solutions. Visitors to the road show were again able to experience and intensively test the security solutions presented in live operations. The road shows were accompanied by key strategic vendors as partners. Almost 1,000 visitors attended the roadshows, with the new customer rate in excess of the previous year's high level.

Activities in the UK

In 2010, a series of customer and vendor functions was held in the United Kingdom.
An Integralis "Golf Day" served to strengthen relations with customers and vendors, as did trapshooting and a car race at the Bedform Autodrome.
The benefit football match organised by Integralis for ill children in the United Kingdom also met with great enthusiasm. Together with IT security partners Pentura, F5, Kaspersky Labtech, Arc Tech, Checkpoint, Websense, McAfee, Rhetorik, Vadition and Avnet, Integralis was able to raise several thousand pounds for the Starlight Children's Foundation.

Infosecurity Europe, 2010

Rather than following the traditional route and significant expenditure of a trade show stand, Integralis instead chose to take an innovative approach to the UK's largest Information Security Event. Customers and prospects were invited to "Take a break from InfoSec" at an exclusively arranged local pub to discuss what they had seen on the show floor and how this could be applied to their organisations. Sales managers and directors organised a full agenda of both customer reviews and

introductory meetings over two days, several of which either initiated or speeded engagement opportunities. The event also attracted key industry journalists and analysts, some of whom blogged 'live' from the venue judging the event the 'best stand of the show'. The result – over 300 customers and prospects gained a greater insight into Integralis's services and people through conversations with a range of team members and other enthusiastic customers.

Breakfast briefing – "Making sense of DLP"

The exclusive Mercer restaurant in the heart of the City was the venue for an event addressing practical approaches to DLP. Customers were invited to join other Information Security Professionals to discuss the critical issues surrounding data loss prevention. In a discussion over breakfast, guests explored the practical proven approaches organisations have adopted to reduce cost, achieve compliance and manage risk. This led to several opportunities.

"A taste of what's new in Information Security Solutions" – Vinopolis

As part of Integralis's commitment to educating its information security community, this event was designed to encourage conversation around the value of specific, innovative solutions whilst enjoying London's wine museum, Vinopolis.

To enable our guests to learn more about how the latest security solutions could work for their organisations – we invited selected vendor sponsorship enabling Tufin, Imperva, Lumension and Infoblox on this occasion, to host branded areas within the event space to attract and engage our guests in discussion. Our sponsors were delighted that their investment established new and profitable business relationships.

Having been led through a structured "How to taste wine" session by a Vinopolis' wine guide, mixed teams of Integralis staff, vendor partners, customers and prospects tested their skills in a fun but hotly contested competition. Forming small groups offered the opportunity not only for networking but detailed conversations around shared Information Security challenges. Feedback from our guests and vendor partners confirmed that this was both a productive and memorable evening.

The Gherkin

C level contacts from Integralis's target community were invited to an exclusive private dining event to discuss strategic issues within Information Security. The iconic venue, the world famous Swiss Re building, aka the "Gherkin", located in the financial hub of the City proved a popular choice for this senior level audience. The facilitated discussion enabled guests, some of whom had not met with Integralis previously, to openly discuss and debate best practice approaches to managing risk and gain an understanding of Integralis's range of consulting and managed services. Several major account relationships significantly progressed as a result of the event.

US activities

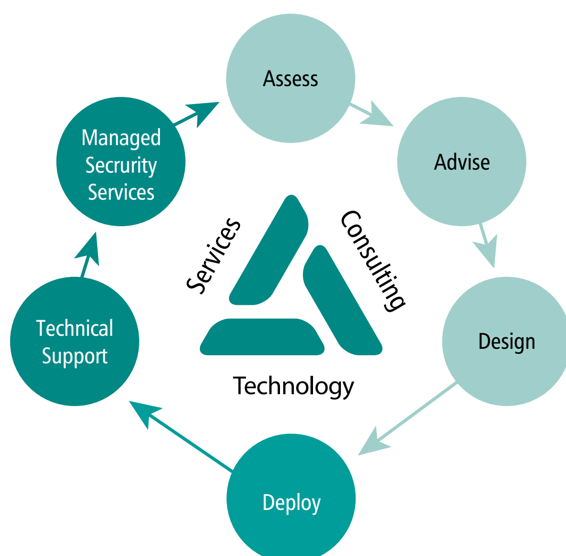
Southern California Security Summit

Integralis organised its second IT Security Forum in South California. Held with the assistance of sponsors Juniper, Blue Coat, Q1 Labs and Varonis, the forum primarily dealt with the increasingly important issues related to cloud computing, data centre consolidation and data protection.

New England Security Summit

With this event, Integralis was able to combine training for IT security officers on matters such as data security, secure cloud and managed services with support for a Special Olympics Group in Connecticut to bridge budget shortfalls. This was followed by a benefit golf match for the Special Olympics Group, who were presented with a cheque for a thousand dollars in support of their mission.

THE INTEGRALIS BUSINESS MODEL



In our **consulting** activities, we offer extensive expertise from strategic IT security advice through to the auditing of corporate networks.

In the **technology** segment we integrate the hardware and software of leading global vendors to produce integrated secure solutions.

Our **services** entail our own support and managed security services. With these highly scalable services, we are able to assist our customers around the clock. Our globally networked Security Operation Centres monitor and manage our customers' IT security environments.

Bespoke solutions for IT security in all process phases

Integralis offers bespoke solutions to optimise IT security in all phases of the IT security process. Roughly 70 percent of the DAX 100 and FTSE companies rely on the Company's specific IT security skills and its twenty years of experience which is derived from systematic specialisation in its core business.

IT security trends in 2011 – what enterprises need to pay attention to

Once again, a series of new IT threats will emerge this year. By the same token, Integralis sees many developments which will protect users. In particular, trends such as integrated risk management, cloud security for users and, not least of all, security and policies in social networks are set to gain in importance. Within integrated risk management, governance, risk and compliance approaches are addressing a growing number of segments beyond information security. The new tools are very flexible and increasingly assuming the functions of business intelligence. In this way, users are able to cover all risks and offer integrated reporting and controlling.

Security for cloud computing is becoming increasingly popular. Everyone is talking about it and many enterprises find this approach very appealing. However, it is important to determine who has control over the data. Cloud computing will result in a number of changes for data encryption in particular. Thus,

users of a private cloud are now able to encrypt their own data transparently even if it located in a cloud. In this way, cloud computing providers will no longer be able to access the data as such. A single sign-on using the standard operating system logons, for example, is conceivable for public cloud applications.

Social networks are enjoying enormous popularity. Given the steady overlapping of private and professional profiles arising from the fact that enterprises consider a presence on platforms such as Facebook, Twitter or Xing to be highly desirable, they must take new steps to protect themselves and their data. Consequently, enterprises should define policies, assign clear user rights to certain persons where necessary and take appropriate measures to monitor and oversee the use of social networks.

In addition to these trends, the handling of sensitive data will continue to play a crucial role. According to federal police authorities, white-collar and industrial espionage is posing an ever-greater problem for many companies. For one thing, other countries are very keen to steal and copy ideas as well as production expertise. For another, disgruntled employee may steal and sell data or offer it to platforms such as Wikileaks.

The use of mobile devices is a major challenge for many enterprises. "Cool" and elegant smartphones and tablets are being sought as a replacement for established mobile equipment, something which may lead to complications. Most companies have always had security strategies and policies for clearly defined types of mobile devices for which protection measures are defined and implemented. However, this is being rendered extremely difficult by the diversity and short lifecycles of mobile equipment. Attention is now turning to the best way of protecting sensitive data without sacrificing competitiveness.

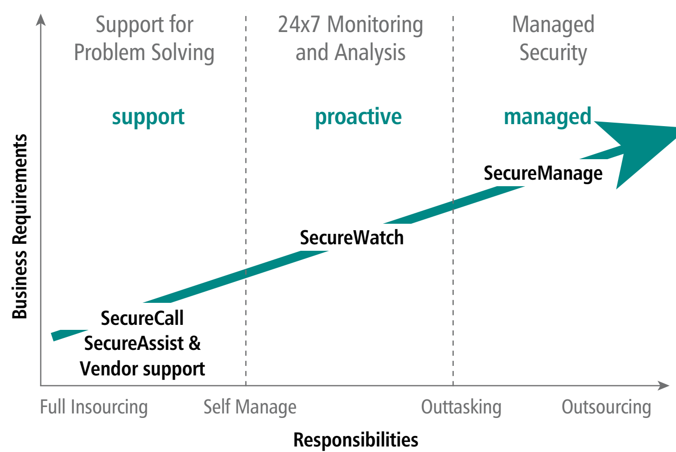
Integralis areas of expertise

Infrastructure Security	Secure Application Delivery	Secure Content Management	Security Operations	Identity & Access Managsement
Firewall UTM, VPN	Application Delivery Controller	Secure Web Browsing	Security Information & Event Management	Identity Management
Intrusion Prevention	WAN Optimisation	EMail Security	Vulnerability & Configuration Management	Smartcard-Solutions
Network Access Control	Web Application Security	Encryption	Governance, Risk and Compliance Tool	Strong Authentication
Network Service Security	Web Services Security	Data Loss Prevention	Database Activity Monitoring	Single Sign-On

Integralis service portfolio

Managed Security Services (MSS) are the most comprehensive form of support for customers' IT security environments. Even large companies are not always able to cope with the enormous requirements of network security using their own resources and are thus increasingly relying on external specialists to manage their mission-critical processes. Cost aspects are playing an increasingly important role in this respect.

Managed Security Services can handle even the most complex security tasks successfully, while simultaneously helping to lower operating costs and freeing up the customer's capital. As a managed security service provider, Integralis is always at the forefront of the market and keeps pace with the latest technological developments.



Unique architecture for Managed Security Services

Integralis has established its own global fail-safe architecture and, with Integralis Security Information System (ISIS), completed anticipatory development work on its own Security Information and Event Management (SIEM) Security Service Appliance (SSA). The SSA is installed in the customer's network, where it offers the unique possibility of monitoring linked systems and additionally analysing log files on a real-time basis. Day for day, up to 1.7 billion log entries are analyzed – a figure which is increasing all the time – without the need for this data to be transferred across the network, thus clogging up the customer`s data lines. The preliminary evaluation of the security events is performed directly in the SSA, which condenses and correlates the data for transfer via a secure fail-safe link with the Integralis SOCs for further analysis. At the same time, the SSA operates as a secure remote access point for the systems managed on the customer's premises. If the Internet link or fire wall fails, a dial-up link is automatically established. This development work makes a crucial contribution to ensuring that Integralis is able to offer this unique Managed Security Service around the world.

In the Integralis MSS world the sun never sets. Indeed, Integralis' services "follow the sun". The Security Operation Centres (SOC) around the world are all linked to each other. Roughly 50 highly trained specialists offer support in three languages (German, English, French) at facilities in Germany, the United Kingdom, the United States and Singapore. In addition, local SOCs in France and – via the NTT Communications Group – also Tokyo are in operation. Integralis services are being utilised by customers in over 50 countries.

GROUP MANAGEMENT REPORT

Integralis continued to record solid growth in 2010. At € 188.2 million, consolidated revenues exceeded the previous year by more than 13 percent, marking a new record.

INTEGRALIS AG GROUP MANAGEMENT REPORT FOR 2010

1. General disclosures

Integralis AG is the parent company. Its shares are listed in Deutsche Börse AG's Prime Standard segment in Frankfurt and it holds all of the capital of the companies within the Integralis Group either directly or indirectly. The Integralis Group is an internationally active provider of IT security solutions and services. As of the balance sheet date, it had 515 employees and 18 branches in five European countries, the United States, the United Arab Emirates and Singapore.
Integralis helps companies to establish secure communications networks and to handle transactions via public and private networks. The broad range of services comprises extensive IT security solutions, consulting, system integration and support.
The Swedish company Integralis AB was deconsolidated in the year under review. All figures reported for 2010 and 2009 have therefore been adjusted for the sales and revenue components attributable to this company in accordance with IFRS 5 so as to enhance the comparability and transparency of the continued business activities.

2. Business performance, underlying conditions and competition

General business performance
General trends in the IT security market as well underlying economic conditions materially influence the success of the Integralis group.
The market in which Integralis operates is heterogeneous and comprises three main groups:

- Telecommunications groups and IT outsourcers operating at an international level
- Local and international IT network integrators also involved in security
- Local IT security specialists

Integralis is asserting itself very successfully in this environment and has also been able to gain market share from substantially larger competitors in some segments. Its greatest assets are its IT security specialists, which it considers to form the largest team of its type in Europe and the United States. With its many years of experience and vendor independence, the Company is able to implement individual security solutions. For this reason, many large corporates and, according to internal evaluations, roughly 70 percent of the DAX and FTSE companies rely on Integralis' services for protecting mission-critical processes.
Integralis offers suitable integrated solutions along the entire IT security value chain. The broad range of services entails IT security consulting, IT audits, preparations for certification, design and on-site implementation as well as global 24/7 support and professional managed security services (MSS).

General economic conditions
Following the severe recession triggered by the financial crisis, which saw gross domestic product shrink by 5 percent in the previous year, the German economy staged a strong recovery in 2010. According to the German federal government, growth came to a real 3.6 percent, the best performance in Europe. At 1.7 percent, economic growth in Europe as a whole was particularly dragged down by the "PIGS" countries (Portugal, Ireland, Greece and Spain), which were stricken by heavy sovereign debt. US growth failed to keep pace with the German rate despite economic stimulus programmes of gigantic proportions. Even so, at 2.8 percent, it was still up on the European rate. In Japan, the consensus of the main economic research institutes (OECD, IMF etc.) indicates growth of around 3.5 percent.
All told, the global economy achieved strong growth of around 4.5 percent in 2010 (source: EU Commission, EUROSTAT), with Asia – led by China with growth of over 10 percent – proving to be particularly dynamic.
Turning to 2011, the leading economic research institutes such as Eurostat, IMF, OECD and the EU Commission are still optimistic but generally expect economic momentum to weaken slightly.

Trends in the IT market
The economic environment for IT and services has brightened again following a substantial decline of 5 percent in business in the previous year.
Market research company IDC reported that global spending on IT systems had risen by almost 18 percent over the previous year in 2010, with market volumes widening to USD 405.6 billion (IDC's Worldwide Black Book Query Tool 2010).

According to surveys by Gartner (Forecast Analysis: Consulting and System Integration Services, 2007-2014, 4Q10 Update of 16 December 2010), the global market for consulting and system integration has also recovered. Market volumes grew moderately by 2.3 percent to just under USD 300 billion in 2010.

The threats posed by malware reached new records in 2010. According to a study by PandaLabs, one third of all the malware ever sent was created by cybercriminals in 2010.

With the boom in social networking, the large communities which this has given rise to have aroused the attention of spammers and cybercriminals, as IT data security provider Sophos writes in its 2011 Security Threat Report. According to this report, 40% of the Internet users interviewed received 40% more malware via Web 2.0 platforms, an increase of more than 90% over 2009. Spam was sent to two thirds of the interviewees, more than twice as many as two years ago. 43% of the interviewees received phishing messages, more than double the number recorded in 2009. Despite these risks, half of the interviewees stated that they had unrestricted access to social networks at their workplace, although 59% thought that employees could jeopardise the security of enterprise networks with their conduct.

Even though most of the interviewees consider Facebook to pose the greatest risk to enterprise security, Twitter was in fact the main target last year of what to date had been the most dangerous attack on social networks.

Of all IT security issues, WikiLeaks attracted the greatest attention, according to Sophos. One of the highlights was the (DDos) attacks in which websites which had terminated their activities with WikiLeaks were bombarded with a large number of requests, causing them to collapse under the strain.

The experts at Integralis have identified eight trends in the area of IT security for 2011. Specifically, they are mobile business on terminal devices, growing consumerisation, i.e. the use of employees' own devices, cloud computing, integrated risk management for GRC (governance, risk and compliance), security and policies in social networks, changes to IT organisation and data protection. In addition, Integralis feels that IT security measures cannot be viewed in isolation but must increasingly be seen as components of new business processes, particular in the case of mobile devices.

Among other things, the Experton Group sees the following main issues for 2011: optimisation of the cost/benefit ratio of security investments, end-point security in migrating to Windows 7, cloud-based security services, the link between enterprise-wide risk management and IT risk management, identity and access management as a process "enabler", theft protection, information and identities, secure access to enterprise resources and mobile web and smartphone security.

Websense sees a successor to Stuxnet coming and expects similar attacks on infrastrucure systems. In addition, it expects complex, multi-level attacks by combined Trojans. Via social media channels such as Facebook, data losses will be directed to falsified websites by means of manipulated search algorithms, after which malware will be downloaded to steal sensitive enterprise data. For this reason, data loss prevention (DLP) and immediate protection from zero day vulnerabilities are becoming increasingly more important as malware building blocks are making use of security gaps even more quickly. What is more, tablet PCs and smartphones like all other mobile devices are evolving into preferred targets for attacks. Websense assumes that online criminals are still seeking to steal data and paralyse infrastructures.

3. Results of operations

The figures of the continued operations at a glance:*

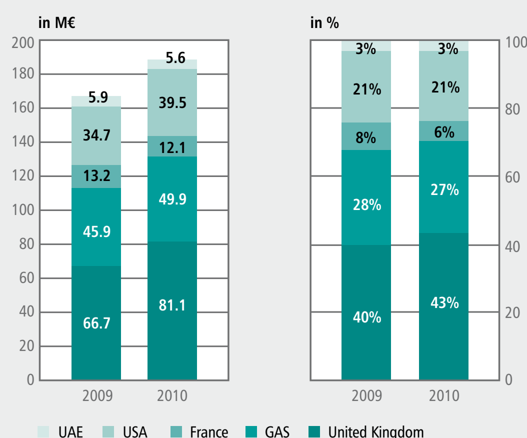
M€	2010	2009
Revenues	**188.2**	**166.4**
Gross profit	**60.1**	**55.2**
Gross margin %	31.9	33.2
Personnel expenses	**41.7**	**38.7**
Personnel expenses in %	22.2	23.2
Other operating expenses	**18.8**	**20.2**
Other operating expenses in %	10.0	12.1
Other operating income	**2.1**	**1.5**
Other operating income in %	1.2	0.9
EBITDA	**3.0**	**-1.2**
EBITDA margin in %	1.6	-0.7
EBIT	**0.3**	**-3.7**
EBIT margin in %	0.2	-2.2
Net profit/loss after tax	**1.4**	**-6.4**
Net profit/loss after tax in %	0.7	-3.8
Earnings/loss per share basic	0.12 €	-0.57 €
Earnings/loss per share diluted	0.12 €	-0.56 €

*All percentages in these financial statements have been calculated on the basis of rounded EUR thousands

3.1 Revenues by region

Integralis continued to record solid growth in 2010. At € 188.2 million, consolidated revenues exceeded the previous year by more than 13 percent, marking a new record.

Revenues in M€	2010	2009	Change %
United Kingdom	81.1	66.7	21.5
Germany/ Austria/Switzerland	49.9	45.9	8.8
United States	39.5	34.7	13.9
France	12.1	13.2	-8.4
United Arab Emirates	5.6	5.9	-4.7
Total	**188.2**	**166.4**	**13.1**



EBITDA in M€	2010	2009	Change %
United Kingdom	2.4	1.9	24.4
Germany/ Austria/Switzerland	3.2	2.9	10.8
United States	0.0	0.1	-56.9
France	-0.3	-0.5	55.1
United Arab Emirates	0.2	0.6	-72.3
Integralis Global Services	-1.0	-0.1	-673.8
Headquarters and shared services	-1.2	-5.6	78.9
Eliminations	-0.3	-0.3	n.a.
Total	**3.0**	**-1.2**	**388.8**

Regionally, the core countries of the United Kingdom, GAS and the United States achieved above-average growth. Business in the United Kingdom was particularly dynamic, with revenues rising by 21.5 percent. EBITDA climbed by 24.4 percent, thus exceeding the previous record achieved in 2008. In addition to the improvement in operating earnings, this was also due to the recovery of pound sterling against the euro.

At 8.8 percent, revenue growth in the GAS (Germany, Austria, Switzerland) region fell short of the Group average. Still, EBITDA came to € 3.2 million (previous year € 2.9 million), the best absolute figure for any of the Group's regions once more, while the EBITDA margin of 6.4 percent was the highest within the Integralis Group for the first time. This achievement reflected the particularly favourable and profitable product mix.

As in the previous year, US revenues rose at an above-average rate. However, at just under 14 percent, revenue growth fell short of the previous year's relative high figure of 34.7 percent. Despite the top-line momentum, EBITDA came to € 0.0 million, thus failing to meet the previous year's figure of € 0.1 million. This was due to the disproportionately large cost of sales relative to revenues as well as a substantial contraction in the share of high-margin managed services business.

In France, revenues came to € 12.1 million; although this was below the previous year (€ 13.2 million), both revenues and earnings improved steadily as the year progressed after a weak start. The loss at the EBITDA level contracted slightly to € 0.3 million (previous year loss of € 0.5 million) and EBITDA was in fact recorded in the fourth quarter for the first time in many years.

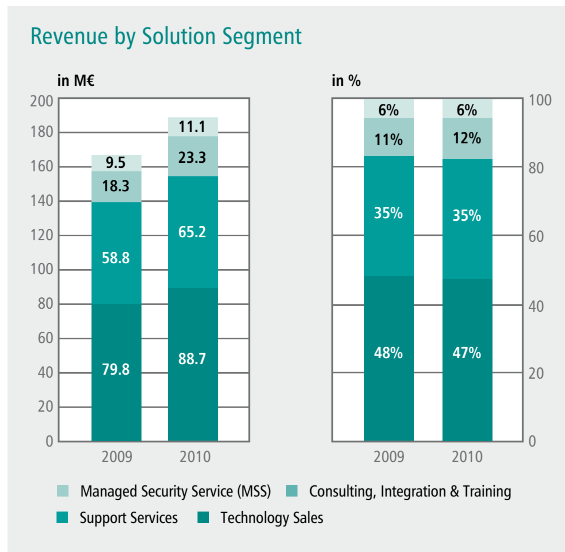
Following the disposal of Integralis AB, Stockholm, Sweden, there has been a change in the companies consolidated. This company was sold in return for a 12.43% share in Secode AB, Stockholm, Sweden, on 22 December 2010 and was consequently deconsolidated. Accordingly, as already mentioned in

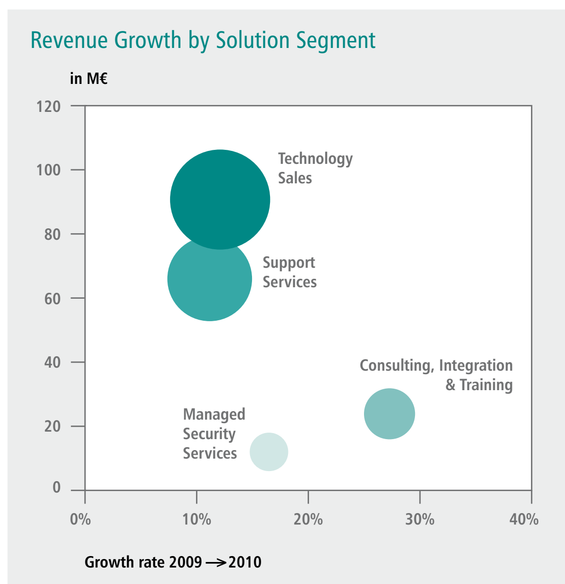
the general disclosures, no revenues and earnings are reported for Sweden.

In the United Arab Emirates, a major project for the local company Integralis Middle East (formerly ProtechT) was postponed in the first half of the year. Despite this, it recorded revenues of € 5.6 million, i.e. almost on a par with the previous year (€ 5.9 million). However, at € 0.2 million, EBITDA fell well short of the previous year (€ 0.6 million).

3.2 Revenues by segment

With revenues up 27.3%, the Consulting, Integration and Training segment achieved the greatest growth. However, the Group's own Support Services segment also reported satisfactory topline growth. After the cyclically induced decline of the previous year, consolidated revenues from technology sales stabilised again, growing at a solid rate. The strong revenues growth in Managed Services seen in earlier years continued again in 2010. This trend should also continue this year as there was a substantial increase in the total contract volume for Managed Services again towards the end of the year. In 2010, revenues of T€ 572, which had previously been assigned to MSS, were allocated to Support Services. The figures for the previous year were adjusted accordingly by T€ 3,089.





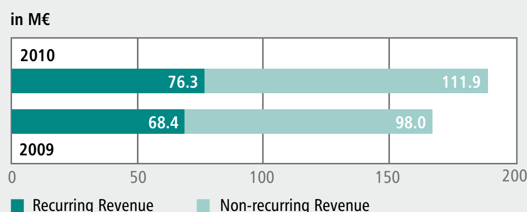
Revenue by Solution Segment	2010		2009		Change
	M€	%	M€	%	%
Technology Sales	88.6	47.1	79.8	47.9	11.2
Support Services	65.2	34.6	58.8	35.4	10.8
Consulting, Integration and Training	23.3	12.4	18.3	11.0	27.3
Managed Security Services (MSS)	11.1	5.9	9.5	5.7	16.7
Total	**188.2**	**100.0**	**166.4**	**100.0**	**13.1**

Recurring vs. Non-recurring Revenue	2010		2009		Change
	M€	%	M€	%	%
Wiederkehrende Umsätze	76.3	40.5	68.4	41.1	11.6
Nicht-wiederkehrende Umsätze	111.9	59.5	98.0	58.9	14.2
Total	**188.2**	**100.0**	**166.4**	**100.0**	**13.1**

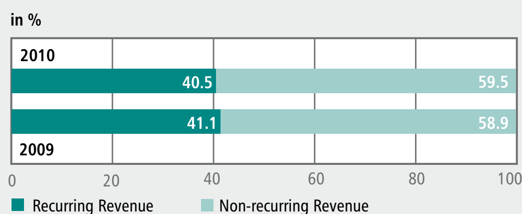
In the year under review, solid growth was recorded in recurring revenues from Support Services and Managed Security Services as well as in non-recurring revenues. Despite the absolute increase of € 8 million in recurring revenues, growth was less pronounced in relative terms due for the most part to the substantial increase in revenues from Consulting, Integration and Training.

Recurring vs. Non-recurring Revenue

in M€

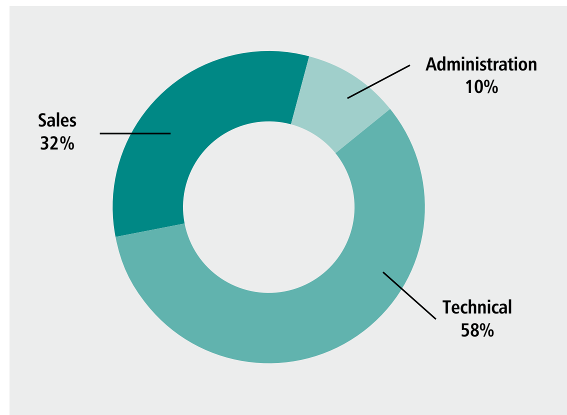


in %



3.3 Gross profit and gross margins

At € 60.1 million, gross profit was up on the previous year (€ 55.2 million). However, the gross margin of 31.9 percent fell short of the previous year (33.2 percent) due in particular to persistent price pressure on large projects in particular. As in the previous year, the particularly small gross margin in the fourth quarter was due to the large proportion of low-margin technological sales typically occurring at the end of the year.



3.4 Personnel expenses, other operating expenses and income

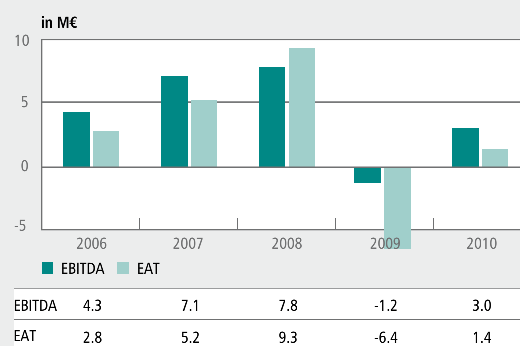
The average headcount rose slightly over the previous year, with Integralis employing an annual average of 501 people around the world (previous year 496). At 515, the end-of-year worldwide headcount was also up on the previous year (497). Personnel expenses climbed to € 41.7 million (previous year € 38.7 million). In addition to the higher headcount, this was particularly due to once-only expense in connection with adjustments in France, Sweden and the United States and at Integralis AG.
As in the previous year, the relative share of administrative positions contracted, accompanied by a corresponding increase in the share of technical positions. Thus, the proportion of employees in the administrative area shrank from 12 to 10 percent, accompanied by an increase in the technological area to 58 percent (previous year 55 percent).
At € 1.3 million, own work capitalised for the further development of software utilised was well up on the previous year. Consolidated other operating income rose to € 2.1 million (previous year €1.5 million) primarily as a result of greater income in the advertising and consulting segment.
EBITDA per employee stabilised again due to the reduction of other operating expenses in the year under review. This figure dropped from € 20.2 million in the previous year to € 18.8 million in 2010 on account of non-recurring effects.
Whereas the greatest cuts of around € 3.9 million were achieved in legal and consulting expenses as well as borrowing costs, other personnel costs and rental expenses climbed by € 1.0 million.
All told, EBITDA came to € 3.0 million (previous year loss of € 1.2 million at the EBITDA level).

3.5 Depreciation/amortisation, interest, taxes and net profit/loss for the year

Depreciation and amortisation came to € 2.7 million in 2010, slightly up on the previous year (€ 2.5 million). One of the reasons for this was the fact that the residual carrying amount of the customer list of US company Centris was written off in full. Moreover, goodwill impairment of € 1.8 million for Sweden in the previous year had exerted pressure on earnings and is now reported within discontinued operations.

EBIT of € 0.3 million was recorded in the year under review, thus reversing the previous year's sharp decline (loss of € 3.7 million at the EBIT level).
After small net finance expense in the previous year (€ 0.1 million), net finance income/expense was almost balanced at minus T€ 15 due to higher interest income.
Earnings before tax improved substantially, coming to € 0.3 million (previous year loss before tax of € 3.8 million).
As the Group's results of operations improved substantially in the year under review, it was possible for profits to be netted with unused tax losses, for which no deferred income tax assets were recognised. In the previous year, a correction had been made to deferred tax assets of € 3.1 million in Germany, as more than 50 percent of Integralis' share in the unused tax losses had been forfeited following NTT Com's entry. With the recognition of deferred tax assets of € 1.4 million (previous year: € - 2.6 million), the Company achieved net profit after tax of € 1.4 million (previous year net loss after tax of € 6.4 million).
This translates into earnings per share of € 0.12 (previous year loss per share of € 0.57).

Earnings progression 2006 - 2010



	2006	2007	2008	2009	2010
EBITDA	4.3	7.1	7.8	-1.2	3.0
EAT	2.8	5.2	9.3	-6.4	1.4

4. Financial position, net assets and order situation

At € 25.9 million (previous year € 23.0 million), the Group's order books were well up on the previous year again. This time, the greatest growth from the core regions was achieved in the United Kingdom and United States, whereas the figure for the GAS region was down somewhat after the strong momentum of the previous year.

There was a further increase in total contract volume, which reached a new level. At € 112.2 million (previous year € 97.4 million), the € 100 million mark was exceeded not only at the end of the year but also at the end of all the previous quarters of 2010. The total contract volume is defined as the total value of all support and MSS contracts which have been entered into and are active or to be commenced in the future.

This is a key indicator of future and recurring revenues. What was also remarkable was the volume of MSS contracts, which reached a new record at the end of the year.

* For comparison purposes, total contract volume figures are calculated on the basis of the applicable end-of-year exchange rates

Total assets rose again to €132.8 million as of the balance sheet date (previous year € 125.6 million).

On the assets side, current assets rose to € 99.7 million (previous year € 96.0 million) due to the seasonal increase in receivables at the end of the year.

Cash and cash equivalents were down on the previous year, declining by € 1.0 million to € 6.9 million. The net cash outflow was chiefly due to the grant of a loan of € 1.1 million to Integralis AB, Sweden. At € 3.9 million, cash flow from operating activities was firmly positive again (previous year net outflow of € 4.6 million).

Non-current assets rose to € 33.1 million (previous year € 29.6 million). This increase was chiefly due to a rise in the prepaid cost of materials of € 7.5 million, the acquisition of a 12.43 percent stake in Swedish company Secode AB at a nominal value of € 2.0 million, an increase of € 0.5 million in property, plant and equipment and an increase of € 0.9 million in deferred tax assets, while goodwill contracted by € 2.6 million due to the deconsolidation of Swedish company Integralis AB.

On the other side of the balance sheet, current liabilities increased to € 98.7 million (previous year € 94.4 million).

Financial liabilities, which are virtually unchanged, include the current financial liabilities towards NTT Communications Corporation, Japan, of € 4.7 million (previous year € 4.3 million). A credit facility of € 0.6 million which had been utilised in the previous year was repaid in full, meaning that there were no bank borrowings in the year under review.

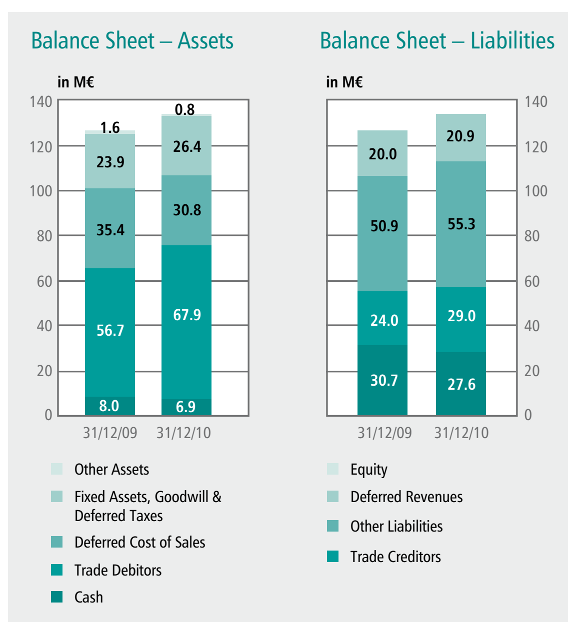
Whereas deferred revenues increased by a total of € 4.4 million, the prepaid cost of materials did not grow as quickly, coming as it did to € 2.0 million, due to the fact that the proportion of material in long-term contracts contracted over the previous year.

The total volume of non-current liabilities rose to € 13.2 million (previous year € 11.2 million) chiefly as a result of the increase in the non-current portion of deferred revenues of € 10.5 million (previous year € 7.7 million) in tandem with a reduction in deferred tax liabilities to € 1.0 million (previous year € 1.5 million).

Given the increase in total assets, the equity ratio contracted slightly to 15.7 percent (previous year 15.9 percent) despite the net profit for the year.

5. Finance management

As of 31 December 2010, the main items of the balance sheet compared with the corresponding figures for the previous year were as follows:



All told, the Company's economic condition stabilised after the previous year's decline in earnings. The principal shareholder NTT Com has expressed its commitment to a long-term investment in Integralis and is already helping to secure its future growth by providing the necessary funding.

The purpose of financial management at Integralis is to protect the Group's solvency at all times and to minimise various financial risks such as currency or credit risks. In 2010 all payment activities were converted from local to central bank accounts and electronic payments introduced following the establishment in 2009 of cash pools in the three main Group currencies – EUR, USD and GBP – for cash management purposes to facilitate efficient and centralised liquidity management at the Group level, to optimise net interest expense and to lower bank fees. In the currency management area, a central hedging system has been introduced for all national countries with significant FX exposure. In this way, all FX risks are reported regularly and with minimum delay to Group Treasury, which hedges them on a pooled basis with the aim of reducing risks and also making use of net effects within the Group to reduce hedging costs.

6. Research and development

The Integralis Group's research and development activities are driven by the Global Services segment, which develops new or enhanced offerings in consultation with the regions. Teams of developers based in the United States, England and Germany work closely together for this purpose. Development expense of a total of € 1.3 million was capitalised in 2010 as a whole in accordance with IAS 38 (previous year € 0.9 million).

7. Remuneration report

7.1 Management Board remuneration

The members of Integralis AG's Management Board receive annual compensation comprising fixed and variable components. In addition, there are compensation components with a long-term incentive effect. The Supervisory Board reviews the reasonableness of the variable components in regular intervals. The Management Board compensation is performance-oriented and primarily comprises the following three components:

- a fixed component
- a variable component
- a share-based component

The fixed component is paid in the form of a monthly salary. The amount of the variable component depends on the extent to which the Group EBIT targets agreed upon with the Supervisory Board are achieved. This is based on a certain percentage of consolidated EBIT exceeding a predefined minimum level.
The share-based compensation is paid in the form of share options. The existing share options were issued in accordance with the option terms applicable to all employees and explained in the notes to the consolidated financial statements. In 2010, the members of the Management Board were not awarded any share options. The waiver of the exercise of the outstanding final options accruing to the CEO Georg Magg in 2010 resulted in expense of T€ 36.

In addition, the members of the Management Board receive a monthly flat-rate car allowance to cover the use of private cars on company business. The members of the Management Board receive allowances for private pension savings schemes, which are paid directly into corresponding insurance policies (e.g. support funds) by the Company. No direct pension obligations are held by the Company or any other Group members. The service contracts with the members of the Management Board were amended in 2010 to replace the share-based compensation component with a longer-term incentive model based on performance indicators. For this purpose, targets were defined on a 3-year basis tied to both key performance indicators (revenues, EBIT) and operational ratios (e.g. staff satisfaction, establishment of Asian business).

In 2010, total Management Board compensation came to T€ 984 (2009: T€ 1,187). The individualised breakdown is as follows:

Breakdown of compensation in accordance with Section 289 No. 5 of the German Commercial Code	Georg Magg T€		Heiner Luntz** T€		Roger Friederich* T€		Total T€	
	2010	2009	2010	2009	2010	2009	2010	2009
Fixed compensation	210	200	150	–	36	150	396	350
Variable compensation	94	443	15	–	0	333	109	776
Cash settlement from stock options	36	–	–	–	0	–	36	–
Car allowance	15	11	9	–	3	11	27	22
Allowances for private pension savings	32	21	18	–	56	18	106	39
Settlement payments	–	–	–	–	310	–	310	–
Total	**387**	**675**	**192**	–	**405**	**512**	**984**	**1,187**

* Roger Friederich stepped down from Integralis AG's Management Board effective 31 March 2010
** Heiner Luntz has been a member of Integralis AG's Management Board since 1 April 2010

Shares and subscription rights held by the Management Board

Management Board	Shares 2010	Shares 2009	Share options 2010	Share options 2009
Georg Magg	–	–	–	25,000
Heiner Luntz**	–	–	–	–
Roger Friederich*	–	–	–	25,000
Total	–	–	–	**50,000**

* Roger Friederich stepped down from Integralis AG's Management Board effective 31 March 2010
** Heiner Luntz has been a member of Integralis AG's Management Board since 1 April 2010

7.2 Remuneration of the Supervisory Board

The Supervisory Board of Integralis AG receives total fixed compensation of T€ 50 plus VAT, if applicable, as approved by the shareholders. Of this total amount, the Chairman of the Supervisory Board receives 4/9, his deputy 3/9 and an ordinary member of the Supervisory Board 2/9 per year. The compensation is paid on a prorated basis if office is held on the Supervisory Board for less than a full year.
In addition, a resolution was passed by the shareholders at the annual general meeting on 10 May 2007 providing for the members of the Supervisory Board to receive a performance-tied compensation component. Accordingly, they receive variable performance-tied annual compensation. This annual variable compensation equals T€ 15 for every T€ 1,000 by which earnings before interest and taxes (EBIT) as reported in the consolidated financial statements exceed the EBIT recorded in the previous year. The EBIT-linked annual variable compensation is capped at a maximum of T€ 150 per year.
In the year under review, total compensation paid to the Supervisory Board therefore came to T€ 160. The breakdown is as follows:

	2010	2009
	T€	T€
Fixed compensation	50	49*
Reimbursement of expenses	35	–
Variable compensation	75	–
Total	**160**	**49**

*amount paid in 2010 for activities performed in 2009

8. Explanatory report on the disclosures made in accordance with Section 315 (4) of the German Commercial Code

As of the end of the year, the Company's subscribed capital stood at € 11,585,137 and is divided into 11,585,137 no-par-value registered shares. There is no right to claim the issue of individual share certificates. The shares are ordinary shares granting full voting and asset rights.
There are no restrictions on voting rights or the transfer of shares.
As of 31 December 2010, NTT Communications Deutschland GmbH held 75.59% of the capital of Integralis AG. As the treasury stock held by Integralis AG is not voting-entitled, this is equivalent to a share of 78.4% of the voting rights.
Integralis AG did not acquire any further treasury stock in the year under review. The 409,105 treasury shares held as of the balance sheet date equal 3.5% of the Company's subscribed capital.
There were no shares with special rights.
The Company's Management Board comprises two or more persons according to the articles of association. The Management Board currently comprises two persons. The members of the Management Board are appointed by the Supervisory Board. Otherwise, the appointment and dismissal of the members of the Management Board is governed by Sections 84, 85 of the German Stock Corporation Act. Amendments to the articles of incorporation are governed by the provisions contained in Sections 133, 179 of the German Stock Corporation Act. In the absence of any binding statutory provisions to the contrary, the Company's articles of incorporation stipulate that resolutions are passed with a simple majority of the votes cast and that the majority of capital is deemed to constitute the simple majority of the share capital represented during the passing of the resolution.
As of 31 December 2010, the following authorised and contingent capital was available for future use:

- **Authorised capital 2008/I:**
  In accordance with a resolution passed at the annual general meeting of 8 May 2008 the Management Board is authorised, with the Supervisory Board's approval, to increase the Company's share capital by up to T€ 5,750 on or before 8 May 2013 either once or in several steps by issuing up to 5,750,000 new registered shares on a cash or non-cash basis. Pursuant to statutory regulations, the Manage-

ment Board may (with the Supervisory Board's consent) exclude the shareholders' statutory subscription rights in order to acquire shares or all or part of other entities.
As of 31 December 2010, the entire volume of authorised capital 2008/I was still available for future use.

- **Contingent capital 2007/I:**
  In accordance with a resolution passed at the annual general meeting on 10 May 2007, contingent capital 2007/I of T€ 945 was created. The shareholders have approved contingent capital of up to T€ 945 through the issue of up to 945,000 shares. The contingent capital 2007/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company in accordance with stock option programme SOP 2007. As of 31 December 2010, no option rights had been exercised for this contingent capital 2007/I.

- **Contingent capital 2007/II:**
  At the annual general meeting of 10 May 2007, a resolution was passed authorising the Management Board with the Supervisory Board's approval to issue registered convertible or warrant-linked bonds with a total nominal amount of up to T€ 4,000 and a term of no more than ten years once or in several steps on or before 9 May 2012. For this purpose, new contingent capital 2007/II was created. The Management Board was additionally authorised to award the bearers or creditors of the convertible and/or warrant-linked bonds new shares with a prorated amount of share capital of up to a total of T€ 4,000 in accordance with the conditions for the convertible and/or warrant-linked bonds.
  The share capital may be increased by up to T€ 4,000 through the issue of up to 4,000,000 shares on a contingent basis. The option or conversion price equals 90 percent of the average price of the Company's stock in the XETRA closing auction at the Frankfurt stock exchange during the ten trad-ing days prior to the day on which the Management Board passes a resolution to issue the bonds, provided that this is no less than the minimum issue price stipulated in Section 9 (1) of the German Stock Corporation Act. As of 31 December 2010, no convertible or option bonds had been issued for this contingent capital 2007/II.

- **Authorisation to buy back the Company's own stock:**
  In a resolution passed at the annual general meeting on 29 June 2010, the shareholders authorised the Company to acquire its own shares in a proportion of up to 10 percent of the share capital of T€ 11,585 on or before 28 June 2015. The authorisation granted at the annual general meeting of 14 May 2009 permitting the Company to buy treasury stock was cancelled upon this new authorisation taking effect.

9. Corporate governance declaration

The Company's corporate governance declaration in accordance with Section 289a of the German Commercial Code may be inspected at the Investor Relations section of its website at **www.integralis.de**

10. Dependence report

Integralis AG's principal shareholder has been NTT Communications Deutschland GmbH, Munich, since 1 October 2009. As there is no control contract in force with the principal shareholder, the Management Board of Integralis AG is required to prepare a report on relations with related companies.
The Management Board confirms in accordance with Section 312 (3) of the German Stock Corporation Act that Integralis AG has received reasonable consideration for all transactions and activities referred to in the related parties report in the light of the circumstances known to the Management Board on the date on which such transactions or activities were executed and has not suffered any disadvantage as a result of such activities being performed or omitted.

11. Opportunities and risks

Integralis AG's business operations involve both opportunities and risks. One of the core elements of corporate governance is to detect, analyse and manage risks. The Company endeavours to make optimum use of opportunities while minimising the risks as far as possible. Risk management plays a crucial role in the early detection of any trends liable to jeopardise the Company's going-concern status and in the definition of suitable strategies for ensuring its continued existence. As a matter of principle, the risk management system covers the organisational, reporting and management structures and is supplemented with specific elements. Specifically this entails an analysis of the risk dimensions strategy, market and competition, service and support, partner and technology management, personnel, finance, IT and compliance. The risk management system identifies and evaluates risks and monitors and caps them by means of a regular management, reporting and controlling system. Group management monitors operating risks in the form of regular reports on business performance and particular occurrences in the individual companies. The parameters of relevance for steering the Group and the national companies are available at short notice and updated on a biweekly or monthly basis in line with Group-wide rules. Where necessary, measures necessary to reduce risk are then taken. The Management Board meets regularly at the offices of the individual national companies to review their situation at close quarters. Risks are quantified and a scoring system used to assess their estimated probability.
Group risk management forms part of Group controlling and reports directly to the Management Board. Group management tracks operating business and potential risks for the subsidiaries at all times. For this purpose, biweekly and monthly reports describing the subsidiaries' performance and target-achievement and setting out the main performance indicators and trends are prepared. These reports are regularly discussed at the meeting of the Management Board. In addition, any necessary measures are decided on. As well as this, meetings are systematically held with the local management of the subsidiaries to discuss, record and manage possible risks. The Management Board works with the management of the subsidiaries on an ongoing basis to enhance processes, utilise synergistic potential, strengthen marketing activities and boost profitability so as to reinforce and secure the subsidiaries' business

performance. Information on the market, the competition and the technological developments of the subsidiaries is regularly shared in various bodies, reconciled with Group controlling data and supplemented with evaluations on a case-by-case basis. One key component of risk management and the internal control system is the internal "management assertion letters", which are updated quarterly by all of the Company's management around the world. These letters describe the main corporate risks and allow executives to disclose and identify risks or shortcomings in the internal controlling system. These can then be examined by the Management Board and evaluated in terms of appropriate precautions and their effect on the accounting process. Reconciliation with financial reporting both chronologically and in terms of content provides an additional checking mechanism for accounting purposes. In June 2010, a monthly review call was additionally established to provide accounting staff with a platform to report on both financial risks and opportunities. The figures for the previous month are analysed and a forecast for the future provided.
A risk management manual, which is regularly reviewed and updated, describes and documents the various components of the risk management system.
The purpose of the internal control system as it relates to accounting is to ensure uniform processes complying with the statutory requirements, the principles of good accounting, the rules stipulated in the International Financial Reporting Standards (IFRS) and Group-wide policies and to provide appropriate and reliable information.
The organisational structures are defined in accounting policies. A Group-wide schedule ensures that all financial statements are completed within the requisite period of time.
The basis for the internal and particularly the accounting-related control systems is provided by a uniform and centrally managed ERP system as well as a CRM system, which tracks more than 95% of all of the Company's global business. This ensures a high degree of predefined functions in central sales and business processes. Clearly defined processes, the allocation of responsibility and uniform IT systems thus help to systematically avoid errors. All accounting-relevant IT systems are equipped with appropriate access restrictions. Similarly, the subsidiaries observe the double-sign-off principle. As part of consolidated accounting, a large number of processes were standardised and documented in 2010 in particular to ensure more effective supervision of consolidation-related matters. Internal auditing is to be established in the future. The inclusion of Integralis AG's financial statements in the NTT Group's consolidated financial statements as of 2009 provides a further mechanism for verifying the Group's data.
In addition, local management has numerous internal controls and measures, e.g. process descriptions and documentation in the local Intranets, which are aimed at avoiding unnecessary risks.
Following the acquisition by NTT Com, Integralis has been able to reduce its risk exposure substantially. The Management Board assumes that NTT Com is pursuing long-term goals with this acquisition and will support the Company in the event of any unexpected difficulties. Integralis AG also has access, for example, to considerable credit facilities provided by NTT Communications Corporation, Japan, to bridge any short-term funding gaps. In addition, it is now able to harness growth potential more effectively. An attempt is being made to offer joint customers shared solutions in specific projects. Not least of all, task forces have been mandated with identifying growth potential for both companies in Asia.

11.1 Currency risks

As a large part of our business is transacted in US dollars and pound sterling, we are exposed to exchange rate risks when these amounts are translated into our Group currency, the euro. At our national companies, our main suppliers issue their invoices in the local currency, meaning that the currency risk is primarily confined to the translation of the national companies' financial statements (translation risk). In Germany and the UK part of the goods are purchased in US dollars to reduce the currency risk within the Integralis Group. For this reason, various hedges, such as currency forwards, zero-cost options and currency swaps, were used in the year under review.
A detailed description of hedging activities can be found in the consolidated financial statements.
In addition, a centralised foreign currency management system has been implemented for Central Europe and the United King-

dom to centrally measure, monitor and hedge foreign-currency risks arising from operating business. These hedges reduce exposure to volatile currency markets. Further Group companies are to be included in these hedging activities. As long as hedge accounting in accordance with IFRS is not applied, foreign-currency translation differences will leave a trace on profit and loss due to the volatility of exchange rates. This is due to the fact that hedging is commenced as soon as an order is accepted even though the hedged item has not yet been placed on the books. This form of hedging fixes the gross margin at the date on which the order is placed. The remaining foreign-currency translation differences are offset by higher or lower cost of materials.

11.2 Market and sector risks

Over the past few years, IT security business has grown more quickly than the economy as a whole, a trend which sector experts assume will continue. As the economy as a whole picks up, IT security should grow at a disproportionately strong rate. The IT security market is subject to permanent change, with the speed of technological progress accelerating. Accordingly, the time required to react to security-relevant situations is a competitive factor. As a result of changes in individual technological areas, margins on the main revenue drivers may erode, thus exerting pressure on the Integralis Group's earnings. The competitive situation and nascent trends in the sector and the economy as a whole are therefore monitored closely and analysed to detect risks at an early stage so that the Company's range of products and services can be adjusted accordingly with minimum delay.

Successive efforts to extend the range of high-margin services and to increase the proportion of recurring revenues are reducing the Integralis Group's exposure to market and sector risks, while allowing it to harness economies of scale. This strategy entails extensions to the range as well as a reduction in the dependence on products and producers. Systematic spending on technological expertise through the development of the Company's own services and new IT security technologies will help to increase market penetration and enhance the Company's standing in its relations with project partners. Efforts to intensify white label projects on the part of Integralis Services would substantially boost the Group's profitability in the future.
The high reknown and acknowledged skills of Integralis consultants should also generate revenue growth in consulting business in excess of the sector average. Planned consulting portfolio extensions such as PCI consulting and greater collaboration with consulting partners and freelances should generate additional opportunities for revenues and earnings.

11.3 Product portfolio and vendor risks

Integralis works closely with numerous top international companies. Accordingly, it is exposed to the risk of strategic changes on the part of the vendors from whom it sources technology. This entails changes to price and discount structures as well as modifications to corporate policy. Producers may sign contracts with our competitors or change their distribution or marketing strategies. In the past few years, several producers with whom Integralis works closely have been the subject of takeovers. The sector is continuing to consolidate at a swift pace. The ramifications of these trends are difficult to assess. In an effort to minimise such risks, we maintain permanent contact with the management of our suppliers and technological partners on an international and national level. This ensures that we are kept informed at short notice of any possible positive or negative changes and allows us to take action quickly to benefit from such changes or to alleviate their effects. The dual sourcing strategy is continuing to be pursued. As a result, Integralis has alternative suppliers as well as product and solution vendors.

11.4 Staff expertise and motivation

Our employees' skills form a crucial element of our success and part of the basis on which we are extending and defending our competitive lead. For this reason, human resources management is a key aspect of corporate management.
The Integralis Group's continued success hinges materially on its ability to recruit new qualified staff and to motivate, retain and train existing employees. In addition to an interesting area

of activity and systematic personnel development policies, appropriate remuneration and participation in the Company's success are an important source of motivation, providing employees with an incentive to remain with the Group.
Almost half of the employees come from a technical background. For this reason, the Company is particularly committed to offering staff scope for professional or career development in order to bind holders of expertise on a sustained basis. As part of the integrated human resources strategy, new career models are currently being developed for scientific/technical staff.
In addition, the sustained organisational changes are making high demands of staff. On the one hand, this offers constantly new prospects of development and challenges but, on the other, may place an excessive burden on staff. For this reason, the planned activities call for a high degree of management competence on the part of the individual supervisors. To support this, a review of the international HR standards and processes was performed in 2008 followed by a global employee survey. Further activities are planned for future years. One main aspect of this is personnel development, with internal training and skills development forming a key element of this at Integralis.

11.5 IT risks

This comprises network failure, the risk of data being corrupted, destroyed or stolen as a result of operating errors and/or external factors and restrictions in the availability of applications. Allowance is being made for changing requirements at the application level.
We are increasingly using standardised software on a cross-border basis and making greater use of virtualisation of the server infrastructure and encryption for mobile terminals. This year, we are working at full pace to continue the work already commenced in the previous year on enhancing reliability and network performance.

11.6 Impairment risks

This refers to the risk of further impairment losses on goodwill or other assets. The management report already refers to the impairment loss recognised on goodwill in 2009. In the year under review no further adjustments were required in accordance with IAS 36. The extensive measures taken to improve French business, which had been impaired in the previous year, are unleashing the desired effects. The principle of benchmarking with other successful regions has already yielded lasting success.

11.7 Customer risks

The particular risk in this respect involves the loss of key-account customers and, thus, long-term projects. The Company is currently working on processes and interfaces to reduce risks in connection with large projects. A sustained early-warning system and model for timely countermeasures is to be implemented on a cross-border basis this year.

12. Non-financial performance indicators

Corporate values
We place our customers and their needs at the core of everything we do.
We are committed to integrity, a passion for skills and mutual trust to ensure our customers' satisfaction. We encourage the striving for professional expertise by means of continuous improvements and international partnerships. We make a contribution and assume responsibility. We turn Integralis into something special.

Business strategy
We are leaders in information security thanks to our skills and experience. We consistently develop the best solutions and strategic partnerships. We offer proactive and innovative added value for our customers. We seek the highest possible quality in providing our global services.

Management guidelines
We communicate openly and transparently and treat each other with respect. Needless to say, our employees receive all the information they require for their work.
We jointly formulate clear targets and work towards achieving them. Our employees know their field of responsibility and the scope which they have for action.
We encourage our employees to think and act on a holistic (and enterpreneurial) basis. We offer them a model for them to follow and thus demonstrate the responsibility which each employee bears. We encourage our employees and provide them with active support. We pay particular attention to tapping individual potential for further development. In this way, we are able to steadily enhance the high professional quality of our joint work.
We encourage a team spirit which also goes beyond our teams. We work with our employees on an eye-to-eye level. We encourage our
employees to participate in efforts to find a solution. Our attitudes and actions set a moral example for our employees to follow. For this reason, we make sure that we protect our own integrity.

13. Subsequent event

On 11 March 2011, a severe earthquake occurred in Japan, the home country of Integralis AG's parent company, the consequences of which are not fully foreseeable at this stage. However, at this stage, the Management Board does not expect this to have any effect on Integralis AG's business.

14. Outlook

After overcoming the worst recession in more than 60 years, the global markets recovered substantially in 2010 despite the currency crises and the sovereign debt problems.

Thus, the consensus forecast for Europe is for growth of 1.5 percent in Europe in 2011, down from 1.7 percent in 2010 (source: EU Commission, OECD and IFM).
At 2.2 percent, the consensus expectation for growth in gross domestic product (GDP) in Germany is higher, but still well below the previous year's figure of 3.6 percent, while the closely followed Ifo business climate barometer reached its highest level since German reunification at the beginning of 2011.

On the other hand, economists are somewhat more upbeat about the United States, for which they forecast growth of 2.8 percent, up from 2.7 percent in 2010. Japanese growth is expected to slow to 1.1 percent, after the previous year's sharp growth of 3.5 percent.

The booming markets in Asia and particularly China should also continue expanding in 2011 according to economic experts. That said, there will be a slight slowdown after the record growth rates of the last few years.

Following the recovery of the IT sector in 2010, the current year should see growth in excess of the average for the general economy.
IDC expects spending on IT systems to expand by a global 9.2 percent, whereas Forrester sees a 7.1 percent increase in global IT spending.
Sector experts are also upbeat in their forecasts for the IT security markets.
Thus, IDC assumes that global spending on network security will climb by more than 8 percent in 2011 and expects generally better performance for software-based solutions. By 2014, network security will account for over 26 percent of total IT security spending and reach a market volume of 9.5 billion dollars. The virtualisation market is set to grow at a particularly dynamic rate according to IDC, with market volumes expected to widen by a total of 61 percent between 2011 and 2014. IDC also sees software-as-a service as a coming trend, with global market volumes expanding by more than 52 percent between 2011 and 2014.

Gartner is also optimistic about the market for consulting and system integration services, which it expects will widen by 5.2 percent in 2011, reaching a market volume of 312 billion dollars.

Last year, the Integralis Group was able to achieve disproportionately strong growth in the consulting segment in particular. Consolidated revenues also largely expanded as planned. The management of Integralis AG sees a particular challenge in the creation of enduringly profitable structures. To this end, it is analysing and optimising potential for generating profit across the entire Group.

The Management Board projects revenue growth of 10 percent at the Group level in 2011, with EBITDA growing substantially more quickly than revenues by around 25 percent. Revenue growth will be slightly above the sector average due to high awareness levels which Integralis enjoys in the market and the strong skills of the Integralis consultants. This forecast is additionally supported by the sustained growth in total contract volumes for support services and MSS services, which rose by more than 15 percent over the previous year, and by the substantial increase in order backlog throughout the Group. As the volume of MSS contracts reached a new high at the end of the year, this should also be reflected favourably in the Group's bottom line. All other things being equal, these assumptions should also apply to revenues and earnings for 2012.

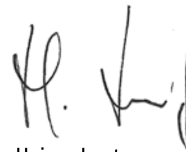
Ismaning, 23 March 2011

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Ismaning, 23 March 2011

Integralis AG
The Management Board



Georg Magg Heiner Luntz

FIGURES, DATA & FACTS

INTEGRALIS

INCOME STATEMENT (IFRS)

	Notes	01/01/ - 31/12/2010 T€	discontinued operations T€	continued operations T€
Revenue	5.1	191,667	3,462	188,205
Cost of materials	5.4	-130,608	-2,488	-128,120
Gross Profit		**61,059**	**974**	**60,085**
Own work capitalised	5.3	1,327	0	1,327
Other operating income	5.2	2,083	0	2,083
Personnel expenses	5.5	-43,315	-1,616	-41,699
Other operating expenses	5.6	-19,590	-826	-18,764
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**1,564**	**-1,468**	**3,032**
Depreciation and amortisation	5.7	-2,739	-31	-2,708
Abschreibungen auf Finanzanlagen		0	0	0
Earnings before interest and taxes (EBIT)		**-1,175**	**-1,499**	**324**
Interest income		214	1	213
Interest expense		-240	-12	-228
Finance income		34	34	0
Financial result	5.8	8	23	-15
Earnings before taxes (EBT)		**-1,167**	**-1,476**	**309**
Taxes	5.9	1,047	0	1,047
Net profit		**-120**	**-1,476**	**1,356**
Thereof fall upon:				
Shareholders of Integralis AG		-120	-1,476	1,356
Minority interest		0	0	0
Basic weighted average number of shares outstanding		11,176,032	11,176,032	11,176,032
Basic net earnings per share (€)		-0.01	-0.13	0.12
Diluted weighted average number of shares outstanding		11,311,007	11,311,007	11,311,007
Diluted net earnings per share (€)		-0.01	-0.13	0.12

COMPONENTS OF COMPREHENSIVE INCOME (IFRS)

	01/01/ - 31/12/2010 T€	discontinued operations T€	continued operations T€
Net profit	**-120**	**-1,476**	**1,356**
Currency translation differences	958	0	958
Sum of other results	**958**	**0**	**958**
Comprehensive income	**838**	**-1,476**	**2,314**
Thereof fall upon:			
Shareholders of Integralis AG	838	-1,476	2,314
Minority interest	0	0	0

01/01/ - 31/12/2009 (changed) T€	discontinued operations T€	continued operations T€
173,716	7,326	166,390
-116,008	-4,843	-111,165
57,708	**2,483**	**55,225**
947	0	947
1,523	0	1,523
-41,069	-2,396	-38,673
-21,040	-868	-20,172
-1,931	**-781**	**-1,150**
-2,617	-82	-2,535
-1,766	-1,766	0
-6,314	**-2,629**	**-3,685**
76	1	75
-160	-1	-159
0	0	0
-84	0	-84
-6,398	**-2,629**	**-3,769**
-2,600	0	-2,600
-8,998	**-2,629**	**-6,369**
-8,998	-2,629	-6,369
0	0	0
11,134,642	11,134,642	11,134,642
-0.81	-0.24	-0.57
11,336,133	11,336,133	11,336,133
-0.79	-0.23	-0.56

-8,998	**-2,629**	**-6,369**
-358	0	-358
-9,356	**0**	**-358**
-9,356	**-2,629**	**-6,727**
-9,356	-2,629	-6,727
0	0	0

BALANCE SHEET (IFRS)

Assets	Notes	31/12/2010 T€	31/12/2009 T€
Cash and cash equivalents	4.1	6,902	7,980
Trade receivables, financial assets and other receivables	4.2	60,389	56,698
Inventories	4.3	825	683
Deferred cost of materials	4.4	29,926	29,726
Other assets	4.5	1,610	933
Current assets		**99,652**	**96,020**
Deferred tax assets	4.10	5,288	4,349
Trade receivables, financial assets and other receivables	4.2	839	0
Deferred cost of materials	4.4	7,519	5,693
Investment in subsidiaries	4.9	1,969	0
Goodwill	4.8	10,847	13,492
Intangible assets	4.7	3,066	2,967
Property, plant and equipment	4.6	3,612	3,098
Noncurrent assets		**33,140**	**29,599**
Total assets		**132,792**	**125,619**

BALANCE SHEET (IFRS)

Equity and liabilities	Notes	31/12/2010 T€	31/12/2009 T€
Financial liabilities	4.12	4,921	5,010
Trade payables	4.11	27,649	30,734
Deferred revenue	4.13	44,786	43,156
Income tax payables		481	268
Other current liabilities	4.14	20,812	15,200
Current liabilities		**98,649**	**94,368**
Deferred revenue	4.13	10,468	7,704
Financial liabilities	4.12	1,280	1,358
Deferred tax liabilities	4.10	950	1,498
Provisions	4.15	547	660
Noncurrent liabilities		**13,245**	**11,220**
Subscribed capital		11,585	11,585
Treasury shares		-409	-409
Capital reserves		13,427	13,398
Other reserves		-1,419	-2,377
Retained earnings		-2,286	-2,166
Equity	4.16	20,898	20,031
Total equity and liabilities		**132,792**	**125,619**

GROUP STATEMENT OF CASH FLOWS (IFRS)

	01/01/ - 31/12/2010 T€	01/01/ - 31/12/2009 T€
Net profit	**-120**	**-8,998**
Adjustments for:		
Financial result	-15	84
Actual tax result	440	372
Depreciation and amortisation	2,739	4,383
(Increase) /Decrease deferred taxes	-1,487	1,923
Increase / (Decrease) in provisions	-113	-41
Increase in share option reserve	29	192
Unrealised foreign exchange losses / (gains)	-249	-231
Interest received	–	76
Interest paid	-76	-160
Taxes paid	-226	-372
Change of net working capital	3,017	-1,845
Cashflow from /(used in) operating activities	**3,939**	**-4,617**
Granting of loan	-1,054	-2
Acquisition of subsidiaries, net of cash acquired	-70	-361
Purchases of property, plant and equipment and intangible assets	-3,515	-1,939
Cash flow used in investing activities	**-4,639**	**-2,302**
Proceeds from issue of share capital and exercise of stock options	–	763
Proceeds from borrowings	4,745	4,939
Payment of financial lease liabilities	-4,912	-67
Cash flow from/ (used in) financing activities	**-167**	**5,635**
Net effect of currency translation in cash and cash equivalents	-211	175
Decrease in cash and cash equivalents	**-1,078**	**-1,109**
Cash and cash equivalents at beginning of period	**7,980**	**9,089**
Cash and cash equivalents at end of period	**6,902**	**7,980**

STATEMENT OF CHANGES IN EQUITY

Number of shares issued at 31/012/2009: 11.585.137 registered shares	Subscribed capital	Treasury shares	Capital reserves	Share option reserve	Foreign currency translation reserve	Retained earnings	Total
	T€	T€	T€		T€	T€	T€
01/01/2009	**11,585**	**-1,151**	**11,648**		**-2,019**	**6,832**	**26,895**
Utilisation for earn-out Protech T purchase		559	966				1,525
Fulfilment for stock options exercised		183	592				775
Increase on grant of share options			192				192
Net result						-8,998	-8,998
Translation differences					-358		-358
Overall result					-358	-8,998	-9,356
31/12/2009	**11,585**	**-409**	**13,398**		**-2,377**	**-2,166**	**20,031**

Number of shares issued at 31/012/2010: 11.585.137 registered shares	Subscribed capital	Treasury shares	Capital reserves	Share option reserve	Foreign currency translation reserve	Retained earnings	Total
	T€	T€	T€		T€	T€	T€
01/01/2010	**11,585**	**-409**	**13,398**		**-2,377**	**-2,166**	**20,031**
Increase on grant of share options			29				29
Deconsolidation Sweden					513		513
Net result						-120	-120
Translation differences					445		445
Overall result					958	-120	838
31/12/2010	**11,585**	**-409**	**13,427**		**-1,419**	**-2,286**	**20,898**

NOTES

NOTES TO THE 2010 IFRS CONSOLIDATED FINANCIAL STATEMENTS OF INTEGRALIS AG

1. General disclosures

The Integralis Group is an internationally active provider of IT security solutions and services. As of the balance sheet date, it had over 515 employees and 18 branches in five European countries, the United States, the United Arab Emirates and Singapore.
Integralis helps companies to establish secure communications networks and to handle transactions via public and private networks. The broad range of services comprises extensive IT security solutions, consulting, system integration and support. Integralis AG is the parent company. Its shares are listed in Deutsche Börse AG's Prime Standard segment in Frankfurt and it holds all of the capital of the companies within the Integralis Group either directly or indirectly.
Integralis AG's parent company has been NTT Communications Deutschland GmbH, Munich, (NTT Com Germany) since 1 October 2009. The purpose of this company, which was incorporated on 9 January 2009, is to directly or indirectly acquire, hold, manage and sell shares in other entities as well as to engage in other related activities. NTT Com Germany holds 75.59% of all of Integralis AG's capital (Section 160 (1) No. 8 in connection with Section 16 (1) of the German Stock Corporation Act)) Integralis AG holds treasury stock comprising 409,105 non-voting shares, meaning that NTT holds roughly 78% of the voting rights.
NTT Communications Deutschland GmbH is an indirect subsidiary of Nippon Telephone and Telegraph Corporation (NTT), Tokyo, Japan, which prepares consolidated financial statements as the ultimate parent company. NTT's consolidated financial statements are published in Japan, the United States and the UK, where it is listed.
Integralis AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as endorsed in the European Union, as well as the supplementary accounting provisions contained in Section 315a of the German Commercial Code. The consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and the consolidated statement of changes in equity have been prepared in thousands of euros (T€). The consolidated income statement has been prepared using the total cost method.

The Management Board of Integralis AG released the consolidated financial statements and the Group management report for submission to the Supervisory Board and for publication on 23 March 2011. The Supervisory Board is responsible for examining the consolidated financial statements and stating whether it approves them.

1.1 Legal disclosures

Integralis AG is a listed joint stock company (Aktiengesellschaft) incorporated and operating in accordance with German law with registered offices in 85737 Ismaning, Robert-Bürkle-Straße 3, Germany. It is entered in the Munich commercial register under the number HRB 121349.

1.2 Application of International Financial Reporting Standards (IFRS) and declaration of conformity

The consolidated financial statements as of 31 December 2010 of Integralis AG as the parent company within the Integralis Group, have been prepared using uniform recognition and measurement principles. In this connection, the International Accounting Standards (IAS) /International Financial Reporting Standards (IFRS) including the interpretations of the Standing Interpretation Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union, in force as of the balance sheet date are applied. The additional provisions of German corporate law were observed in accordance with Section 315a (1) of the German Commercial Code. The figures for the previous year were calculated using the same methods.
All standards issued by the International Accounting Standards Board (IASB) and valid and endorsed by the European Union as of the date on which the consolidated financial statements were prepared were duly applied.

1.3 Consolidated companies

All domestic and non-domestic subsidiaries are consolidated in full by Integralis AG. In the year under review, the following companies in which Integralis AG holds a 100% share

either directly or indirectly or which are controlled by it were consolidated:

Subsidiary	Domicile	Share in capital held %
Activis Inc.	Hartford, USA	100
Articon-Integralis SAS	Paris, France	100
Integralis SAS	Paris, France	100
Integralis AB*	Stockholm, Sweden	100
Integralis Inc.	Hartford, USA	100
Integralis Services LLC	Hartford, USA	100
Integralis Schweiz AG	Glattbrugg, Switzerland	100
Integralis Services Ltd.	Reading, UK	100
Integralis Ltd.	Reading, UK	100
Integralis Services GmbH	Ismaning, Germany	100
Integralis Deutschland GmbH	Ismaning, Germany	100
Integralis Österreich GmbH	Vienna, Austria	100
Nocitra Ltd.	Reading, UK	100
Integralis ME FZ LLC (formerly ProtechT FZ LLC)	Dubai, UAE	100
ProtechT Technical Services LLC**	Abu Dhabi, UAE	49
Integralis Services Pte. Ltd.	Singapore	100

* Deconsolidated as of 31 December 2010

** 100% allocated on account of a trusteeship – like relationship and possession of all shareholder rights.

The profit or loss of subsidiaries acquired or sold during the year under review is reported in the consolidated financial statements as of the date of actual acquisition, i.e. from the date as of which the Group is able to exercise a controlling influence or until the date on which such controlling influence is no longer influenced, as the case may be.

There was a change in the number of companies consolidated following the sale of Integralis AB, Stockholm, Sweden. 100% of that company's capital was sold on 22 December 2010 in return for a share of 12.43% of the capital of Secode AB, Stockholm, Sweden. The company was therefore deconsolidated. The underlying purchase price was T€ 1,969.

Deconsolidation of this entity resulted in the following effects on earnings:

	T€
Goodwill as of 31 December 2010	- 2,948
Cash and cash equivalents	70
Inventories	29
Receivables	313
Other assets	40
Prepaid cost of materials	459
Property, plant and equipment	97
Trade payables	-121
Liabilities to affiliated companies	-1,117
Other liabilities	-317
Deferred revenues	-726
Sales price	1,969
Cumulative net foreign-currency translation losses	-513
Net deconsolidation gain	34

In 2010, Integralis AB contributed T€ 3,462 (previous year T€ 7,326) to consolidated revenues and T€ -1,510 (previous year T€ -937) to consolidated net profit. The company is now reported as discontinued business. The net deconsolidation gain is reported within the net finance income/net finance expense attributable to discontinued business. A sum of T€ 513 was reclassified from the currency translation reserve and reported through profit and loss.

1.4 Balance sheet date

The consolidated balance sheet was prepared effective 31 December 2010. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity cover the period from 1 January 2010 until 31 December 2010. The balance sheet date for the consolidated financial statements is identical to that used in the single-entity financial statements prepared by the consolidated companies.

1.5 Summary of significant accounting and consolidation policies

The consolidated financial statements are prepared in euros (EUR). In the absence of any indication to the contrary, all figures are rounded up or down to the closest thousand euros (TEUR). It should be noted that the use of rounded figures and percentages may result in differences due to commercial rounding.
In accordance with IAS 1, the current/non-current distinction is applied to assets and liabilities. The consolidated income statement is prepared using the total-cost method.
The consolidated financial statements are prepared on the basis of historical cost with the exception of the remeasurement of certain non-current assets and financial instruments. The main recognition and measurement methods are explained below.
The consolidated financial statements include the parent company's financial statements and those of the companies which it controls. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
Under IFRS all business combinations must be accounted for using the purchase method. The price of the subsidiary acquired is allocated to the assets, liabilities and contingent liabilities acquired at the values applicable as of the date on which control is obtained over the subsidiary. The assets received and liabilities and contingent liabilities absorbed are recorded at their full fair values regardless of the size of the share. Non-current available-for-sale assets are recognised at fair value less the cost to sell. Any remaining positive difference between the cost of the business combination and the prorated net assets is recognised as goodwill, which is reported using the full goodwill approach.
The impairment-only approach stipulated by IAS 36 is applied to any subsequent measurement of goodwill. Where necessary, goodwill is adjusted to match its fair value.
Intragroup revenues and profits, expenses and income as well as all receivables and liabilities between consolidated companies are eliminated in accordance with IAS 27.24.
Deferred taxes are set aside in accordance with IAS 12 for consolidation transactions.
The consolidation methods applied are unchanged over the previous year.

1.6 Currency translation

Single-entity financial statements in foreign currencies
The currencies of all the single-entity financial statements prepared in a currency other than the euro were translated in accordance with IAS 21 using the functional currency principle. The functional currencies of the Integralis Group companies are the same as their respective national currencies.
The consolidated financial statements were prepared using the euro, this also being the parent company's functional currency. The assets and liabilities of foreign subsidiaries whose functional currency is not the euro were translated to euro at the end-of-year exchange rate and expenses and income at the annual average exchange rate. The resultant translation differences were recognised within other comprehensive income in the statement of comprehensive income. The cumulative amount recorded within equity is reclassified upon the sale of the entity and reported through profit and loss.
The goodwill arising from the acquisition of a foreign business as well as any adjustments to fair value are translated using the end-of-year exchange rate.
The single-entity financial statements not prepared in euros were translated using the following exchange rates:

	End-of-year rate		Average exchange rate	
	31/12/10	31/12/09	31/12/10	31/12/09
GBP	1.16	1.12	1.17	1.12
USD	0.75	0.69	0.76	0.72
CHF	0.80	0.67	0.73	0.66
SEK	0.11	0.09	0.11	0.09
SGD	0.58	0.50	0.56	0.49
AED	0.21	0.19	0.21	0.19

Foreign-currency transactions
Foreign-currency transactions which are not executed in the functional currency are translated at the exchange rate prevailing on the date on which they are executed. Any translation differences arising between the date of transaction and the date of payment are taken to the income statement. All foreign-currency monetary items are translated into the functional currency at the end-of-year exchange rate, with any resultant translation gains or losses taken to the income statement.

1.7 Changes in presentation

The presentation of the income statement was altered in 2010. Income from subletting premises had been netted with the original costs in the previous year. It is now reported within other operating income (T€ 632, 2009: T€ 730) to reflect the cost structure more accurately. In addition, own work capitalised has been included as a separate item (T€ 1,327, 2009: T€ 947). The previous year's figures were restated accordingly. Numerous modifications were made to the presentation and structure of items in the balance sheet to provide a clearer view of the Group's net assets. For the first time, the non-current portions of deferred revenues and prepaid costs of materials are reported separately as non-current assets (T€ 7,519, 2009, T€ 5,693) and liabilities (T€ 10,468, 2009: T€ 7,704). The estimate of these portions involves uncertainties.
In addition, financial liabilities have been grouped together under a single item (T€ 6,201, 2009: T€ 6,368). Financial assets are now reported within receivables (T€ 2,496, 2009: T€ 2,028). Current provisions have been reclassified as current liabilities as they entail accruals (T€ 9,320, 2009: T€ 6,757). The previous year's figures were restated accordingly.
Disclosure of the effects as of 1 January 2009 in accordance with IAS 8.42a has been waived due to the non-availability of the necessary information.

2. Summary of significant accounting policies

2.1 Changes in accounting policies due to new standards

The recognition and measurement methods applied are fundamentally the same as in the previous year. In addition, the Group applied the following new or revised standards and interpretations:

Amendments to IFRS 2 – Share-based payments with cash settlement within the reporting entity
The amendments clarify how an individual subsidiary within a group is to report certain share-based payments in its own financial statements if under such agreements the subsidiary receives goods or services from employees or suppliers but the parent or another group company pays these employees or suppliers. An entity receiving goods or services under a share-based compensation agreement must account for these goods or services regardless of which entity within the group performs the obligations concerned and regardless of whether the obligation is settled in shares or in cash.
The amendments also include guidance which was previously included in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2-Group and treasury share transactions". Accordingly, the IASB has withdrawn IFRIC 8 and IFRIC 11. The application of the standard did not result in any changes in Integralis AG's consolidated financial statements.

IFRS 3 – Business Combinations (IFRS 3)
IFRS 3 provides new guidance on the application of the purchase method for business combinations. The material amendments relate to the measurement of non-controlling interests, the recognition of step transactions and the treatment of purchase price components and transaction costs. Under the new rules, non-controlling interests can be measured either at their fair value (full goodwill method) or at the fair value of the identifiable net assets acquired. In the case of step transactions, the shares are remeasured at the fair value of the shares held as of the transfer of control. Adjustments to contingent consideration recognised as of the date of acquisition as liabilities must be recognised in profit and loss. Transaction costs are recorded as expense as of the date on which they arise.

The amendments to the standard did not have any effect in the period under review as no new business combinations arose.

IAS 27 – ("Consolidated and separate financial statements")
The revised IAS 27 chiefly states that purchases or sales of shares in subsidiaries as a result of which there is no change in the scope for exerting influence are reported within equity and that the profit or loss derived from a sale is not recognised in profit and loss until such time as there is a loss of influence. The amendments to the standard did not have any effect in the period under review as there are no non-controlling interests.

IAS 39 – Financial instruments ("eligible hedged items")
To simplify the application of the unchanged basic principles, according to which an entity may include the entire hedged item, part of it or certain risks in the hedge, the application principles have been extended with respect to the inclusion of inflation in a financial hedged item as well as the inclusion of a one-sided risk in a hedged item (e.g. with an option as a hedge). It is stated that as a principle inflation risks cannot be hedged except if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. In the case of a one-sided risk, the entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable. The amendments make clear that the intrinsic value, not the time value, of an option reflects a one-sided risk. Therefore, if an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecast transaction, hedge ineffectiveness will arise as only the hedge has a fair value component. The application of the standard did not exert any material effect on Integralis AG's consolidated financial statements.

IFRIC 16 – Hedges of a net investment in a foreign operation
IFRIC 16 "Hedges of a net investment in a foreign operation" provides guidance on hedge accounting for net investments in a foreign operation. It stipulates that hedge relationships can only be recognised between the functional currency of the foreign operation and the parent's functional currency. The amount of the net assets of the foreign operation recognised in the consolidated consolidated financial statements can be hedged. The hedge can then be held by any group company. When the foreign operation is deconsolidated, the changes in the value of the hedge recorded under equity and the exchange rate gains and losses of the foreign operation recorded under equity must be recognised in profit and loss. The amount of the cumulative profit or loss attributable to the foreign entity being deconsolidated can be determined using the step or the direct consolidation method.
The amendment did not have any effect on Integralis as it currently does not make use of this form of hedging.

IFRIC 17 – Distributions of non-cash assets to owners
IFRIC 17 provides guidance on how non-cash assets paid to owners as dividends are to be treated. A dividend liability must be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. It should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Additional disclosures should be provided if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 18 – Transfers of assets from customers
According to the IASB, IFRIC 18 is particularly relevant for the energy industry. IFRIC 18 clarifies the requirements stipulated in the IFRSs with respect to agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. It also relates to cases in which the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment.
The amendments to IFRIC 16 - 18 do not have any effect on Integralis' consolidated financial statements.
In addition to the aforementioned amendments, the following new or revised interpretations and additions were published by IASB and IFRIC. However, they are not yet being applied

by Integralis either because application is not yet compulsory in 2010 or they have not yet been endorsed by the European Commission. The effect of the first-time application of the relevant standards on the Integralis Group's financial statements is currently being reviewed. Integralis is currently not planning to early-adopt these standards:

IFRS 9 – Financial instruments: revisions to and replacement of all existing standards: classification and measurement

In November 2009, the IASB published a new standard for the classification and measurement of financial instruments (IFRS 9). This marks the first part of a three-phase project to replace IAS 39 – Financial instruments: recognition and measurement. IFRS 9 introduces new guidance for the classification and measurement of financial assets. In October 2010, the standard was extended to include the classification and measurement of financial liabilities. IFRS 9 must be applied in reporting periods commencing on or after 1 January 2013. Earlier adoption is permissible. However, the standard has not yet been endorsed by the European Commission. The first-time application of IFRS 9 is expected to result in changes to the way in which Integralis AG presents financial assets.

IAS 24 – Related party disclosures

In November 2009, the IASB published amendments to "IAS 24 Related party disclosures" and replaced IAS 24 (2003). The amendments to IAS 24 particularly entail a fundamental change to the definition of related parties. A further major aspect is the introduction of convenience rules for government controlled or significantly influenced entities. The revised standard must be applied for the first time to reporting periods commencing on or after 1 January 2011; earlier adoption is permissible. It will not have any material effect on the consolidated financial statements of Integralis AG.

IAS 32 – Amendments to financial instruments: presentation: classification of rights issues

In October 2009, the IAS published amended versions of "IAS 32 Financial instruments: presentation: classification of rights issues". Certain subscription rights such as options and warrants in a foreign currency (i.e. a currency other than the functional currency) may now only be recognised as equity and no longer as liabilities by the issuer to whose equity instruments these rights refer.This amendment applies only to rights in connection with which the number of instruments to be received and the foreign-currency amount are fixed in advance and if all previous holders of equity instruments of the same class are granted this right on a proportionate basis. The revised standards must be applied for the first time to reporting periods commencing on or after 1 February 2010; earlier adoption is permissible. The application of the revised standard will not have any material effect on future consolidated financial statements.

IFRIC 14 / IAS 19 – "Prepayments of a minimum funding requirement"

In November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published a minor amendment to the guidance for accounting for retirement benefit plans. This amendment applies in the limited circumstances in which an entity is subject to minimum funding requirements and a prepayment meeting these requirements is made. Under this amendment, it is now possible for the entity to record the benefit from such a prepayment when calculating plan assets. This amendment must be applied to reporting periods commencing on or after 1 January 2011. Earlier adoption is permissible. The amendment must be applied with retroactive effect from the beginning of the earliest comparison period shown. IFRIC 14 is not expected to have any effect on Integralis AG's future consolidated financial statements.

IFRIC 19 – Extinguishing financial liabilities with equity instruments

In November 2009, the IASB published IFRIC 19 "Extinguishing financial liabilities with equity instruments" to provide guidance on accounting for debt-for-equity swaps. IFRIC 19 elaborates on the IFRS requirements which must be observed if an entity settles a financial liability in full or in part by issuing shares or other equity instruments. The interpretation clarifies that

- the equity instruments issued to a creditor to settle a financial liability form part of the consideration paid as defined in IAS 39.41;
- the corresponding equity instruments must be measured at their fair value. If this fair value cannot be reliably determined, the equity instruments should be recognised at the fair value of the settled liability.
- the difference between the carrying amount of the extinguished financial liability and the initially measured fair value of the equity instrument is recorded in profit and loss.

IFRIC 19 must be applied to reporting periods commencing on or after 1 July 2010. Earlier adoption is permissible. IFRIC 19 is not expected to have any effect on Integralis AG's future consolidated financial statements.

In May 2010, the IASB released its third collective standard "Improvements to IFRS" detailing minor amendments to the existing IFRSs. This Standard provides for amendments to six IFRS standards and one interpretation. The IASB made necessary changes which are not urgent or form part of a major project. They relate to IFRS 1, 3 and 7, IAS 1, 27 and 34, as well as IFRIC 13. In the absence of anything to the contrary in the applicable standards, the revisions must be applied for the first time to reporting periods commencing on or after 1 January 2011; earlier adoption is permissible. The amendments have not yet been endorsed by the EU. Assuming that they are endorsed by the EU in this form, Integralis does not expect these amendments to have any material effect on its consolidated financial statements.

2.2 Classification and recognition of financial assets

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets particularly comprise cash and cash equivalents, trade receivables and other loans and receivables, held-to-maturity investments and originated and derivative financial assets held for trading. Financial liabilities generally entail a contractual obligation to deliver cash or some other financial asset to another entity. This particularly includes trade payables, bank borrowings, liabilities from finance leases and derivative financial liabilities. Financial instruments are recognised as soon as Integralis AG becomes a party to them. However, in the case of purchases and sales (purchases or sales under the terms of a contract the conditions of which provide for delivery of the asset within a period which is customarily determined by the rules or conventions of the market in question), the settlement day, i.e. the day on which the asset is delivered to Integralis AG, is decisive for recognising the first-time addition to or disposal from the balance sheet. Financial assets and liabilities are not netted against each other. Financial assets held for trading are measured at their fair value. This primarily entails derivative financial instruments which are not effectively hedged in accordance with IAS 39 and must therefore be classified as "held for trading". Any gains or losses derived from subsequent measurement are reported through profit and loss.
Some financial assets are intended and can be assumed with reasonable certainty to be held until maturity. Such financial assets are measured at amortised cost using the effective interest method.
Integralis has not made any use of the possibility for initially recognising financial assets at fair value through profit and loss.

Effective interest method
The effective interest method is a means of calculating the amortised cost of a liability and of allocating the interest income to the corresponding period. It equals the interest rate with which the estimated future payments (including all fees forming part of the effective interest rate and other premiums and discounts) can be discounted over the experted term of the liability or, where applicable, a shorter period to arrive at its net carrying amount upon first-time recognition.
Income from liabilities is recorded using the effective interest method. This does not apply to financial assets at fair value through profit or loss.

Financial assets at fair value through profit and loss
Financial assets are classified as being at fair value through profit and loss if they are held for trading purposes or are designated as being at fair value through profit and loss.
A financial asset is classified as held for trading if
- it was acquired primarily for the purpose of being sold again in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- it is a derivative except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial assets at fair value through profit and loss are measured at their fair value. Any gains or losses arising from fair value measurement are recognised in profit and loss.

Held-to-maturity financial instruments
Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity are categorised as held-to-maturity financial instruments. They are recognised at amortised cost using the effective interest method less impairments. Interest income is calculated using the effective interest method.

Loans and receivables
Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured using the effective interest method at amortised cost net of any impairment. Interest income is recognised using the effective interest method with the exception of current receivables, with which the interest effect is negligible.

Impairment of financial assets
Impairment of financial assets. The carrying amounts of financial assets which are not measured at fair value through profit and loss are examined on each balance sheet date to determine whether there is any objective evidence (e.g. considerable financial difficulties on the part of the debtor, significant changes in underlying technological, economic and legal conditions as well as the market environment of the debtor) pointing to impairment.
Loans and receivables. The amount of the impairment in the case of loans and receivables equals the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The impairment is reported through profit and loss.
If, in a subsequent period, the amount of the impairment decreases and the decrease can be objectively attributed to an event occurring after the adjustment, the impairment is reversed through profit and loss.
Impairments of loans and receivables (trade receivables) are very largely recorded by means of impairment accounts.
A decision on whether the risk of default is to be recorded by means of an impairment account or by means of a direct adjustment to the receivable depends on the probability of default.
If receivables are classified as irretrievable, the correspondingly impaired asset is derecognised.
An impairment results in a direct reduction in the carrying amount of the financial assets. Any subsequent receipts of payments towards derecognised assets are recognised through profit and loss.

2.3 Cash and cash equivalents

For the purpose of the cash flow statement in accordance with IAS 7, all cash and cash equivalents which are due for settlement in less than three months are recognised at their nominal value. The cash and cash equivalents reported in the consolidated balance sheet comprise cash in hand, cheques and cash at banks. The cash and cash equivalents recognised in the consolidated cash flow statement are deferred on the basis of the above definition.

2.4 Receivables and other financial assets

Receivables and other financial assets are recognised at amortised cost subject, where applicable, to the effective interest method. Allowance is made for individual interest and credit risks. Profit and loss is assigned to earnings for the period if the receivables are derecognised or impaired.

2.5 Other non-financial assets

Other non-financial assets are measured at amortised cost net of any impairments.

2.6 Derivative financial instruments

Derivative financial instruments such as currency forwards, currency swaps and zero-cost options are used to partially hedge the risks arising from currency fluctuations. The derivative financial instruments do not satisfy the hedge accounting conditions set forth in IAS 39 and are classified as held for trading. Accordingly, they are measured at their fair value as of the balance sheet date. Negative fair values are reported within financial liabilities. Positive fair values are reported within financial assets.
Any changes in fair value are reported through profit and loss within net financial income/net financial expense. Fair value is defined as the value which can be achieved in business operations under prevailing market conditions.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of purchase, conversion and overheads incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and less reasonable adjustments for all discernible risks arising from reduced or absent marketability. All goods are measured using the FIFO (first in-first out) method.

2.8 Prepaid cost of materials

The prepaid cost of materials primarily comprises payments made for maintenance contracts purchased from suppliers which do not yet give rise to any expenditure in the year under review. This item is reversed over the remaining term of the contract.

2.9 Property, plant and equipment

In accordance with IAS 16, property, plant and equipment are recognised at cost less cumulative scheduled straight-line depreciation. Production costs include directly attributable costs as well as a reasonable proportion of the attributable overheads. Where necessary, they are adjusted to match their recoverable amount, if this is lower. Maintenance costs are reported as expense for the period.
Land is not depreciated. Depreciation of all other assets is calculated on a straight-line basis. For this purpose, the historical cost is written down to the residual carrying amount over the expected useful lives of the assets as follows:

Buildings	25-35 years
Motor vehicles	5 years
Business equipment	3-10 years

In accordance with IAS 16.67, property, plant and equipment is either derecognised upon being disposed of or when continued use or sale of the asset are not expected to generate any economic benefits. The gains or losses resulting from the disposal of an asset are calculated as the difference of the net proceeds of the sale and the carrying value of the asset and recognised in the income statement for the period in which the asset is derecognised. The expected useful lives, residual values and depreciation methods are reviewed once a year and all necessary changes to estimates made on a preemptive basis.
The Group leases certain assets. Leases for assets in which the Group holds the material risks and benefits from ownership of the leased assets are classified as finance leases. As a result, the asset in question is capitalised as of the date on which it is used for the first time. Assets leased under finance leases are recognised at the lower of their fair value and the present value of the minimum lease payment at the beginning of the lease. A lease liability of the same amount is recorded within non-current liabilities.
In accordance with IAS 17, the determination as to whether an agreement is or contains a lease is made on the basis of the economic nature of the agreement as of the date on which this agreement is entered into and calls for an estimate of whether the performance of the contractual agreement depends on the utilisation of a certain asset or assets and whether the agreement grants a right to utilise the asset.
Each lease payment is divided into an interest and a repayment component to ensure that a constant interest rate is applied to the lease liability. The present value of the lease liability is reported within non-current liabilities. The interest component of the lease payment is recorded in the income statement and spread over the term of the lease. Assets under finance leases are written off over the shorter of their expected useful life and the term of the lease.
If leases provide for economic ownership to remain with the lessor (operating lease), the asset in question is carried on the lessor's books. In this case, the lease payments are recorded as expense on a straight-line basis over the term of the lease.

2.10 Intangible assets

Intangible assets acquired - other than as a result of a business combination - are recognised at historical cost. Software and licences are written down on a straight-line basis over their expected useful lives of three to five years. Where necessary, they are adjusted to match their fair value, if this is lower.
Contractual customer relations acquired as a result of a business combination are reported at their fair value on the date of acquisition. They have a limited useful life and are measured at amortised cost net of scheduled depreciation. Depreciation expense is calculated on the basis of the expected duration of the customer relations (five to ten years).
The useful lives of and the amortisation method selected for intangible assets are examined at least once a year on each balance sheet date; in the event of any difference in the expectations over previous estimates, the corresponding changes are recorded as changes to estimates in accordance with IAS 8.
The cost of development activities, i.e. for activities which implement research results in a plan or draft for the production of new or substantially improved products are capitalised. Development expenses are capitalised as intangible assets if the conditions for recognition stated in IAS 38 are satisfied. This means that development costs are recognised as intangible assets if in the light of the technical and economic viability it is likely that the Company will derive a future economic benefit from the development project and the costs attributable to the project during the development phase can be reliably calculated. The development costs recognised in accordance with IAS 38 are written down over three years.
Research costs are not capitalised but recognised as expenses upon arising.

2.11 Impairment of property, plant and equipment and intangible assets except for goodwill

As a matter of principle, a distinction is drawn between intangible assets with a definite useful life and those with an indefinite useful life. The useful life is either the expected period of time over which an asset is expected to be used by the enterprise or the number of production or similar units expected to be obtained from the asset by the enterprise. At each balance sheet date the Group reviews the carrying amounts of the property, plant and equipment and intangible assets to identify any evidence of impairment of these assets. If such evidence is found, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. If the recoverable amount cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.
In the case of intangible assets with an indefinite useful life or those which are not yet available for use, an impairment test is performed once a year and whenever any evidence of impairment arises.
The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In measuring value in use, the estimated future payment flows are discounted using a pre-tax interest rate. This pre-tax interest rate takes account of the current market estimate of the present value of the money and the risks inherent in the asset, unless these are already reflected in the estimate of the payment flows.
If the estimated recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount is written down to the recoverable value of the asset (or the cash-generating unit). The impairment loss is recognised in profit and loss.
In the event of any ensuing reversal of the impairment loss, the carrying amount of the asset (or the cash-generating unit) is increased to reflect the new estimate of the recoverable amount. The increase in the carrying amount is limited to the amount which would have arisen had no impairment loss been recorded for the asset (or cash-generating unit) in previous periods. The reversal of impairment losses is recognised in profit and loss.

2.12 Goodwill

Any excess in acquisition costs over the Group's share in the fair values of the identifiable assets, liabilities and contingent liabilities acquired as a result of a business combination is recognised initially as goodwill. Goodwill is subsequently measured at amortised cost less any impairments.
It does not undergo regular amortisation but is instead subjected to an impairment test at least once a year at the level of the cash generating unit. In the event of special events indicating that the carrying amount of a cash-generating unit may no longer be covered by the recoverable amount, an impairment test must also be performed during the year.
New goodwill is always allocated to the cash-generating unit which is expected to derive benefits from the business combination.
Goodwill is tested for impairment by comparing the recoverable amount of a cash-generating unit with its carrying amount including goodwill. If the carrying amount exceeds the realisable amount, the asset is deemed to be impaired and written down to such realisable amount. For this purpose, Integralis initially calculates the value in use on the basis of generally acknowledged measuring methods based on the medium-term forecasts of the cash-generating units in question. A discounted cash flow model is used and the plausibility of the results tested by means of suitable multiples. The discounted cash flow calculations are based on forecasts derived from the company plans approved by management and also used for internal purposes. The material assumptions used to calculate value in use relate to sales and costs, growth rates and the discount rate.
Any impairment identified is initially deducted from goodwill. If the impairment exceeds the goodwill, it is applied to the other assets held by the unit coming within the scope of IAS 36 pro rata on the basis of the carrying amount of each asset. When an impairment is allocated, the carrying amount of the asset must not be reduced below the highest of

- its fair value less costs to sell,
- the value in use, and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro-rata basis.
A later reversal of the impairment due to the fact that the indication that an impairment loss recognised in prior periods for an asset may no longer exist is not permissible.

2.13 Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.
Deferred taxes are calculated using the balance-sheet oriented liability method (IAS 12), under which deferred taxes are recognised for all accounting and measurement differences arising between IFRS-based measurement and the applicable tax bases.
In addition, current tax assets are recognised for future tax reduction claims arising from tax losses.
Deferred tax assets are calculated for all deductible temporary differences and tax losses, however only to the extent that it is probable that the Company will have sufficient taxable income in the future against which the temporary differences or unused tax losses can be utilised.
Deferred taxes were measured on the basis of the tax rates expected to be applicable. These are based on the statutory rules in force or enacted on the balance sheet date. Non-domestic income taxes are based on the rules and laws applicable or enacted in the individual countries. The income tax rates applied to the non-domestic companies are between 0% and 44%.

2.14 Deferred revenues

Deferred revenues primarily comprise income received from customers for maintenance and MSS (Managed Security Services) contracts. The contracts entered into with customers in this area generally have a term of between one and three years or, to a minor extent, a longer period. The service is

sourced from external partners over this period and the customer invoiced for the service at the beginning of the period.
Deferred revenues include the part of the service invoice which does not yet constitute any income for the year under review. This item is reversed over the remaining term of the contracts. The same procedure is applied to the externally source services.

2.15 Provisions and liabilities

Classification of financial liabilities
Financial liabilities are classified either as financial liabilities at fair value through profit and loss or as other financial liabilities.

Financial liabilities at fair value through profit and loss
Financial liabilities are classified as being at fair value through profit and loss if they are held for trading or are voluntarily designated as being at fair value through profit and loss.
A financial liability is classified as held for trading if

- it is acquired primarily for the purpose of being sold again in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- it is a derivative except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Other financial liabilities
Other financial liabilities, including loans raised, are initially recorded at their fair value less transaction costs.
They are subsequently measured at amortised cost using the effective interest method. In this case, interest expense is recorded on the basis of the effective interest rate.

The effective interest method is a means of calculating the amortised cost of a financial liability and of allocating the interest expense to the corresponding period. It equals the interest rate with which the estimated future payments can be discounted over the expected term of the financial instrument or, where applicable, a shorter period to arrive at its net carrying amount upon first-time recognition.

Provisions
Provisions are recognised in accordance with IAS 37 if the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
If the Group is expecting a refund covering at least part of the provisions recognised (e.g. under an insurance policy), such refund is recorded as a separate asset provided that the receipt of this refund is virtually certain. Expense from the recognition of provisions is recorded in the income statement net of the refund.
Provisions are recognised if there is a current (legal or constructive) obligation towards a third party from a past event which will probably result in an outflow of resources and whose amount can be reliably estimated. Provisions are recognised at the most likely amount.
The cost of setting aside provisions is taken to the income statement.
Provisions which are not expected to be used for more than one year are discounted at normal market conditions.

2.16 Equity

The breakdown of and changes in equity can be seen from the consolidated statement of changes in equity and the notes to the balance sheet. In accordance with IAS 32, treasury stock is deducted from the Company's equity in an amount equalling the cost of such treasury stock.

2.17 Revenues

Revenues are measured at the fair value of the consideration received or owing and are recognised when it is likely that the economic benefit will flow to the Group and the amount of the revenues can be reliably determined.
Revenues are recognised upon the sale of a product provided that the material opportunities and risks arising from ownership of the products sold are transferred to the buyer. This generally occurs upon the products being dispatched.
Revenues are not recognised if there is any uncertainty as to the consideration or if there is a high likelihood of the goods being returned.
In the case of long-term maintenance, support and MSS contracts, the revenues and related costs are distributed over the term of the contracts.
Some services are provided by third parties, while in other cases the Company sells its own services. In the case of the Company's own services, the resultant revenues are recorded in accordance with the percentage of completion achieved as of the balance sheet date. If it is not possible to reliably determine the percentage of completion of a contract, only revenues equalling the expenses which have arisen and are subject to reimbursement are recognised.

2.18 Borrowing costs

Borrowing costs are recognised in the income statement for the period in which they arise (IAS 23). Borrowing costs that are directly attributable to qualifying assets are as part of the cost of that asset.

2.19 Treasury stock

Treasury stock is reported separately within equity and deducted from subscribed capital at its nominal value of € 1 per share. The difference between the nominal value and the buying or selling price is netted with the share premium. No treasury stock was bought or sold in 2010.

2.20 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the shares by the average number of shares outstanding. This figure may be diluted by potential shares (primarily share options). Earnings per shares are calculated in accordance with IAS 33.

2.21 Employee benefits

Post-retirement benefit plans

The subsidiaries in the UK and the United States have established defined-benefit pension plans for employees. With all these plans, the subsidiaries pay a certain percentage of their employees' remuneration into a pension fund; employees are entitled to join the post-retirement benefit plan. The Group's financial obligation is confined solely to the prorated share; it has no other obligations beyond this. There are no obligations for post-retirement benefits on the face of the balance sheet.

Share-based compensation

In the past, the Integralis Group awarded stock options to members of the Management Board as well as the officers of affiliated companies and employees of the Group. All of the options awarded after 7 November 2002 and vesting after 1 January 2005 were recognised in accordance with IFRS 2. If the stock options are exercised, the obligation is settled either by utilising treasury shares, issuing new shares from the Company's contingent capital or, in exceptional cases, by means of a cash settlement. The programmes are classified as share-based. All existing stock option programmes are tied to the performance of Integralis AG's stock. Accordingly, the utilisation of option rights is subject to market conditions. When options are awarded, their fair value is calculated and distributed over the period ending upon the options vesting in full. The stock options awarded prior to 1 January 2007 were measured in accordance with the Black-Scholes option price model. Options awarded after 1 January 2007 undergo Monte-Carlo simulation to determine their fair value on the date of award. The expected number of vested stock options is regularly reviewed.

3. Key sources of estimation uncertainty

In the application of the aforementioned accounting principles, it is necessary to make estimates, assumptions and judgements to calculate the carrying amount of assets and liabilities if no information is available from any other sources. The estimates and underlying assumptions are based on historical experience and other factors which are considered to be relevant. Actual figures may differ from the estimates.
The assumptions underlying the estimates are reviewed regularly. Any changes in estimates which concern only a single period are allowed for only in such period. If the changes concern the current and future periods, allowance is made for them in this and future periods.
The key assumptions concerning the future, and other primary sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

3.1 Impairment of goodwill

To identify any impairment of goodwill, it is necessary to calculate the value in use of the cash-generating unit to which the goodwill has been allocated. The calculation of the value in use necessitates an estimate of future cash flows from the cash-generating unit as well as a suitable discount rate for calculating the present value. The carrying amount of the goodwill as of the balance sheet date stands at T€ 10,847 following the deconsolidation of the Swedish unit effective 31 December 2010 (see Note 4.8).

3.2 Threatened losses in connection with vacant buildings

In the United Kingdom, there are rental leases in force for office space expiring in 2019. The Group does not use all of the office space concerned and has not sublet all of it or for the remaining during of the lease. As of 31 December 2010, it had set aside provisions of T€ 306 (2009: T€ 660) to cover rental shortfalls on the assumption that all of the premises which it does not use itself will be sublet as of 2013. If the vacancy extends beyond 2013 or the existing subleases are terminated earlier than planned, this may exert pressure on earnings. In the event of a long-term sublease being signed for all of the unused premises prior to 2013, this may result in the provisions being reversed, in which case the proceeds from such reversal will be taken to the income statement.

3.3 Recognition of deferred tax assets for future tax reimbursement claims as a result of unused tax losses and temporary differences

The Group recognised deferred tax assets from temporary differences as well as unused tax losses as of 31 December 2010. The tax reimbursement claims are recognised only to the extent that it is probable on the basis of the Group's forecasts that taxable profits will be available in the next five years against which the deferred tax assets can be utilised.
The estimate as to future taxable profit has been made on the basis of historical experience as well as future expectations of the business performance of the companies in question. If business does not perform as expected and it is no longer considered probable that sufficient taxable profit will be available to realise all or part of the tax reimbursement claims, the carrying value of the deferred tax assets will be lowered as of the next balance sheet date and the resultant expense taken to the income statement.

4. Notes on the consolidated balance sheet

4.1 Cash and cash equivalents

As of the balance sheet date, there were cash and cash equivalents of T€ 6,902 (previous year: T€ 7,980). This amount was available in full as of the balance sheet date. In the previous year, an amount of T€ 261 was subject to restricted availability to cover a rental deposit. This rental deposit no longer existed in the year under review.

4.2 Trade receivables, financial assets and other receivables

Trade receivables are shown net of impairments for bad debts. Receivables of T€ 839 (2009: T€ 0) are due for settlement in 2012; all other receivables are due for settlement in less than one year. Individual adjustments of a total of T€ 135 (2009: T€ 194) have been included to allow for any reduced payment receipts.

	2010 T€	2009 T€
Trade receivables	58,867	54,864
Other receivables	1,361	1,912
Derivatives	80	116
Impairments	-135	-194
Total	**61,228**	**56,698**

Current receivables and assets amount to T€ 60,389.
Of these, receivables from affiliated companies are valued at T€ 1,274 (2009: T€ 0).
In the year under review, other receivables chiefly comprise current loans due from Integralis AB (T€ 1,054).

4.3 Inventories

Inventories break down as follows:

	2010 T€	2009 T€
Finished goods and merchandise	825	683
Total	**825**	**683**

There were no allowances on inventories neither as of 31 December 2010 nor as of 31 December 2009.

4.4 Deferred cost of materials

Of the deferred cost of materials of T€ 37,445 (2009: T€ 35,419), a sum of T€ 29,926 (2009: T€ 29,726) is current in nature, while a sum of T€ 7,519 (2009: T€ 5,693) is non-current in nature. In the previous year, prepaid cost of materials was current in its entirety. This item chiefly comprises payments made for maintenance contracts purchased from suppliers which do not yet give rise to any expenditure in the year under review. This item is reversed over the remaining term of the contract.

4.5 Other assets

Other assets came to T€ 1,610 (2009: T€ 933) and chiefly comprised prepaid expenses of T€ 1,564 (2009: T€ 933). Prepaid expenses primarily entail rentals, insurance premiums and maintenance contracts.

4.6 Property, plant and equipment

Property, plant and equipment are broken down in the statement of changes in assets (see appendix).
Currency translation differences between the balance sheet dates are reported in the consolidated statement of change in assets under “Currency translation”.
There were no impairment losses in connection with property, plant and equipment in the year under review.

FIXED ASSETS MOVEMENTS 2010

	Costs of Acquisition or Production					
	Balance 01/01/2010 T€	Additions T€	Acquired assets T€	Disposals T€	Transfers T€	Balance 31/12/2010 T€
Property, plant and equipment						
Property and leasehold rights including buildings on non-owned land	1,895	–	–	–	–	1,895
Other equipment, fixtures, fittings and equipment	8,101	1,779	-138	-173	287	9,856
	9,996	**1,779**	**-138**	**-173**	**287**	**11,751**
Intangible assets						
Industrial property rights and similar rights and licences to such rights	6,461	409	–	-565	151	6,456
Self developed intangible assets	4,519	1,327	–	–	193	6,039
	10,980	**1,736**	**–**	**-565**	**344**	**12,495**
Goodwill						
Goodwill	35,198	–	-5,031	–	303	30,470
	35,198	**–**	**-5,031**	**–**	**303**	**30,470**
	56,174	**3,515**	**-5,169**	**-738**	**934**	**54,716**

Accumulated Depreciation							Net Book Value	
Balance 01/01/2010	Additions	Acquired assets	Disposals	Transfers	Currency conversion	Balance 31/12/2010	31/12/2010	31/12/2009
T€	T€	T€	T€	T€	T€	T€	T€	T€
608	66	–	–	–	–	674	1,221	1,287
6,290	1,226	–	-99	-131	179	7,465	2,391	1,811
6,898	1,292	–	-99	-131	179	8,139	3,612	3,098
5,961	194	215	–	-254	105	6,221	235	500
2,052	1,038	–	–	–	118	3,208	2,831	2,467
8,013	1,232	215	–	-254	223	9,429	3,066	2,967
21,706	–	–	-1,766	–	-317	19,623	10,847	13,492
21,706	–	–	-1,766	–	-317	19,623	10,847	13,492
36,617	2,524	215	-1,865	-385	85	37,191	17,525	19,557

FIXED ASSETS MOVEMENTS 2009

	Costs of Acquisition or Production						
	Balance 01/01/2009 T€	Additions T€	Acquired assets T€		Disposals T€	Transfers T€	Balance 31/12/2009 T€
Property, plant and equipment							
Property and leasehold rights including buildings on non-owned land	2,000	–	–	-33	–	-72	1,895
Other equipment, fixtures, fittings and equipment	7,483	749	–	-312	–	181	8,101
	9,483	**749**	**–**	**-345**	**–**	**109**	**9,996**
Intangible assets							
Industrial property rights and similar rights and licences to such rights	5,946	243	–	-32	–	305	6,461
Self developed intangible assets	3,319	947	–	–	–	253	4,519
	9,265	**1,190**	**–**	**-32**	**–**	**558**	**10,980**
Goodwill							
Goodwill	35,877	–	–	-133	–	- 546	35,198
	35,877	**–**	**–**	**-133**	**–**	**- 546**	**35,198**
	54,625	**1,939**	**–**	**-510**	**–**	**121**	**56,174**

Accumulated Depreciation							Net Book Value	
Balance 01/01/2009	Additions	Acquired assets	Disposals	Transfers	Currency conversion	Balance 31/12/2009	31/12/2009	31/12/2008
T€	T€	T€	T€	T€	T€	T€	T€	T€
636	5	–	- 33	–	-1	607	1,288	1,363
5,761	1,087	–	- 312	-233	-13	6,290	1,811	1,722
6,398	**1,092**	**–**	**- 345**	**-233**	**-14**	**6,898**	**3,098**	**3,085**
5,096	360	–	-1	233	273	5,961	500	850
856	1,165	–	–	–	31	2,052	2,467	2,462
5,952	**1,525**	**–**	**-1**	**233**	**304**	**8,013**	**2,967**	**3,312**
19,940	1,766	–	–	–	–	21,706	13,492	15,937
19,940	**1,766**	**–**	**–**	**–**	**–**	**21,706**	**13,492**	**15,937**
32,290	**4,383**	**–**	**-346**	**–**	**290**	**36,617**	**19,557**	**22,334**

Property, plant and equipment include assets valued at T€ 1,339 (previous year: T€ 1,430) for which the Group company in question is deemed to be the economic owner on account of the structure of the underlying leases. There were no contingent lease payments.
Finance leases primarily concern two buildings and a plot of land, for which call options may be exercised in 2017. The leased items are recognised at their fair value by the lessee in accordance with IAS 17. A depreciation rate of 4% is applied. The interest expense arising in connection with finance leases stands at T€ 79.7 (2009: T€ 95) on the basis of an interest rate of 5.84% (2009: 6.54%).
As of the balance sheet date, future lease payments break down as follows:

Duration	Future payments T€	Discount T€	Present value T€
Less than one year	152	-75	77
Between one and five years	608	-253	355
More than five years	1,000	-93	907
Total	**1,760**	**-421**	**1,339**

2009

Duration	Future payments T€	Discount T€	Present value T€
Less than one year	163	-90	72
Between one and five years	650	-310	341
More than five years	1,184	-167	1,017
Total	**1,997**	**-567**	**1,430**

4.7 Intangible assets

Orders of T€ 83 were obtained in 2008 through the acquisition of Greschitz IT Security GmbH, Vienna. In the year under review, they were written down to a residual value of T€ 17 (2009: T€ 41).
In 2008, customer relations were acquired from the US company Neohapsis Inc./ KSR Inc. under the terms of an asset deal and the acquisition of the Centris technology platform. This asset is assumed to have an indefinite life and is therefore not subject to amortisation (IAS 38.90). The costs of this stand at $ 0.720 million. Following the complete withdrawal from Centris business, an impairment equalling the residual value of T€ 215 was recorded through profit and loss. The customer relations have a carrying amount of T€ 0 after impairment. The impairment is included in depreciation/amortisation expense for the US segment.

4.8 Goodwill

Since 1 January 2005, the impairment-only approach stipulated by IFRS 3 has been applied to the remeasurement of goodwill.
Impairment testing involved a comparison of the carrying amounts in question with the recoverable amount. The recoverable amount of the cash-generating unit in question is determined on the basis of the value in use. The value in use is calculated on the basis of the following assumptions:

- Period of five years as of 2011
- Perpetual annuity with growth rates of between 1% and 2%
- Use of internal forecasts for 2011
- For the years after 2011:
  - o Revenue growth of 8% to 10%.
  - o Change in gross margin between 0.0% and -0.2%
  - o Pre-tax discount rates of between 9.33% and 15.23%

In the year under review, goodwill of T€ 10,847 (2009: T€ 13,492) was found not to be impaired. In the previous year, impairment expense of T€ 1,766 had been recognised for the first time. Goodwill was reduced by T€ 2,948 as a result of the deconsolidation of the Swedish unit.

Remeasurement of the goodwill recognised for the United Arab Emirates resulted in a currency-related adjustment of T€ 303 (2009: T€ -229).
The carrying amounts of the goodwill were assigned to the following cash-generating units (CGUs):

	2010 T€	2009 T€
Germany, Austria, Switzerland	2,099	2,099
Integralis UK	22	22
Integralis US	644	644
Integralis France	3,114	3,114
Integralis Sweden	–	2,942
Integralis U.A.E.	4,968	4,671
Total	**10,847**	**13,492**

Integralis France
The recoverable amount of the cash-generating unit was determined by calculating the value in use on the basis of payment flow forecasts derived from a 5-year plan prepared by the Management Board and a pre-tax discount rate of 14.0% p.a. (2009: 14.15% p.a.).
The payment flows after the fifth year were extrapolated on the basis of a constant annual growth rate of 2%. At T€ 29, the value in use calculated is slightly below the carrying amount of the cash-generating unit; no impairment was recognised.
A change in the underlying assumptions on which the determination of the recoverable amount is based would possibly result in appreciable changes in the amount of the goodwill amortisation. For example, an increase of 1% in the post-tax interest rate would necessitate goodwill amortisation of T€ 293, while a decrease of 1% in the post-tax interest rate would cause the value in use to exceed the carrying amount of the cash-generating unit by T€ 312. Assuming a reduced growth rate of 1% and a consistent post-tax interest rate of 9.33%, an impairment of T€ 138 would arise. However, if the growth rate increases to 3%, the value in use is T€ 99 higher than the carrying amount.

Integralis U.A.E.
The recoverable amount of the cash-generating unit was determined by calculating the value in use on the basis of payment flow forecasts derived from a 5-year plan prepared by the Management Board and a pre-tax discount rate of 9.33% p.a. (2009: 9.43% p.a.).
The payment flows after the fifth year were extrapolated on the basis of a constant annual growth rate of 2%. The Management Board assumes that no reasonably foreseeable change in the underlying assumptions on which the determination of the recoverable amount is based would cause the cumulative carrying amount of the cash-generating unit to exceed the cumulative recoverable amount.

Integralis United Kingdom
The recoverable amount of the cash-generating unit was determined by calculating the value in use on the basis of payment flow forecasts derived from a 5-year plan prepared by the Management Board and a pre-tax discount rate of 12.96% p.a. (2009: 13.10% p.a.).
The payment flows after the fifth year were extrapolated on the basis of a constant annual growth rate of 1%. UK business is currently characterised by strong growth, although this can be expected to level off to some extent. There will be shifts in revenue flows, while margins in the technology segment will come under strong pressure, although this effect will be offset by the other solution segments. Further efficiency gains will result in a slight decline in operating costs. There is currently no evidence indicating that the cumulative carrying amount of the cash-generating unit will exceed its cumulative recoverable amount in the future.

Integralis United States
The recoverable amount of the cash-generating unit was determined by calculating the value in use on the basis of payment flow forecasts derived from a 5-year plan prepared by the Management Board and a pre-tax discount rate of 15.23% p.a. (2009: 15.39% p.a.).
The payment flows after the fifth year were extrapolated on the basis of a constant annual growth rate of 2%. As Integralis has only minor operations in the large US market, growth of 10%

is realistic by means of intensified marketing efforts and the addition of new customers. There is, of course, a risk that it may not be possible to achieve long-term growth and that business may therefore stagnate. However, this is unlikely in the 5-year period applied here. The Management Board assumes that here as well no reasonably foreseeable change in the underlying assumptions on which the determination of the recoverable amount is based will cause the cumulative carrying amount of the cash-generating unit to exceed the cumulative recoverable amount.

Integralis CE

The recoverable amount of the cash-generating unit was determined by calculating the value in use on the basis of payment flow forecasts derived from a 5-year plan prepared by the Management Board and a pre-tax discount rate of 14.24% p.a. (2009: 13.67% p.a.).

The payment flows after the fifth year were extrapolated on the basis of a constant annual growth rate of 1%. The CE region is characterised by strong growth and there is no evidence that this market will reach saturation level in the next few years. Even though margins will come under pressures as in the UK, this effect can be eliminated by gaining market share. Here as well the Management Board does not see any risk.

The recoverable amounts of all the cash generating units were calculated on the basis of the following assumptions, which are subject to estimation uncertainties:

Revenue growth and growth rates used to extrapolate the cash flow forecasts beyond the current planning period:
The growth rates are based on various studies on the future performance of the market. These include a risk discount on account of the management estimates. In this connection, it was assumed that the smaller CGUs have greater growth potential than the larger ones. To allow for the estimation uncertainty, all growth rates applied are based on the forecast for the sector as a whole as well as the Group's historical revenue growth before currency translation.

- **Gross margin:**
  Gross margins were calculated on the basis of management's experience and historical performance.

- **Personnel and other costs relative to changes in revenues:**
  It was assumed that costs will increase at a slightly slower rate than that at which revenues increase.

- **Discount rate:**
  A post-tax discount rate of 9.33% is applied, on the basis of which the pre-tax discount rates were adjusted in accordance with IAS 36.A20. This rate was determined on the basis of the Company's weighted average cost of capital (WACC) calculated by external analysts (IAS 36.A17). This interest rate is also used internally for measurement purposes in connection with acquisition projects.

4.9 Investment in subsidiaries

A share of 12.43% in Secode AG, Stockholm, was acquired on 22 December 2010. It is not classified as a financial instrument and is measured at amortised cost.

4.10 Deferred income taxes

Deferred income tax assets break down as follows:

			2010			2009
T€	Tax refund claims	Tax liabilities	Income/ expense (-)	Tax refund claims	Tax liabilities	Income/ expense (-)
Property, plant and equipment	787	351	176	627	367	-90
Intangible assets	198	169	57	139	167	244
Receivables and other assets	31	36	-65	88	29	111
Prepaid cost of materials	332	0	1,122	0	790	-605
Unused tax losses	3,374	0	1,329	2,045	0	-2,709
Deferred revenues	0	344	-1,400	1,056	0	697
Lease liabilities	376	0	-17	393	0	-21
Provisions	102	0	128	1	28	-272
Other liabilities	89	49	157	0	117	416
Total	**5,289**	**949**	**1,487**	**4,349**	**1,498**	**-2,229**

All changes in deferred income taxes were recognised in profit and loss.

In accordance with IAS 12.34, a deferred income tax asset should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The tax forecasts are derived from the corporate forecasts and assume that both the United States and the GAS countries will return to profit-making territory in the near future. This is to be achieved by means of intensified marketing activities and further growth with key accounts.

In the case of subsidiaries which continued to operate profitably in the year under review, deferred tax assets were recognised for unused tax losses in an amount equalling the expected tax income from the utilisation of the existing tax losses against the forecast profit.

The tax losses and the periods in which they must be utilised are set out below:

Maturing in	31/12/2010 T€	31/12/2009 T€
Less than one year	0	0
Between 1 and 5 years	0	0
Between 6 and 20 years	13,359	10,921
No maturity date	3,054	0
Total	**16,413**	**10,921**

No deferred taxes have been recognised on unused tax losses of T€ 2,493 (2009: T€ 1,117).

4.11 Trade payables

All the trade payables of T€ 27,649 (2009: T€ 30,734) are due for settlement in less than one year. Of these, liabilities to affiliated companies account for T€ 183 (2009: T€ 0).

4.12 Financial liabilities

In the year under review, financial liabilities were valued at a total of T€ 6,201 (2009: T€ 6,369), of which a sum of T€ 4,921 (2009: T€ 5,010) is current and a sum of T€ 1,280 (2009: T€ 1,358) is non-current.

Current financial liabilities break down as follows:

	2010 T€	2009 T€
Liabilities to affiliated companies	4,745	4,338
Bank borrowings	0	600
Current liabilities from finance leases	77	72
Fair value of derivatives	50	0
Miscellaneous	49	0
Total	**4,921**	**5,010**

The liability towards affiliated companies of T€ 4,745 (2009: T€ 4,339 towards NTT Leasing (U.S.A.) Inc., Wilmington, United States) is due to NTT Communications Corporation, Tokyo, Japan (related party). On 15 April 2010, Integralis AG and NTT Communications Corporation signed a contract for a global cash management service, providing for accounts to be held with Mizuho Corporate Bank and credit facilities to be granted. Integralis AG has a credit facility of USD 3,000,000 and of EUR 2,500,000, which was utilised in full as of the balance sheet date.

There were no liabilities to banks as of the balance sheet date. In 2009, a sum of T€ 600 had been drawn down from a credit facility provided by a bank for the first time as of the balance sheet date of that year. This liability was discharged in full in 2010.

Non-current financial liabilities comprise liabilities from finance leases of T€ 1,280 (2009: T€ 1,358).

4.13 Deferred revenues

In the year under review, deferred revenues came to T€ 55,254 (2009: T€ 50,860). Of this, a sum of T€ 10,468 (2009: T€ 7,704) is non-current.
Deferred revenues primarily comprise income received from customers for maintenance and MSS contracts which do not yet constitute any income in the year under review. This item is reversed over the remaining term of the contract.

4.14 Other current liabilities

Other current liabilities of T€ 20,812 (2009: T€ 15,200) break down as follows:

	2010 T€	2009 T€
Accruals for missing cost of goods sold	9,038	6,600
Accruals for outstanding invoices	5,649	3,456
Deferred income	611	1,381
Liabilities for outstanding social security contributions	1,015	1,065
Personnel obligations	375	309
Value added tax	4,124	2,389
Total	**20,812**	**15,200**

Other liabilities include accruals of T€ 14,687 (2009: T€ 10,056), chiefly missing cost of goods sold of T€ 9,038 (2009: T€ 6,600). In the previous year, this item had been reported within current provisions.

4.15 Non-current provisions

The changes in non-current provisions were as follows in the year under review:

T€	01/01/2010	Utilised	Reversed	Added	Interest cost	31/12/2010
Building restoration obligations	0	0	0	241	0	241
Rental vacancies	660	367	0	0	13	306
Total	**660**	**367**	**0**	**241**	**13**	**547**

The provisions for rental vacancies concern the office space in the United Kingdom. The rental and lease contracts entered into by Nocitra Ltd. valued at € 9.7 million (2009: € 10.4 million) have a remaining term of around 8 years. Please refer to the relevant disclosures in Section 3.2.

4.16 Equity

4.16.1 Share capital, authorised capital and contingent capital

The share capital stood at € 11,585,137 as of 31 December 2010 (31 December 2009: € 11,585,137) and is divided into 11,585,137 registered no-par-value shares.

Integralis AG did not acquire any further treasury stock in the year under review. The 409,105 shares held as of the balance sheet date equal 3.53% of the Company's subscribed capital.

In a resolution passed at the annual general meeting on 29 June 2010, the shareholders authorised the Company to acquire its own shares in a proportion of up to 10% of the share capital of T€ 11,585 on or before 28 June 2015. The authorisation granted at the annual general meeting of 14 May 2009 permitting the Company to buy treasury stock was cancelled upon this new authorisation taking effect. As of 31 December 2010, the following authorised and contingent capital was available for future use:

- **Authorised capital 2008/I:**
  In accordance with a resolution passed at the annual general meeting of 8 May 2008 the Management Board is authorised, with the Supervisory Board's consent, to increase the Company's share capital by up to T€ 5,750 on or before 8 May 2013 either once or in several steps by issuing up to 5,750,000 new registered shares on a cash or non-cash basis. Pursuant to statutory regulations, the Management Board may (with the Supervisory Board's consent) exclude the shareholders' statutory subscription rights in order to acquire shares or all or part of other entities.
  As of 31 December 2010, the entire volume of authorised capital 2008/I was still available for future use.

- **Contingent capital 2005/I:**
  In accordance with a resolution passed at the annual general meeting on 10 May 2007, the contingent capital 2005/I was reduced to T€ 52. The share capital may be increased by up to T€ 52 through the issue of up to 52,000 shares on a contingent basis. The contingent capital 2005/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company in accordance with stock option programme V. After the issue of stock options in 2006, contingent capital 2005/I in an amount of € 42,000.00 was still available.

- **Contingent capital 2007/I:**
  In accordance with a resolution passed at the annual general meeting on 10 May 2007, contingent capital 2007/I of T€ 945 was created. The share capital may be increased by up to T€ 945 through the issue of up to 945,000 shares on a contingent basis. The contingent capital 2007/I is required to grant option rights to members of the Management Board and staff of the Company and affiliated companies as well as the managements of other companies affiliated with the Company in accordance with stock option programme SOP 2007. As of 31 December 2010, no option rights had been issued for this contingent capital 2007/I.

- **Contingent capital 2007/II:**
  At the annual general meeting of 10 May 2007, a resolution was passed authorising the Management Board, with the Supervisory Board's consent, to issue registered convertible or warrant-linked bonds with a total nominal amount of up to T€ 4,000 and a term of no more than ten years once or in several steps on or before 9 May 2012. For this purpose, new contingent capital 2007/II was created. The Management Board was additionally authorised to award the bearers or creditors of the convertible and/or warrant-linked bonds new shares with a prorated amount of share capital of up to a total of T€ 4,000 in accordance with the conditions for the convertible and/or warrant-linked bonds.
  The share capital may be increased by up to T€ 4,000 through the issue of up to 4,000,000 shares on a contingent basis. The option or conversion price equals 90 % of the average price of the Company's stock in the XETRA closing auction at the Frankfurt stock exchange during the ten trading days prior to the day on which the Management Board passes a resolution to issue the bonds, provided that this is no less than the minimum issue price stipulated in Section 9 (1) of the German Stock Corporation Act. As of 31 December 2010, no convertible or option bonds had been issued for this contingent capital 2007/II.

4.16.2 Disclosures concerning capital management

As of 31 December 2010, the equity ratio stood at 15.6% (previous year: 15.9%). The Integralis Group's main financial objectives are to increase its enterprise value on a sustained basis so as to boost its future business permanently. In the future, dividends will continue to be omitted in order to strengthen the Company's financial resources and to further reduce its debt. Integralis' enterprise value is materially influenced by steady growth in profitability.
The Group's approach to capital management is unchanged over the previous year. Neither the Company nor any of its subsidiaries were subject to any externally imposed capital requirements.
Integralis AG also has access to considerable credit facilities provided by NTT Communications Corporation, (Japan) to bridge any short-term funding gaps.

4.16.3 Net loss for the year and loss carried forward

The net loss for 2010 of T€ 120 (2009: net loss of T€ 8,998) will be carried forward.

4.16.4 Share premium

The Group's share premium (T€ 13,427; 2009: T€ 13,398) comprises the share premium of Integralis AG and the share option reserve of T€ 950 (2009: T€ 921). The increase reflects the scheduled additions for options of T€ 29 (T€ 192) already granted.

5. Notes on the consolidated income statement

5.1 Revenues

Consolidated revenues for the year break down as follows:

	20010 T€	2009 T€
Technology Sales	88,658	79,756
Support Services[1)]	65,165	58,836
Consulting, Integration & Training	23,261	18,267
Managed Security Services (MSS)[1)]	11,121	9,531
Total	**188,205**	**166,390**

1) In 2010, revenues which had previously been allocated to Support Services were reported within MSS. The figures for the previous year were corrected accordingly.

5.2 Other operating income

Other operating income breaks down as follows:

	2010 T€	2009 T€
Other operating income from advertising	837	578
Income from subletting	632	730
Other operating income in personnel area	23	92
Other operating income from consulting	177	0
Recharged costs	200	0
Miscellaneous other operating income	214	123
Total	**2,083**	**1,523**

Currency translation gains of a total of T€ 54 from the translation of monetary items were reported in the income statement under other operating income. A sum of T€ 958 (2009: T€ -358) from the currency translation of non-domestic subsidiaries was recognised within equity.

5.3 Own work capitalised

Personnel costs of T€ 1,327 (previous year: T€ 947) for the further development of software in use arose in the year under review.

5.4 Cost of materials

Consolidated cost of materials for the year breaks down as follows:

	2010 T€	2009 T€
Technology Sales	73,170	64,196
Support Services	49,531	43,054
Consulting, Integration & Training	4,876	3,325
Managed Security Services (MSS)	1,390	1,479
Discounts, rebates, other concessions, purchasing price differences	-847	-889
Total	**128,120**	**111,165**

5.5 Personnel expenses

In the year under review, wages and salaries came to T€ 36,041 (2009: T€ 33,712). Social security payments were valued at T€ 5,658 (2009: T€ 4,961) and included expenditure on defined-contribution post-retirement benefits of T€ 1,757 (2009: T€ 1,690) (see also Note 8.7). Personnel expenses include T€ 65 (2009: T€ 192) by way of share-based payments under the stock option programmes.

5.6 Other operating expenses

Other operating expenses break down as follows:

	2010 T€	2009 T€
Miscellaneous personnel expenses (e.g. travel, training, temporary staff)	4,462	3,678
Company cars (maintenance, leases, insurance etc.)	2,069	2,024
Legal and consulting costs	1,918	3,065
Rental, repairs, maintenance	3,818	2,626
Marketing	1,140	1,079
Insurance	467	436
Recruiting	647	343
Finance costs (e.g. bank fees, net currency translation gains and losses)	297	3,050
Other administration expenses	3,946	3,448
Total	**18,764**	**19,749**

In the previous year, finance costs included net currency translation gains and losses (T€ - 1,208). In 2010, finance costs of T€ 297 were recognised (2009: T€ 3,050).
Personnel and other operating expenses for research and development came to T€ 757 in 2010 (2009: T€ 483).

5.7 Depreciation/amortisation

The breakdown of depreciation/amortisation expense by intangible assets, property, plant and equipment can be seen in the statement of changes in assets.
Total depreciation/amortisation expense came to T€ 2,708 in 2010 (2009 : T€ 2,535).

5.8 Net finance income/expense

Interest income and expense breaks down as follows:

	2010 T€	2009 T€
Interest income	107	76
Interest income from discounting liabilities	106	–
Other interest and similar income	213	76
Borrowing costs	-215	-149
Interest cost of provisions	-13	-11
Interest and similar expenses	-228	-160
Net finance income/expense	**-15**	**-84**

5.9 Income taxes

Income taxes include the current and deferred income taxes paid or owed in the individual countries. Deferred taxes are calculated on the basis of the tax rates applicable or expected as of the date of recognition in the individual countries. As a matter of principle, these are based on the statutory rules in force or enacted as of the balance sheet date. Non-domestic income taxes are based on the rules and laws applicable or enacted in the individual countries. The income tax rates applied to the non-domestic companies are between 0% and 44%.
Tax expense for 2009 and 2010 is as follows:

	2010 T€	2009 T€
Current tax expense	-507	-236
Tax refunds for earlier years	67	-135
Deferred income tax assets/liabilities		
- from tax losses	1.329	-2.709
- from temporary differences	158	480
Total	**1.047**	**-2.600**

In the year under review, deferred income tax liabilities of T€ 0 (2009: T€ 3,120) arose due to the impairment loss recognised on a deferred income tax asset.
The reversal of a previous impairment of a deferred income tax asset resulted in a sum of T€ 463 (2009: T€ 491).
Income tax expense on net profit/loss before tax derived from continuing/discontinued operations is calculated as follows:

	2010 T€	2009 T€
Net profit/loss before taxes	**-1,167**	**-6,398**
Income tax refund on the basis of the German tax rate of 29.3% (previous year: 28.9%)	342	1,850
Differences in tax rates		
Differences in foreign tax rates	205	214
Differences arising from changes in national tax rates	4	-154
Tax effects from differences in tax bases		
Goodwill impairments	0	-510
Non-deductible expenses	-393	-126
Non-taxable income	249	779
Recognition and measurement of deferred income tax assets		
Additions to deferred income taxes on unused tax losses	1,274	491
Reduction in deferred income taxes on unused tax losses	0	-3,120
Non-recognition of deferred income tax assets	-1,155	-1,973
Offperiod effects		
Current and deferred taxes in previous years	66	-135
Tax refund from the utilisation of unused tax losses	455	0
Miscellaneous		
Miscellaneous items	0	88
Actual tax expense /(income)	**1,047**	**-2,600**

In 2010, the corporate tax rate stood at 15% plus the solidarity surcharge of 5.5%. This results in an effective corporate tax rate of 15.8%. Including trade tax of 13.1%, the total tax rate stood at 29.3%.
No deferred income taxes were recognised on currency translation differences. Deferred income taxes of T€ 417 were not recognised on discontinued business. No deferred income taxes arose.

In 2010, it was possible to net profits with unused tax losses for which no deferred income tax assets had been recognised following the improvement in the Group's results of operations.

5.10 Earnings per share

Basic earnings per share as defined in IAS 33 are calculated by dividing the consolidated post-tax profit by the average number of outstanding shares. In addition, the diluted average number of shares is calculated. There was an average number of basic shares of 11,176,032 in the year under review (2009: 11,134,642) and diluted shares of 11,311,007 (2009: 11,336,133).

The basic number of shares is reconciled with the diluted number of shares as of 31 December 2010 as follows:

	Shares
Shareholdings as of 31 December 2010	11,585,137
Less treasury stock as of 31 December 2010	-409,105
Adjusted number of shares as of 31 December 2010	11,176,032
Weighted average number of shares in 2010 (basic)	11,176,032
Plus weighted average number of options in 2010	134,975
Weighted average number of shares in 2010 (diluted)	11,311,007

The basic number of shares is reconciled with the diluted number of shares as of 31 December 2009 as follows:

	Shares
Shareholdings as of 31 December 2009	11,585,137
Less treasury stock as of 31 December 2009	-409,105
Adjusted number of shares as of 31 December 2009	11,176,032
Weighted average number of shares in 2009 (basic)	11,134,642
Plus weighted average number of options in 2009	201,491
Weighted average number of shares in 2009 (diluted)	11,336,133

The basic loss per share as defined in IAS 33 came to € 0.01 in 2010 (2009: loss per share € 0.81). Diluted loss per share stood at € 0.01 in 2010 (2009: loss per share € 0.791). To calculate the average number of shares, new shares issued were included on a time-proportionate basis. In addition, shares bought back and reissued were also included on a time-proportionate basis. To calculate the diluted number of shares, the weighted average number of shares is adjusted by the number of all potentially diluting shares (options).

6. Segment report

Segment reporting complies with the requirements of IFRS 8 "Operating Segments", which replaces the former standard IAS 14 "Segment Reporting" and must be applied in reporting periods commencing on or after 1 January 2009.
IFRS 8 stipulates that entities must disclose financial and descriptive information on their reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity on which separate financial information is available, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Generally speaking, financial information must be reported on the basis of the internal management system used to assess the output of the operating segments and to decide how resources are to be allocated to the operating segments.
IFRS 8 stipulates the use of the management approach to distinguish the individual segments. Accordingly, segments are fundamentally defined in accordance with the internal reporting system.
The systematic application of the management approach seeks to permit users of the external accounts to see the entity from management's point of view.
Segment reporting is designed to

- provide a better understanding of the entity's financial condition and earnings
- permit an accurate assessment of the opportunities and risks
- approximate cash flows more precisely
- enhance the comparability of individual units with similar segments of other entities
- supply data for improved calculation of enterprise value

The determination of the chief operating decision maker (CODM) plays a key role in the segmentation process and the information to be disclosed. It is not necessary to report separately on all operating segments. Operating segments are only reportable if they exceed certain thresholds.

It is necessary to report separately on an operating segment if

- its reported revenue (including sales to external customers and intersegment sales or transfers) is 10% or more of the combined revenue, internal and external, of all operating segments, or
- the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute terms of:
  - o the combined reported profit of all operating segments that did not report a loss, and
  - o the combined reported loss of all operating segments that reported a loss, or
- its assets are 10% more of the combined assets of all operating segments.

Under certain circumstances, two or more segments may be aggregated and treated as a single operating segment provided that they exhibit similar economic characteristics.
Under certain circumstances, two or more segments may be combined and treated as a single operating segment if

- as a result of the combination of the users of the financial statements receives information allowing them to evaluate the entity and the environment in which it operates,
- their economic characteristics are similar, and
- they exhibit similarities in the following respects:
  - o the nature of the products and services,
  - o the nature of the production processes,
  - o the type or class of customer for their products and services,
  - o the methods used to distribute their products or provide their services, and
  - o if applicable, the nature of the regulatory environment (e.g. banking, insurance or public utilities).

IFRS 8 distinguishes between segment disclosures and entity-wide disclosures. In the case of segment disclosures, there is fundamentally a greater degree of freedom with respect to the reportable size of the segment due to the application of the management approach. In any case, total segment assets and a central measure of profit or loss must be reported.
Further reporting duties are tied to the measure of profit or loss selected, i.e. what is reviewed by the CODM. If, for example, EBITDA is used as the measurement of profit or loss, there

is no need to disclose segment depreciation and amortisation. At Integralis, the members of the Management Board are deemed to be CODMs.
Management reporting at Integralis is based on national companies.
One exception to this is Germany, Austria and Switzerland, which are allocated to the "Central Europe" (GAS) business segment.
Integralis Global Services are also combined. IGS is the internal Group supplier of all managed security services and internal support. Integralis Global Services is responsible for all Security Operation Centres (SOCs) and the Global Support Centre as well as the development of our MSS services. The regional segments source their MSS and support services from IGS and resell them to their final customers. Accordingly, IGS does not generate any external revenues from final customers.
This concerns the service companies in the UK, Germany and Singapore.
The Group headquarters and shared services segment comprise the Group management in Germany and the administrative unit in the United Kingdom, which cannot be allocated to any of the operating segments.
The segment referred to as "elimination of intrasegmental revenues / consolidation" comprises intragroup revenues and consolidation bookings.
The measure of profit or loss selected is EBITDA. The performance of the responsible national managers is also measured on the basis of EBITDA. The CODMs do not use any other measures of profit or loss such as EBIT, EBT or net result for the segments.

Accordingly, the following segment disclosures are waived:

- Depreciation and amortisation
- Share of profit of associates
- Investments in non-current assets
- Borrowing costs
- Interest income
- Income tax expense/income
- Material non-cash expenses and income
- Main expense and income items in accordance with IAS 1.86

No monthly balance-sheet figures are reported to the CODMs; only outstanding receivables, trade payables and liabilities to affiliated companies are monitored. Accordingly, only receivables, trade payables and liabilities to affiliated companies are recorded in the segment report.
Integralis AG primarily uses revenues and EBITDA as the parameters for measuring segment performance. Intrasegmental revenues and services are calculated on arms' length terms. Administrative activities are calculated in accordance with the principles of transfer pricing.
As no major customer accounts for more than 10% of revenues, the disclosures required by IFRS 8.34 can be waived.
Revenues from continuing business, which entail the same products and services in all segments with the exception of Integralis Global Services, break down as follows:

	2010	2009
	T€	T€
Technology Sales	88,658	79,756
Support Services[1)]	65,165	58,836
Consulting, Integration & Training	23,261	18,267
Managed Security Services (MSS)[1)]	11,121	9,531
Total	**188,205**	**166,390**

1) In 2010, revenues of TEUR 572 (previous year TEUR 3,089), which had previously been allocated to Support Services, were reported within MSS. The figures for the previous year were corrected accordingly.

Revenues	2010 T€	2009 T€
United Kingdom – external revenues	81,071	66,729
United Kingdom – internal revenues	80	96
Germany/Austria/Switzerland – external revenues	49,936	45,892
Germany/Austria/Switzerland – internal revenues	22	22
USA – external revenues	39,508	34,697
USA – internal revenues	9	6
France – external revenues	12,078	13,182
France – internal revenues	130	17
UA Emirate – external revenues	5,612	5,890
UA Emirate – internal revenues	0	0
Integralis Global Services (internal revenues only)	8,053	7,263
Total for all segments	**196,499**	**173,794**
Elimination of intrasegmental revenues / consolidation	-8,294	-7,404
Integralis Group	**188,205**	**166,390**

In Sweden, revenues of T€ 3,462 were generated in the year under review, including internal revenues of T€ 56 (2009: T€ 7,326, including internal revenues of T€ 112). In Germany, revenues of T€ 44,452 were recorded in 2010 (2009: T€ 41,401); non-German revenues came to T€ 143,753 (2009: T€ 124,989).

EBIDTA	2010 T€	2009 T€
United Kingdom	2,372	2,755
Germany/Austria/Switzerland	3,200	2,907
USA	22	-75
France	-288	-510
United Arab Emirates	163	589
Integralis Global Services	-981	-1,649
Total for all segments	**4,488**	**4,017**
Elimination of intersegmental business/Consolidation	-271	589
Group Headquarter & shared services	-1,185	-5,756
Integralis Group	**3,032**	**-1,150**

Sweden sustained a loss at the EBITDA level of T€ 1,468 in the year under review (2009: loss of T€ 781).

EBITDA Margin	2010 %	2009 %
United Kingdom	2.9	4.1
Germany/Austria/Switzerland	6.4	6.3
USA	0.1	-0.2
France	-2.4	-3.9
United Arab Emirates	2.9	10.0
Integralis Global Services	-12.2	-22.7
Total for all segments	**2.3**	**2.3**
Elimination of intersegmental business/Consolidation	–	–
Group Headquarter & shared services	–	–
Integralis Group	**-1.6**	**-0.7**

The EBITDA margin in Sweden stood at -42.4% in 2010 (2009: -10.7%).

Trade receivables, financial assets and other receivables	31/12/2010 T€	31/12/2009 T€
United Kingdom	36,737	21,805
Germany/Austria/Switzerland	20,184	13,971
USA	4,700	9,238
France	3,861	4,600
United Arab Emirates	7,684	5,823
Integralis Global Services	-1,510	1,037
Total for all segments	**71,656**	**56,474**
Elimination of intersegmental business/Consolidation	-12,971	-11,764
Group Headquarter & shared services	2,543	9,434
Integralis Group	**61,228**	**54,144**

In 2009 Sweden had receivables of T€ 2,554 (including internal receivables of T€ 72).

Liabilities	31/12/2010 T€	31/12/2009 T€
United Kingdom	13,045	9,387
Germany/Austria/Switzerland	12,630	11,114
USA	2,243	6,292
France	3,176	5,686
United Arab Emirates	1,645	2,885
Integralis Global Services	1,358	1,105
Total for all segments	**34,097**	**36,469**
Elimination of intersegmental business/Consolidation	-45,206	-43,693
Group Headquarter & shared services	38,758	36,840
Integralis Group	**27,649**	**29,616**

In Sweden, trade payables and liabilities to affiliated companies came to T€ 1,128, including internal of T€ 10 as of 31 December 2009.
The Group is active in six geographic regions – Central Europe (Germany, Austria, Switzerland), France, the UK, United States, Singapore and the United Arab Emirates.
Non-current assets (net of deferred income taxes) break down by geographic region as follows:

	31/12/2010 T€	31/12/2009 T€
Germany/Austria/Switzerland	10,365	7,009
France	3,410	3,863
United Kingdom	6,370	4,834
USA	2,652	1,844
Singapore	37	2
United Arab Emirates	5,018	4,712
Total	**27,852**	**22,264**

In 2009, the Swedish unit had non-current assets without deferred income taxes of T€ 2,986.

In addition to scheduled amortisation, goodwill impairment of T€ 1,766 was recognised in the previous year. This impairment was allocated to the Sweden segment. In December 2010, the Swedish unit was sold, in return for which a share of 12.43% in Secode AB accrued to Integralis AG.
The reconciliation statement eliminates the intragroup activities between the segments.
The measurement principles used in the segment report are based on the IFRS rules applied to the consolidated financial statements (see also Note 2 et.seq).

7. Notes on the cash flow statement

The cash flow statement has been prepared using the indirect method in accordance with IAS 7. For this purpose, non-cash investing and financing activities are ignored.
Cash and cash equivalents include cash in hand, cash at banks and fixed-term deposits available at short notice. Current account loans are not included.
The disposal of 100% of the shares in Integralis AG in return for 12.43% of the capital of Secode AB, Stockholm is a non-cash transaction and therefore not included in the cash flow statement.
The cash outflow of T€ 70 from the disposal of subsidiaries relates to the loss of control over Integralis AB, Sweden (net cash outflow).
A separate cash flow statement for the discontinued business has been dispensed with for materiality reasons.

8. Other disclosures

8.1 Disclosures in accordance with Section 314 (1) No. 9 of the German Commercial Code

The fees for the auditors of the consolidated financial statements reported as expenses in 2010 break down as follows:

	2010 T€	2009 T€
Audit of financial statements	260	172
Other consulting activities	0	13
Tax consulting services	19	7
Other services	0	3
Total	**279**	**195**

8.2 Disclosures in accordance with Section 314 (1) No. 6 of the German Commercial Code

In accordance with Section 315 (2) No. 4 of the German Commercial Code, the disclosures on management compensation are included in the remuneration report, which forms part of the Group management report. The compensation of the Management Board and the Supervisory Board is described in Section 8.9.

8.3 Financial instruments

Categorisation of financial instruments
The following table analyses the allocation of financial assets and liabilities to the individual categories in accordance with IAS 39 as well as their carrying amounts and fair values as of 31 December 2010. The fair value of derivative instruments is calculated by reference to the listed market prices as of the balance sheet date. The fair values of cash and cash equivalents, current receivables and trade payables and other current financial liabilities match their carrying amounts due in particular to the short-term nature of these instruments.

- Explanation of the categories (see Note 2.2):
- LaR: Loans and receivables
- Afv: Financial assets at fair value through profit and loss

Recognised in accordance with IAS 39	Category in accordance with IAS 39	Carrying amount as of 31/12/2009	Amortised cost	Fair value in equity	Fair value in P/L	IAS 17
	T€	T€	T€	T€	T€	T€
Assets						
Cash and cash equivalents	LaR	7,980	7,980	–	–	–
Trade receivables	LaR	54,670	54,670	–	–	–
Other receivables	LaR	1,300	1,300	–	–	–
Derivatives with no hedging relationship	Afv	116	–	–	116	–
Equity and Liabilities						
Trade payables	FLAC	30,734	30,734	–	–	–
Liabilities to banks	FLAC	600	600	–	–	–
Liabilities to affiliated companies	FLAC	4,339	4,339	–	–	–
Liabilities from finance leases		1,430	–	–	–	1,430
Of which aggregated by category in accordance with IAS 39:						
Loans and Receivables (LaR)		63,950	–	–	–	–
Financial assets through P/L (Afv)		116	–	–	–	–
Financial liabilities at amortised costs (FLAC)		35,673	–	–	–	–

Recognised in accordance with IAS 39	Category in accordance with IAS 39	Carrying amount as of 31/12/2010	Amortised cost	Fair value in equity	Fair value in P/L	IAS 17
	T€	T€	T€	T€	T€	T€
Assets						
Cash and cash equivalents	LaR	6,902	6,902	–	–	–
Trade receivables	LaR	61,148	61,148	–	–	–
Other receivables	LaR	–	–	–	–	–
Derivatives with no hedging relationship	Afv	80	–	–	80	–
Equity and Liabilities						
Trade payables	FLAC	27,649	27,649	–	–	–
Liabilities to affiliated companies	FLAC	4,745	4,745	–	–	–
Derivatives with no hedging relationship	Afv	50	–	–	50	–
Liabilities from finance leases		1,357	–	–	–	1,357
Of which aggregated by category in accordance with IAS 39:						
Loans and Receivables (LaR)		68,050	–	–	–	–
Financial assets (net) through P/L (Afv)		30	–	–	–	–
Financial liabilities at amortised costs (FLAC)		32,394	–	–	–	–

The financial liabilities at fair value through profit and loss comprise derivative financial instruments not included in hedge accounting.
Financial assets at fair value through profit and loss can be assigned to the following hierarchy for measurement purposes.

	2010 Level 1* T€	2010 Level 2** T€	2010 Level 3*** T€	2009 Level 1* T€	2009 Level 2** T€	2009 Level 3*** T€
Financial assets at fair value through profit and loss	–	–	–	–	–	–
Financial assets at fair value through profit and loss	–	80	–	–	116	–
Financial liabilities at fair value through profit and loss	–	–	–	–	–	–
Financial liabilities at fair value through profit and loss	–	50	–	–	–	–

* The market price is determined by reference to quoted, unadjusted prices in active markets for these assets and liabilities.
** The market price of these assets and liabilities is determined on the basis of parameters for which directly or indirectly derived quoted prices are available in an active market.
*** The market price of these assets and liabilities is determined on the basis of parameters for which no observable market data is available.

Collateral
As of 31 December 2010, no financial assets had been pledged as collateral. In the previous year, Integralis had pledged financial assets of TUSD 375 (carrying amount T€ 261) as collateral for bank guarantees obtained for rental deposits.

Derivative financial instruments
As part of its risk management activities (see Section 11 of the Group management report for more details on risk management), Integralis uses various derivative financial instruments, chiefly to limit exposure to exchange rate fluctuation. The approved derivative financial instruments used in 2010 comprised the following:

- Currency forwards
- Currency swaps
- Plain-vanilla options, primarily zero-cost options.

The following tables set out the derivative financial instruments outstanding as of the balance sheet date, all of which expire in less than 3 months.
Derivatives have been designated as hedges and are therefore classified as held for trading.
The following derivatives were outstanding for the EUR/USD currency pair as of the balance sheet date:

Derivates EUR/USD	Foreign currency amount TUSD	Value of contract T€	Amount measured T€	Fair value T€
Currency forwards	700	517	524	6
Currency forward	3,400	2,569	2,541	-28
Currency swap	-2,000	-1,525	-1,495	30
Options	1,100	845	831	-14
Options	400	307	310	3

The following derivatives were outstanding for the USD/GBP currency pair as of the balance sheet date:

Derivates EUR/GBP	Foreign currency amount TUSD	Value of contract TGBP	Fair value T€
Currency swap	-3,000	-1,951	34
Currency swap	-600	378	-8

The following derivatives were outstanding for the EUR/CHF currency pair as of the balance sheet date:

Derivates EUR/CHF	Foreign currency amount TCHF	Value of contract T€	Fair value T€
Currency swap	500	393	7

The following derivative financial instruments were outstanding as of 31 December 2009:

Currency forwards and swaps	Foreign currency amount T	Value of contract T€	Amount measured T€	Fair value T€
Currency forward	USD 3,500	2,316	2,430	115
Currency swap	USD -550	-383	-382	1

All derivatives are recorded at their market value in the consolidated balance sheet. As the derivatives are not part of hedging relationships, any changes in market value are reported in profit and loss.

Net gains or losses

The following net gains/losses were recognised in profit and loss:

	2010 T€	2009 T€
Financial assets and liabilities at fair value through profit and loss*	-146	116
Loans and receivables	-9	-2,848
Financial liabilities at amortised cost	-109	-149
Total	**-264**	**-2,881**

* These amounts are attributable to derivative financial instruments

- Foreign-currency translation of loans and receivables and other financial liabilities: currency translation gains of a total of T€ 54 (2009: currency translation losses of T€ 1,028)
- Adjustments to and losses of loans and receivables: T€ 170 (2009: T€ 1,820). The loss of receivables arose from the discontinuation of the Chinese managed service business in the previous year. Changes in adjustments compared with the previous year were only minor.
- Interest income on loans and receivables of T€ 107 (2009: T€ 0)
- The net losses on financial liabilities at amortised cost result from interest expense of T€ 215 (2009: T€ 149) net of interest income of T€ 106 from discounting liabilities.

There were no adjustments to receivables due to receipts towards derecognised receivables in the year under review or in the previous year. Reference should be made to Note 5.8 for an analysis of the interest income and expenses recorded.

All assets classified as loans and receivables are due for settlement in less than one year. Impairments of T€ 135 (2009: T€ 194) were recognised on trade receivables. Overdue receivables were tested for impairment. For the purpose of identifying impairment, the causes of the payment delay (possible payment difficulties, poor credit rating, other reasons) were analysed.

With respect to the loans and receivables which are not overdue and have not been adjusted, there is no evidence as of the balance sheet date indicating that debtors will be unable to honour their payment obligations.

Management of financial risks

Foreign-currency risks

The Group's international business operations particularly expose it to foreign currency risks. These arise from the measurement of balance sheet items as of the balance sheet date, outstanding transactions in a foreign currency (transaction-related foreign currency risks) and from the translation of the financial statements of the non-euro national companies into euros (translation-related foreign currency risk).

Integralis uses value-at-risk analyses as part of its risk management system. These analyses regularly measure risk exposure against changes in market risk factors such as exchange rates by calculating a maximum loss given a certain confidence level and holding period.

Value at risk is calculated on the basis of the following assumptions:

- Potential loss refers to changes in market values
- The confidence level equals 99% for a holding period of 7 days.

The transaction-related foreign-currency risks arise with transactions with international partners which are not settled in the functional currency of the national Integralis company in question. In the year under review, a centralised foreign currency management system was implemented for Central Europe and the United Kingdom to centrally measure, monitor and hedge foreign-currency risks arising from operating business.

Foreign currency sensitivity analysis:

Consolidated earnings are particularly influenced by fluctuations in the US dollar and pound sterling relative to the euro. The following table shows the Group's sensitivity to a 10% rise or fall in the euro against the US dollar and pound sterling. The 10% shift represents the Management Board's appraisal of a reasonable possible change in exchange rates. The sensiti-

vity analysis shows the influence of the local earnings denominated in US dollars and pound sterling. A positive figure indicates an increase in consolidated earnings for the year if the euro increases by 10% against the US dollar and pound sterling. If the euro drops by 10% against the US dollar and pound sterling, this has an opposite effect of the same amplitude on net earnings for the year and equity.

	Effect of US dollar		Effect of pound sterling	
	2010	2009	2010	2009
	T€	T€	T€	T€
Hypothetical effect on earnings	+/-200	+/-98	+/-148	+/-78
Hypothetical on equity	+/-200	+/-98	+/-148	+/-78

Interest risks

As of the balance sheet date, the Company had raised external debt capital from its parent and is exposed to an interest risk as a floating rate has been agreed on these loans. The loans are denominated in both dollars and euros. Accordingly, exposure to interest risks only arises from the dollar-denominated loan of USD 3.0 million.

Liquidity risks

The Company is exposed to liquidity risks if it is unable to honour its payment obligations at short notice. Integralis limits this risk by means of effective working capital and cash management as well as access to credit facilities.

Operational liquidity management entails a cash-concentration process which pools cash on a daily basis. In this way, liquidity surpluses and requirements can be managed in accordance with the requirements of the entire Group as well as individual Group companies.

Liquidity risk is managed through short and medium-term finance planning over a period of 6 months. In this way, it is possible to secure funding for any foreseeable liquidity shortfalls. There are bilateral credit facilities in force with the banks and with NTT to ensure adequate liquidity.

The following table of maturities shows how cash outflows for settling liabilities affect the Group's liquidity position as of 31 December 2010.

T€	Total	2011	2012	2013	2014	2015	>2016
Financial liabilities*	1,760	152	152	152	152	152	848
Derivative financial instruments	50	50	–	–	–	–	–
Trade payables	27,649	27,649	–	–	–	–	–
Liabilities to affiliated companies	4,745	4,745	–	–	–	–	–
Total	**34,204**	**32,596**	**152**	**152**	**152**	**152**	**848**

* The cash outflows for settling financial liabilities comprise the non-discounted repayment and interest payments

Credit risks

A credit risk is defined as the unexpected loss of cash or income. This occurs if the customer or counterparty is unable to honour its obligations upon maturity. Integralis limits this risk by means of effective receivables management, as a part of which a regular analysis of the age structure of receivables is performed and efficient monitoring procedures installed. The credit risk from financial contracts is minimised by engaging in business solely with investment-grade counterparties. The carrying amounts of the financial assets equal the maximum credit risk. Credit risks are allowed for by means of individual adjustments.

As of the balance sheet date, there was no material clustering of credit risks; only an adjustment of T€ 135 (2009: T€194) had been made.

8.4 Stock option programmes

The Integralis Group has implemented various stock option programmes over the past years to allow employees and management to participate in the Company's success. The existing stock option programmes are described below.

8.4.1 Stock option programme VI ("SOP 2007")

This employee participation programme was established in accordance with a resolution passed at the annual general meeting of 10 May 2007. As of the balance sheet date, employees and management held 110,300 options that were issued on 27 June 2009 at € 2.31.

The stock options may be exercised no earlier than two years and no later than five years after issue. The exercise periods are from 1 July until 15 August and from 1 November until 15 December of each year. For the options to be exercised effectively, the average price of Integralis stock in XETRA trading between the 6th and 10th day of trading before the commencement of an exercise period must have risen by at least 25% over the issue price. As of 31 December 2010, the value per option on the basis of the XETRA closing price of € 8.40 on 31 December 2010 stood at € 6.09 for the options granted on 27 February 2009.

Installment	2009
Eligible persons	Employees
Allocation date	27/02/2009
Issue price	2.31 €
Closing price of Integralis stock	2.50 €
Dividend return	8.56%
Interest rate	2.22%
Volatility of Integralis	54.42%
Fair Value	**0.52 €**

The estimates of future volatility are derived from the historical price of Integralis AG stock. The historical time window is the residual term of the options.

Analysis of the number of options as of 31 December 2010:

	2010 Number	2009 Number
Options outstanding at the beginning of the period	193,400	259,000
Options granted	0	169,400
Options exercised	0	176,000
Options expired/settled	83,100	59,000
Options outstanding at the end of the period	**110,300**	**193,400**

The outstanding options break down as follows:

	2010 Number	2009 Number
Members of the Management Board and managing directors of the subsidiaries	28,300	95,400
Employees	82,000	98,000
Options outstanding at the end of the period	**110,300**	**193,400**

Personnel expenses include T€ 65 (2009: T€ 192) by way of share-based payments under the stock option programmes. The weighted average exercise price is € 2.31 on a residual term of 1.075 days for the outstanding options.

8.4.2 Stock buyback programme and treasury stock

Various stock buyback programmes were carried out from 2006 until 2008 in accordance with Section 71 (1) No. 8 of the German Stock Corporation Act. All shares were bought back on the stock market floor. The transactions complied with the trading restrictions provided for in Article 5 of Regulation (EC) No. 2273/2003 of the Commission of 22 December 2003. Regular reports on the progress of the buyback programme were published on the Company's website. In accordance with the authorisation granted at the annual general meeting, the treasury stock acquired may be used for the following purposes:

- Acquisition of all or part of other entities and to satisfy purchase-price and other payment obligations arising from such acquisition
- Redemption of shares
- Honouring of existing stock option programmes

As of 31 December 2010, Integralis AG held a total of 409,105 treasury shares, equivalent to 3.53% of its total share capital as of that date.

Analysis of treasury stock holdings:

Period	Additions	Disposal	Number of at end of month	Share in subscribed capital*
2006	1,269,949	229,551	1,040,398	9.01%
2007	239,522	430,555	849,365	7.33%
2008	512,595	211,075	1,150,885	9.93%
2009	0	741,780	409,105	3.53%
2010	0	0	409,105	3.53%
Value on 31 Dec. 2010	**2,022,066**	**1,612,961**	**409,105**	**3.53%**

* Proportion of share capital as of the end of the month in question

8.5 Other financial obligations

The operating leases primarily cover office space and company cars. Lease and rental expense came to T€ 2,223 in 2010 (2009: T€ 3,075). Income for subletting stood at T€ 754 in 2010 (2009: T€ 730).
Analysis of future lease payments and subletting income as of 31 December 2010 broken down by duration:

Duration	Operating leases T€	Subletting income T€
Less than one year	2,674	571
Between 1 and 5 years	7,236	1,508
More than 5 years	4,286	1,022
Total	**14,196**	**3,101**

2009

Duration	Operating leases T€	Subletting income T€
Less than one year	2,866	1,345
Between 1 and 5 years	7,124	5,804
More than 5 years	5,333	4,660
Total	**15,323**	**11,809**

8.6 Employees

The average headcount in the year under review stood at 501 (2009: 496) and breaks down as follows:

	2010 Number	2009 Number
Sales	159	159
Technical	284	282
Administration and management	58	59
Total	**501**	**496**

The above figure do not include the headcount of the deconsolidated company Integralis AB, which had an average of nine employees in 2010 (2009: 29 employees).

8.7 Pension obligations

The subsidiaries in the UK and the United States have established post-retirement benefit plans for staff. The expenditure recorded in the income statement for the individual plans during the year stands at T€ 283 (2009: T€ 525). The difference compared with the previous year is due to the fact that the expense attributable to Sweden is now reported within discontinued operations. At the German companies, contributions for direct insurance for employees are valued at T€ 7 (2009: T€ 7). There are no post-retirement benefit plans at any of the other companies of the Integralis Group.

8.8 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions entail the transfer of resources or obligations between related parties, regardless of whether a price is charged [IAS 24.9].
Balances and transactions between the Company and its subsidiaries are eliminated as part of consolidation and not disclosed in these notes. Details of transactions between the Group and other related parties are disclosed below:
In accordance with the definition in IAS 24, related parties include the Management Board and the Supervisory Board of Integralis AG as well as its main shareholders (NTT Communications GmbH and its affiliated companies).

Management compensation

In the year under review, the members of the Management Board received the following compensation:
In 2010, total Management Board compensation came to T€ 984 (2009: T€ 1,187). The individualised breakdown is as follows:

Breakdown of compensation in accordance with Section 314 (6) of the German Commercial Code	Georg Magg T€		Heiner Luntz** T€		Roger Friederich* T€		Total T€	
	2010	2009	2010	2009	2010	2009	2010	2009
Fixed compensation	210	200	150	–	36	150	396	350
Variable compensation	94	443	15	–	0	333	109	776
Cash settlement from stock options remuneration	36	–	–	–	0	–	36	–
Car allowance	15	11	9	–	3	11	27	22
Allowances for private pension savings	32	21	18	–	56	18	106	39
Settlement payments	–	–	–	–	310	–	310	–
Total	**387**	**675**	**192**	–	**405**	**512**	**984**	**1,187**

* Roger Friederich stepped down from Integralis AG's Management Board effective 31 March 2010
** Heiner Luntz has been a member of the Management Board of Integralis AG since 1 April 2010

In the year under review Mr Georg Magg waived his options in return for compensation.

With the exception of the share-based compensation, all the compensation components are short-term employee benefits as defined in IAS 24.16a.

Shares and options held by members of the Management Board and Supervisory Board as of 31 December 2010

Management Board	Shares	Share options
Georg Magg	–	–
Heiner Luntz**	–	–
Roger Friederich*	–	–

* Roger Friederich stepped down from Integralis AG's Management Board effective 31 March 2010

** Heiner Luntz has been a member of the Management Board of Integralis AG since 1 April 2010

Supervisory Board compensation

The members of the Supervisory Board received the following compensation during the year under review:

	2010 T€	2009 T€
Fixed compensation	50	49*
Reimbursement of expenses	35	–
Variable compensation	75	–
Total	**160**	**49**

* amount paid in 2010 for activities performed in 2009

The remuneration paid to the members of the Supervisory Board and the Management Board is described in detail in the remuneration report, which forms part of the management report.

Reportable transactions between the Group and companies affiliated with NTT Communications Deutschland GmbH

On 17 December 2010, Integralis AG and NTT Communications Deutschland GmbH entered into a contract for the transfer and assignment of shares, under which Integralis transferred all shares held in Integralis AB to NTT Communications Deutschland GmbH. In return, NTT Communications Deutschland GmbH ceded 8,363,578 out of a total of 67,286,692 shares in Secode AB to Integralis AG.

The purpose of this transfer was to consolidate business activities in Scandinavia with the aim of achieving economies of scale and improving earnings for all parties concerned.

In addition, Integralis AG and NTT Communications Deutschland GmbH entered into a master professional services agreement in the year under review. This agreement governs the provision of services by Integralis AG for NTT Communications Deutschland GmbH. The agreed remuneration takes the form of the reimbursement of costs incurred plus a mark-up of 5%. In the year under review, Integralis provided services in connection with the acquisition of Secode AB as well as ongoing accounting and the establishment of a reporting system. An amount of € 200,000 was invoiced in the year under review for consulting services in connection with the acquisition plus a further € 9,200 for the provision of further consulting services.

In April 2010, Integralis AG instructed Cirquent GmbH to provide consulting services to improve and implement processes for the execution of major processes. Cirquent GmbH is an affiliate.

In the period under review, Integralis Deutschland GmbH received and executed various contracts for the delivery of IT software and hardware from Itelligence AG, Bielefeld, In addition, Integralis Deutschland GmbH acquired a small number of goods from Itelligence AG. Itelligence AG is an affiliate.

Sales to related parties complied with arms' length principles.

The outstanding amounts are not secured and are subject to settlement in cash. No guarantees were given or received. No impairments were recognised on receivables from related parties in the period under review.

8.9 Management Board and Supervisory Board

The members of the Management Board in the year under review were:
- Georg Magg, (Chief Executive Officer), Bad Wörishofen, Germany
- Heiner Luntz, (Chief Financial Officer), Markdorf, Deutschland (from 1 April 2010),
- Roger Friederich, (Chief Financial Officer), Vaterstetten, Germany (until 31 March 2010)

The members of the Supervisory Board in the year under review were:
- Luc Loos (chairman), General Manager Verio Europe GmbH, Brakel, Deutschland
- Makoto Takei (deputy chairman), President of Digital Knowledge Co., Ltd., Tokyo, Japan
- Kazu Yozawa Senior Vice President NTT Communications Corporation, Tokyo, Japan

8.10 Exemption of subsidiaries in accordance with Section 264 (3) of the German Commercial Code

In accordance with Section 264 (3) of the German Commercial Code, Integralis Deutschland GmbH, Ismaning, and Integralis Services GmbH, Ismaning, are exempt from the provisions of the first, third and fourth subsection of the second section of the third book of the German Commercial Code and are thus absolved of the obligation to prepare notes to the financial statements, a management report and to have the financial statements for 2010 audited and published.

9. Declaration of conformity with the German Corporate Governance Code

The declaration of conformity with the Corporate Governance Code stipulated by Section 161 of the German Stock Corporation Act together with the corporate governance declaration has been issued by the Management Board and the Supervisory Board and is available for inspection by the shareholders at all times at the Company's website.

Ismaning, 23 March 2011

The Management Board

DECLARATION OF CONFORMITY OF INTEGRALIS AG FOR 2011

I. Introduction

Under Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board are required to declare once a year whether and to what extent the Company conforms to the recommendations set out in the German Corporate Governance Code and to specify which recommendations have not been applied. This declaration must be made available to the shareholders at all times.

This is an indicative English translation of the original German-language declaration issued by Integralis AG.

The declaration for 2011 applies to both 2010 and 2011.

The Management Board and the Supervisory Board have examined the recommendations contained in the German Corporate Governance Code carefully. At the Company's annual general meetings, the Company's shareholders are regularly informed of individual matters relating to corporate governance.

II. Declaration issued by the Management Board and the Supervisory Board of Integralis AG pursuant to Section 161 of the German Stock Corporation Act

On the basis of the German Corporate Governance Code (GCGC) as amended on 26 May 2010 and in accordance with Section 161 of the German Stock Corporation Act, the Management Board and the Supervisory Board of Integralis AG hereby declare that the Company conformed to the recommendations of the German Corporate Governance Code in the prevailing version for 2010 and will continue to do so in 2011 with the exception of the following:

Article 2.3.3

The company shall facilitate the personal exercising of shareholders' voting rights. The company shall also assist the shareholders in the use of postal votes and proxies

Article 2.3.1. Sentence 2:

The convening of the meeting, as well as the reports and documents, including the Annual Report and the Postal Vote Forms, required by law for the General Meeting are to be published on the company's internet site together with the agenda.

The German Corporate Governance Code recommends that the Company should assist its shareholders with personally exercising their rights at the annual general meeting (Article 2.3.3. Sentence 2). The postal voting forms should be published on the Company's internet site together with the agenda (Article 2.3.1 Sentence 2). Integralis AG offers proxies allowing the shareholders to exercise their voting rights but does not permit postal voting. For this reason, it will not be publishing any postal voting form on its internet site.

Article 3.8:

If the company takes out a D&O (directors' and officers' liability insurance) policy for the Management Board, a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member must be agreed upon.

A similar deductible must be agreed upon in any D&O policy for the Supervisory Board.

Integralis AG took out D&O cover for the Management Board and Supervisory Board in 1999. This is group insurance which also covers numerous other national and international employees. We see the reason for this cover as being to protect the Company from any risks and do not think that the motivation and responsibility of the members of the Supervisory Board in the performance of their duties is enhanced through the imposition of a deductible. Accordingly, we will not be introducing any deductible for members of the Supervisory Board.

Arrangements have since been implemented for the Management Board in accordance with the statutory requirements.

Article 4.2.3:

The compensation structure must be oriented toward sustainable growth of the enterprise. […] The Supervisory Board must make sure that the variable compensation elements are in general based on a multi-year assessment. Both positive and negative developments shall be taken into account when determining variable compensation components. [...] For extraordinary developments a pos-

sibility of limitation (cap) must in general be agreed upon by the Supervisory Board. […] In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause do not exceed the value of two years' compensation (severance payment cap) and compensate no more than the remaining term of the contract.

The contracts with the members of the Management Board were revised in 2010 and the compensation structure adjusted in the light of the stipulations contained in the Corporate Governance Code. Accordingly, the variable compensation has been split into a single-year and a multiple-year component, which also takes account of negative trends. Provision has been made for a limit and several payment caps.

Article 5.2:

The Chairman of the Supervisory Board shall also chair the committees that handle contracts with members of the Management Board and prepare the Supervisory Board meetings.

As the Supervisory Board currently only comprises three members and a committee must have no less than three members, there is no need to establish any committees at this stage. Accordingly, the Supervisory Board in its entirety performs the duties of the committees.

Article 5.3.1:

Depending on the specifics of the enterprise and the number of its members, the Supervisory Board shall form committees with sufficient expertise.

See the notes on Article 5.2 of the German Corporate Governance Code for the reasons for non-conformity to Article 5.3.1 of the German Corporate Governance Code.

Article 5.3.2:

The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.

On account of its small size, the Supervisory Board in its entirety deals with the aforementioned questions relating to accounting and risk management Similarly, it deals in its entirety with all matters concerning the auditor. The Supervisory Board comprises at least two members who hold the necessary knowledge of accounting and auditing matters.

Article 5.3.3:

The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting.

See the notes on Article 5.2 of the German Corporate Governance Code for the reasons for non-conformity to Article 5.3.3 of the German Corporate Governance Code.

Article 5.4.1:

The Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity These concrete objectives shall, in particular, stipulate an appropriate degree of female representation.

Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.

The German Corporate Governance provides specific recommendations for the composition of the Supervisory Board. Thus, among other things, it recommends the definition of an age limit for members of the Supervisory Board as well as an appropriate degree of female representation (Article 5.4.1 Paragraph 2). In addition, it states that the concrete objectives of the Supervisory Board and the status of the implementation are to be published in the Corporate Governance Report (Article 5.4.1 Paragraph 3).

The Supervisory Board of Integralis AG comprises three members. Integralis AG takes the view that personal qualifications and individual capabilities rather than gender or age should be the decisive criteria for appointments to the Supervisory Board. Application of this recommendation would restrict the shareholders' right to elect the members of the Supervisory Board. For this reason, the Supervisory Board of Integralis AG has waived the imposition of such criteria. Accordingly, Integralis AG will not be publishing the status of implementation in new appointments to the Supervisory Board in the Corporate Governance Report.

Article 5.4.3:
Proposed candidates for the Supervisory Board chair shall be announced to the shareholders.
This recommendation stipulates that the candidates for the Supervisory Board chair should be announced to the shareholders even though the Supervisory Board has generally not yet been elected at that stage. The election of the chairman of the Supervisory Board is the sole responsibility of the newly elected Supervisory Board, which elects one of its number to this position. There is no provision in the law for candidates for the Supervisory Board chair to be elected from amongst the other members of the Supervisory Board, who themselves have not yet been elected. This would effectively result in a preliminary determination with respect to the shareholders not anticipated by the law. For this reason, we do not follow this recommendation.

Article 7.1.2:
The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.
Given the heightened financial reporting requirements, the Company may deviate from this recommendation in individual cases and publish the reports within the extended periods stipulated by Deutsche Börse AG for the applicable stock market segment so as to ensure compliance with its own standards with respect to the highest possible quality of financial reporting.

Ismaning, March 2011

Integralis AG

For the Supervisory Board

Luc Loos

For the Management Board

Georg Magg

Contact persons:
Georg Magg, Heiner Luntz and Peter Banholzer (IR)
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AUDITORS' OPINION

We have audited the consolidated financial statements prepared by the Integralis Aktiengesellschaft comprising the balance sheet, the income statement, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the financial statements, together with the group management report for the business year from 1 January 2010 to 31 December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with Article 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit so that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determining of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any qualifications.

In our opinion, based on the findings of our audit, the consolidated financial statements of Integralis Aktiengesellschaft comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and, as a whole, provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 23 March 2011
KPMG AG
Wirtschaftsprüfungsgesellschaft

Maurer	Balghuber
Wirtschaftsprüfer	Wirtschaftsprüferin

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ORDINARY STOCK

Integralis stock is listed in Deutsche Börse AG's Prime Standard.

Tickersymbol:	AAGN
WKN:	515503
ISIN:	DE0005155030
Reuters:	AAGGn.DE
Bloomberg:	AAGN:GY

FINANCIAL CALENDAR FOR 2011

March 31
Annual Report 2010:
Our Annual Report 2010 will be released

May 13
Q1-Report 2011:
The quarterly Report for the first three months 2011 will be released

May 18
Annual General Meeting 2011
Convention Center, Munich

August 12
Q2-Report 2011:
The Half Year Report 2011 will be released

November 14
Q3-Report 2011:
The Nine Months Report 2011 will be released

Dezember 9
Analyst conference
Robert-Bürkle-Str. 3, 85737 Ismaning,
Conference room, 5.30 p.m.

IMPRINT

Management Board
Georg Magg, CEO
Heiner Luntz, CFO

Supervisory Board
Luc Loos (Chairman)
Makoto Takei (Deputy Chairman)
Kazu Yozawa

Shareholder Information
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The company is entered on the Munich Commercial Register number HRB 121349

Investor Relations
You can register by e-mail with ir@integralis.com to receive regular financial information on Integralis AG. Please also use this address for any other requests for financial information such as quarterly reports or answers to investment-related questions. Or contact us using the following address:

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Our latest financial reports and corporate updates are available on the Internet at **www.integralis.com**

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