syzygy

Annual Report

06

www.syzygy.net

Key Figures

Fig. 1.1, page 28
Sales
in kEUR

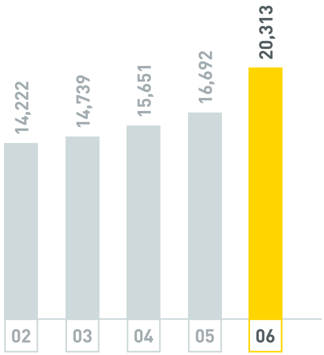


Fig. 1.2, page 29
EBIT
in kEUR

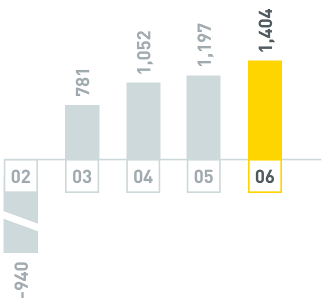


Fig. 1.3, page 29
EBIT margin
in %

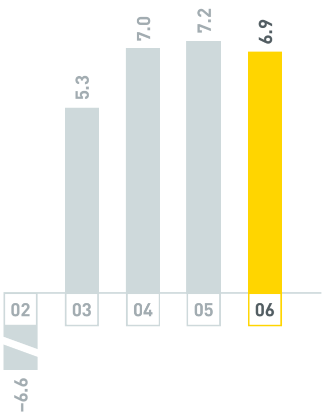


Fig. 1.4, page 30
Financial income
in kEUR

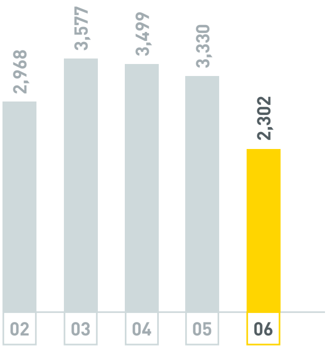


Fig. 1.5, page 30
Net income
in kEUR

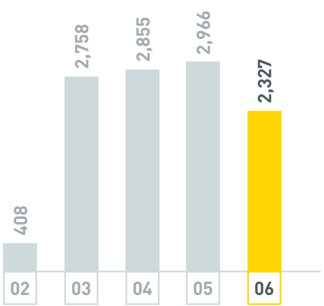
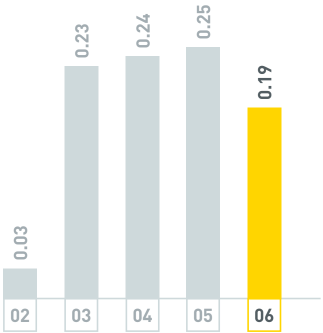
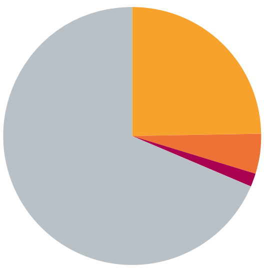


Fig. 1.6, page 30
Earnings per share
in EUR



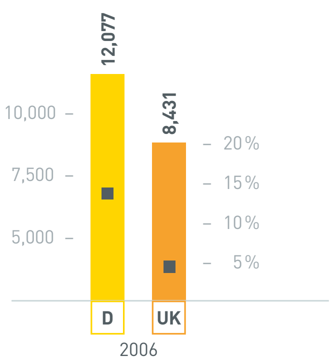
Other Financial Figures

Fig. 2.1, page 20
Shareholders' structure
as of 12/31/2006



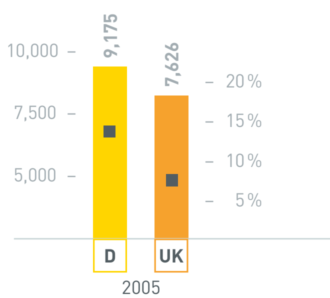
WPP	24.8 %
Marco Seiler	5.1 %
Own shares	1.5 %
Freefloat	68.6 %

Fig. 2.2, page 28
Sales, EBIT margin by region
2006



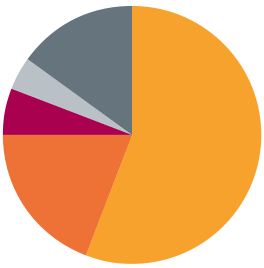
Consolidated revenues in kEUR
EBIT margin in %

Fig. 2.3, page 28
Sales, EBIT margin by region
2005



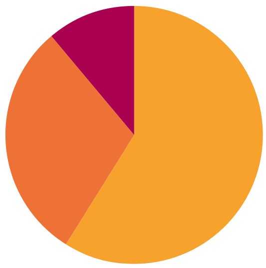
Consolidated revenues in kEUR
EBIT margin in %

Fig. 2.4, page 29
Sales allocation by vertical market 2006



Automobile	56 %
Telecommunications/IT	19 %
Financial services	6 %
Retail	4 %
Others	15 %

Fig. 2.5, page 30
Portfolio structure of cash and marketable securities as of 12/31/2006



Corporate bonds	59 %
Fixed-term deposit	30 %
Bearer bonds	11 %

Fig. 2.6, page 30
Development of operating cash flows

in kEUR

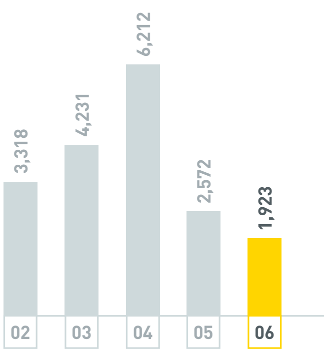


Fig. 2.7, page 31
Structure of the balance sheets
as of 12/31/2006

- Non-current assets 8 %
- Current asssets 92 %
- Current liabilities 43 %
- Equity 57 %

Fig. 2.8, page 31
Sales per employee

in kEUR

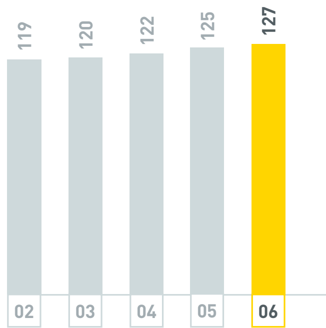
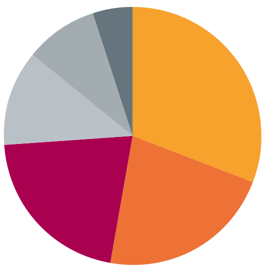


Fig. 2.9, page 31
Employees by function
as of 12/31/2006



- Technology 31 %
- Design 22 %
- Project management 21 %
- Administration 12 %
- Online marketing 9 %
- Strategy/Consulting 5 %

Content

Marco Seiler
CEO

Dear Shareholders,

The 2006 financial year met our expectations. Group sales increased by 22 per cent to EUR 20.3 million. This represents an almost threefold increase on the previous year's sales growth. We also succeeded in raising the operating income by around 17 per cent to EUR 1.4 million. This equates to an EBIT margin of 6.9 per cent. Our financial income totalled EUR 2.3 million. This means that the Syzygy Group achieved net income after taxes of around EUR 2.3 million, representing earnings per share of EUR 0.19 and meeting our expectations.

Business development

The German subsidiary achieved very high growth rates. Syzygy Deutschland increased its sales by 28 per cent compared to 2005. This positive development was the result of new client wins and increased investments by existing clients.

As announced, we achieved double-digit sales growth in Great Britain. Sales increased year-on-year by around 11 per cent. However, we still cannot be satisfied with the income situation. The EBIT margin in the reporting period came to 5 per cent and thus fell below the target of 9 per cent.

Investments in new business areas

In December 2006, we acquired a 51 per cent share in Gesellschaft für elektronischen Handel (GFEH), headquartered in Hamburg. GFEH is a leading specialist in the growth market for online marketing. The company offers services for search engine marketing, traditional online advertising and affiliate marketing. GFEH manages online budgets of clients such as comdirect Bank AG and Plus Warenhandelsgesellschaft mbH, both being among the largest online advertisers in Germany.

Furthermore, we were able to acquire Unique Digital Marketing Ltd. in March 2007 - one of the leading online media agencies in Great Britain.

Frank Wolfram
CTO

With the investment in GFEH and the acquisition of Unique, but also with the creation of our own capacities within the operating Syzygy units, we are implementing the strategy we had announced of successfully positioning ourselves in this growth market.

Expanding our service portfolio in the above-mentioned area will improve our competitive edge significantly. By offering a holistic range of services for Internet communication, we can set ourselves even further apart from traditional agencies.

Strategy for the future

Capitalising the rapidly growing market for online marketing is one element of our strategy. We are planning to expand our existing business areas, which make a considerable contribution to the sales and income development of the Syzygy Group.

Developing new forms of Internet communication in the era of Web 2.0 is a further element of our strategy. In Web 2.0, communication between brands and consumers undergoes a fundamental change. This change in the communication landscape offers opportunities for additional growth to us.

More acquisitions planned

The dynamic market environment of our industry provides interesting possibilities for inorganic growth. We are planning to acquire further attractive companies in this segment. Therefore, we will not propose a dividend for the 2006 financial year to the Annual General Meeting.

Outlook

We are very confident about the future. For the current financial year, we are expecting to double the operating income and to increase sales significantly.

We are grateful to you, our esteemed shareholders, for the trust you have placed in us. We also wish to thank our employees for their dedication and contribution to the success of our Company. Last but not least, we also extend our thanks to the members of the Syzygy AG Supervisory Board, who have provided support in word and deed at all times.

The Mangement Board

GFEHO
INTELLIGENTES ONLINE MARKETING

Since December 2006, Syzygy has held 51 per cent of the shares in GFEH. The Hamburg-based agency for online marketing is one of the best in its field. With search engine marketing, online media planning, affiliate marketing and media audits, it covers the entire range of services offered by this sector.

For years, leading travel, Internet and telecommunication, financial and retail companies have placed their trust in the competence of GFEH. This has already been proved in challenging projects for customers such as T-Mobile, comdirect, Plus and Tipp24 as well as various subsidiaries of the OTTO Group.

Promising facts

With sales of EUR 1.65 billion in 2006, online advertising is already the fourth largest advertising medium in the German market, far ahead of display advertising, trade magazines and, above all, radio. „Traditional online advertising is growing year-on-year by 42 per cent," according to the Onlinevermarkterkreis (OVK), a German market research institute, in February 2007. In January 2007 alone, sales amounted to EUR 55.17 million according to Nielsen Media Research. And these figures only include so-called traditional online advertising such as banners, skyscrapers and sponsoring. There are other forms of advertising such as keyword advertising and affiliate networks. An impressive growth market therefore, of which GFEH has been a part since the company came into existence.

For the benefit of the clients…

It is not surprising that the growth curve describes a steep upward development. Flexible campaign management and proof of its efficiency in the form of detailed reports enables the company to exercise unpayable control over its own advertising expenditure. It is only logical that payment for online advertising is mostly carried out according to performance as well, e.g. by clicking on an advert.

…and the users

Today, the preferred method of reaching especially younger target groups is by online advertising. And they react very positively to it. Many people regard keyword advertising as genuinely supportive. Adverts are superimposed precisely where they are needed. Additionally, videos running on online magazines are watched for entertainment – in the same way as listening to the radio, watching television and reading the newspaper.

The who's who of online advertising

Search engine marketing, online media planning, affiliate marketing, media audits – GFEH is proficient over the entire spectrum. In its collaboration with Plus, the agency supports the second-largest online advertiser in the mail order industry. And with the Commerzbank subsidiary comdirect, the second-largest online advertiser in the financial sector. The agency prepares media plans, negotiates favourable terms and conditions with marketing agencies, cultivates close connections with affiliates and is an expert with the subtleties of keyword advertising.

See for yourself!

The case studies for 2006 also include a GFEH project, namely comdirect. Surely the best opportunity to review the excellent work carried out by 30 experienced employees for our clients.

Future

Trade, Information, Entertainment, Exchange. Nowadays, digital life naturally belongs to real life. Where economy grows, digital economy grows twice as fast.

Syzygy is part of this development. With our projects we participate in creating the digital future. But see for yourself.

www.channel4.com/news

Channel 4 News presents
online overhaul.

Channel 4 News

Interaction

News website adopts innovative 'theme driven' and interactive approach.

A re-think based on fact not supposition
Channel 4 commissioned Syzygy to usability test and quantitatively analyse the performance of its existing website. Together, we reached the conclusion that its online brand could be more closely aligned with Channel 4 News' guiding principles of innovation, creativity, originality and distinctiveness.

A focus on themes
The focus for the new site was to capitalise on its reputation for in-depth treatments of key issues. Stories are now situated within themes which provide context, presented in an intuitive 'dashboard' interface. For example the 'war on terror' theme serves relevant material from across conventional categories such as the middle-east and UK politics.

Two-way dialogue
The second major departure is the incorporation of a two-way dialogue to build a relationship with site users. Presenters deliver opinions on the news agenda in the Newsroom Blog and users are encouraged to register comments and continue the debate.

www.mercedes-benz.de/sprinter

Our Webspecial introduces the new Sprinter and uses the web as an interactive dialogue instrument.

Mercedes-Benz

Sprinter Webspecial

The way to success

All roads lead to a dealer. Once a person's interest has been aroused, a wide range of different contact opportunities opens up.

Attention

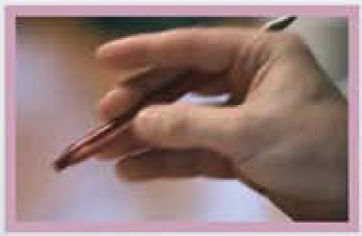
The Webspecial followed a two-stage launch concept: Phase 1 was supposed to arouse curiosity in the user. Highlights of the new Sprinter were presented and supported by an intuitive navigation. Phase 2 offered an extensive demonstration of various interesting product details: all available platforms of the Sprinter were shown, emphasizing on new features and inviting users to an interactive exploration of the vehicle.

Customer focus

Attention is always concentrated on the user. This becomes especially apparent with the Webspecial's high degree of usability. Comprehensive information material is easily accessible, several eCRM functionalities support users to get in contact with a dealer.

Performance

An interactive flash stage forms the lynchpin of the presentation. Premium images as well as integrated video and sound files meet the high quality standards of the new Sprinter: quality, safety and professionalism. This also applies to the pure logistics of the project: this system ensured that the global rollout in 28 countries and 32 languages could take place within a very short time.



www.essenttrading.com

Forward purchases,
derivatives, hedges.
Even abstract services
are tangible here.

Redesign of Essent Trading's Website

Image

Major energy trading company overhauls site to create a better online brand experience.

Global brand experience

Essent Trading overhauled its brand identity, to capitalise on its dynamism and the new site reinforces its brand values and increases its visibility within the industry.

Flux

Their world is one of constant change.
The markets exist in a state of Flux, where dynamism is the norm and where even small movements can have great significance.
This was the experience we aimed to create online. We wanted to present that life is actually made up of innumerable, inter-connected and equally important moments.

Navigation

We wanted visitors to gain an appreciation of Essent Trading's outlook, without having to describe it explicitly. Rather than telling them what to look at or where to go, we wanted to give them the opportunity to navigate around the world of Essent Trading – to embark on their own journey of discovery.

www.fleurop.de

Usability tests and performance reviews
lead us all in the right direction.

The benchmark of online shops

Partnership

For many years Syzygy has been responsible for the Fleurop online store.

Success from the lab
Right at the start during the planning phase, we laid the foundation for maximum user-friendliness: by examining the eye movement of selected test subjects in our usability lab. In this way, we were able to place the shop's top offers in an optimal position in order to create an intuitive, fluid experience for the users.

Clear guidance
Usability has its rewards. This was also confirmed by a test carried out by Computer Bild magazine early in 2007. Ten online flower shops were put to the test but only Fleurop was convincing. Our performance scored a fantastic A grade, well ahead of the competition, in the following online test categories: user friendliness, service and data security.

Profitable
We are naturally very happy to receive such awards. However, our customers' success is our greatest reward. The new interaction design has led to a considerable increase in sales. The conversion rates of fleurop.de are now in double figures – this means that the website is one of the global benchmarks for online shops.

On top

Google "direct banking" and get more than 700,000 hits. Right at the top of the list: comdirect.

Online marketing for comdirect

Online marketing XXL

As a direct bank, comdirect comes second out of all online advertisers in the financial sector.

Internet advantage
Direct banking is enormously popular. Hardly surprising, when you consider that for a financially solvent and technologically minded public, it represents the most contemporary form of private banking. The battle for this sought-after target group is appropriately hard fought, especially where reaching it is easiest – on the Internet.

Unerring
The skilful interaction of search engine marketing, banners of many different formats and affiliate marketing guarantees that the comdirect campaigns are as effective as possible. The pinpoint accuracy of our switching concept ensures that every user is targeted on their preferred platform and their special interests. And users already looking into offers receive a speedy reply to their search queries via search engine displays.

Standards
Neither is anything left to chance in terms of evaluation. Daily reports provide comdirect with detailed information regarding every advertising medium and every motive. From page impressions and contact prices through to clicks and the so-called cost per order, which indicate the exact price of each new client. In this way, the effectiveness of the individual measures can be traced and optimised at any time.

Basic share facts

ISIN:	DE0005104806
WKN:	510480
Symbol:	SYZ
Reuters:	SYZG.DE
Bloomberg:	SYZ:GR
Stock exchange centres:	Xetra, Berlin-Bremen, Düsseldorf, Frankfurt, Hamburg, Hannover, München, Stuttgart
Total numbers of shares:	12,059,900 bearer shares without par value
Thereof own shares:	184,240
Market capitalisation:	EUR 72.5 million (closing price of EUR 6,01 on 12/30/2006)
Freefloat:	68.6 per cent
Freefloat (market capitalisation):	EUR 49.7 million
Indices that include the Syzygy share:	CDAX-Gesamtindex Technology All Share Prime Software Prime All Share Prime IG IT-Services
Industry group:	IT-Services

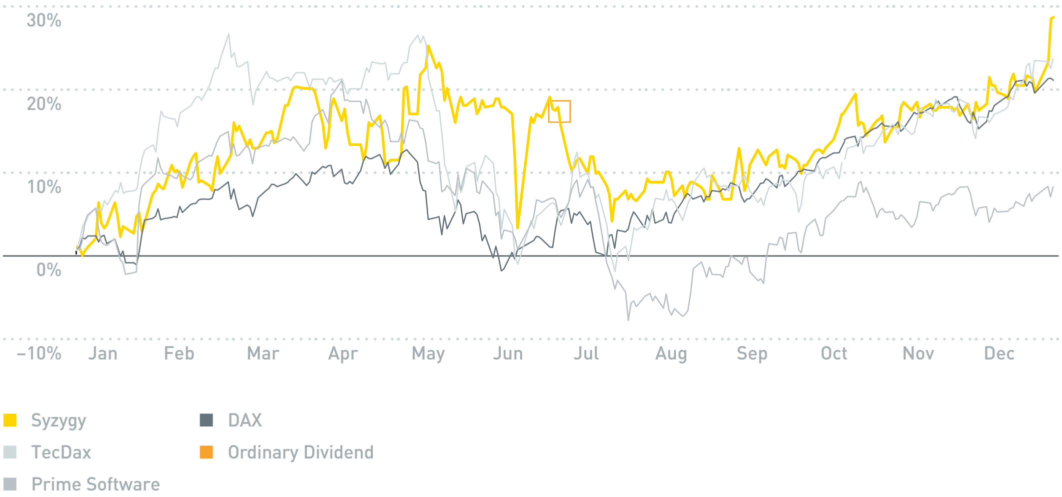
Stock statistics 2006

Ranked in TecDAX-Index as per 12/30/2006:	Position 78 (market capitalisation) Position 78 (exchange transactions)
Ordinary dividend:	EUR 0,24 (as per 07/03/2006)
Average daily turnover:	34,820 (thereof 21,051 XETRA)
Closing price on 01/02/2006:	EUR 4.67
Closing price on 12/29/2006:	EUR 6.01
Highest closing price 2006:	EUR 6.01
Lowest closing price 2006:	EUR 4.62

Designated Sponsor

Commerzbank AG

Analyst (regular Coverage)	Michael Schatzschneider (Commerzbank)
Other Analysts	Marcus Moser (GBC Research) Matthias Schrade (GSC-Research)



Stock market

In the past year, the performance of the majority of international stock markets exceeded expectations considerably, and many of these markets actually recorded double-figure growth rates.

The DAX closed the 2006 financial year with an increase of 22 per cent, and thus considerably higher than the forecasts. Comparable trends were also witnessed in other European countries and the USA. The Dow Jones achieved an increase of 16 per cent. The situation was different in Japan. In 2005, the Japanese market was still top of the class with 40 per cent growth. In the past year, the Nikkei was almost at the bottom of the league with approx. 5 per cent growth.

Following strong price adjustments in May and the pressure which the global stock markets were exposed to, many investors presumed that the long upward trend had now come to an end. It was all the more surprising then when the following months exhibited a continued upward trend which vastly exceeded the previous trend. The main factors which lent additional momentum to the capital markets were an increase in company take-overs and rising company profits.

The performance of the indices in the technology segment was also positive in 2006. The TecDax experienced growth of 25 per cent. This index has become dependent on the performance of individual solar values. The Prime Software index, which the Syzygy share can be assigned to, rose by over 8 per cent. The price of the Syzygy share itself increased by almost 29 per cent during the 2006 financial year.

Price development

The price of the Syzygy share rose continuously at the start of the year and was stimulated by the announcement of the positive business figures for 2005 and, in particular, by the results from the first quarter of 2006. Following the announcement of both a dividend and a special distribution, the first high of EUR 5.85 was reached in mid-May 2006. This represented growth of 25 per cent since the beginning of the year.

In mid-June, the share price dropped temporarily to EUR 4.85, but rose immediately to around EUR 5.40 again. Following the Annual General Meeting on June 30, 2006, and the dividend distribution of EUR 0.24, the share price fell by the same amount. Trade during the summer months was accompanied by relatively low sales and share prices around the EUR 5 mark. In early September, this was permanently exceeded by a continuous upward movement. By the end of the year, share prices of around EUR 6.00 had been achieved. This was partly due to the announcement of the special distribution of EUR 1.50, which finally took place on February 19, 2007. The Syzygy share ended the 2006 financial year with a price increase of 28.7 per cent over the beginning of the year.

Dividend

Syzygy distributed an ordinary dividend to its shareholders for the second time in succession. The dividend yield came to around 4.5 per cent, and thus vastly exceeded the yields of the DAX-listed companies, which achieved an average dividend margin of 2.5 per cent for the 2006 financial year. The comparable value for the companies in the MDAX was even lower with around 1.5 per cent.

Shareholders' structure

As of December 31, 2006, the shareholders' structure had only undergone minor changes in comparison to the previous year. The WPP Group holds 24.8 per cent of the shares. This minor deviation has its roots in the slight increase of the total number of shares. The stake held by Marco Seiler remained at 5.1 per cent. The number of Syzygy shares in free float totals 68.6 per cent. The remaining 1.5 per cent represent the Syzygy treasury stock. This is lower than the previous year as part of the purchase price for the acquisition of GFEH on December 4, 2006 was paid in treasury stock.

Abb. 2.1

Investor Relations

The Investor Relations team was bustling from one activity to the next in the past year. One-on-one meetings were held with fund managers and analysts. Furthermore, representatives of Syzygy AG attended public events such as the German Technology Conference on November 9, 2006 in Frankfurt in the interest of cultivating an ongoing dialogue with institutional investors. Interviews with journalists and regular telephone conferences were also held.

Syzygy pursues a transparent, up-to-date and objective communications policy in the interest of its shareholders. All Directors' Dealings reports and threshold disclosures are summarised at the end of the notes, starting on page 53. These reports are also available on our website at www.syzygy.net in the Investor Relations section. This section is regularly updated, enabling all interested parties to download relevant information in German and English or to subscribe to our shareholder distribution list.

Since this year, Article 10 of the German Security Prospectus Act (WpPG) has made it compulsory for all issuers to publish an "Annual document" which contains all the information which the issuer published in the previous financial year. This document is also available on the company website.

Report of Supervisory Board

Dear Shareholders,

The Supervisory Board continuously monitored the work of the Management Board and provided support and advice throughout the past financial year. The Management Board continuously provided the Supervisory Board with up-to-date, comprehensive information about recent developments as well as the economic and financial situation of the Group.

Meetings of the Supervisory Board in the period under review

A total of five meetings were held with the Management Board in the 2006 financial year, with at least one meeting per quarter. In general, all members were either present at these meetings in person or were connected by telephone. In these meetings, all the important events were discussed and necessary decisions were made. The following important topics also came up for regular discussion at these meetings: budget and business plans for the financial year, operative business development and the strategic development of the Group.

The acquisition of GFEH was closely monitored. The Supervisory Board consulted the Management Board on this topic and is convinced that this acquisition is an important step in the right direction for the Company. Following a comprehensive analysis, the Management Board enjoyed the full, unrestricted support of the Supervisory Board.

The structure of the Boards

At the Annual General Meeting on June 30, 2006, the members of the Supervisory Board and Management Board were granted a discharge. There were no changes in membership of the Supervisory Board in the 2006 financial year.

Corporate Governance

On December 1, 2006, the declaration of conformity concerning the German Corporate Governance Code in accordance with Article 161 of the German Stock Corporation Act was submitted together with the Management Board. This declaration is based on the current version of the Code dated June 12, 2006. With a few exceptions, Syzygy AG also continues to comply with the required principles. The Supervisory Board did not consider it necessary to form committees in the reporting year as the Supervisory Board still consists of only three persons.

Furthermore, this year was the first year in which it was compulsory to prepare a remuneration report which clarifies the basis for remunerating the Management Board and Supervisory Board of Syzygy AG as well as disclosing the amount and structure of the remuneration. This was published at the same time as the declaration of conformity. More information on this topic is available in "Corporate Governance at Syzygy AG" and the Notes starting on page 52.

Annual and consolidated financial statements

BDO Deutsche Warentreuhand AG, an auditing company based in Frankfurt, audited the annual financial statements, the consolidated financial statements and the management report of Syzygy AG for the 2006 financial year, and granted an unrestricted auditor's certificate to both the annual financial statements and the consolidated financial statement. These documents were then discussed and checked by the Supervisory Board and no objections were raised. The annual financial statements have thus been endorsed.

The Supervisory Board thanks the members of the Management Board and all employees for their engagement. We look forward to continue working together successfully and wish you every success for the current financial year.

Michael Mädel
Chairman of the Supervisory Board

Corporate Governance at Syzygy AG

Corporate governance entails responsible management and supervision of publicly listed stock corporations, close and trusting cooperation between the Management Board and Supervisory Board, and due consideration of shareholders' interests through transparent and prompt communication.

The Transparency and Disclosure Law, coming into force on July 26, 2002, supplemented the German Stock Corporation Act (AktG) with Article 161. Thus, the management and supervisory boards of listed companies are required to submit an annual declaration of conformity concerning the German Corporate Governance Code. The Code presents recommendations ("shall") as well as suggestions ("should", "can") aiming to increase corporate transparency. The code was amended again on June 12, 2006. The current version serves as the basis for the 2006 declaration of conformity. With a few exceptions, Syzygy AG also continues to comply with the required principles.

Remuneration report

Since the latest amendment to the code, the remuneration report has become a major element of the Corporate Governance Report. It clarifies the principles behind remuneration of the Management Board and Supervisory Board of Syzygy AG.

The remuneration system for the Management Board is specified by the Syzygy AG Supervisory Board. The overall remuneration package comprises performance-unrelated remuneration, performance-based remuneration and remuneration with long-term incentive components and other benefits. The performance-unrelated remuneration is paid each month as a basic salary. The performance-based remuneration is paid in the form of a share in profits at the end of each quarter on the basis of budget specifications laid down by the Supervisory Board.

Remuneration of the Supervisory Board is regulated in Article 6 (8) of the Syzygy AG Articles of Association and dates from a resolution of the Annual General Meeting dated June 4, 2003. In addition to being reimbursed his expenses, each member of the Supervisory Board receives remuneration consisting of a fixed and a variable component. The level of the variable element varies depending on the performance of the Syzygy share. The members of the Supervisory Board do not receive any share options or other share-based remuneration.

Additional information about remuneration of the executive bodies can be found in the notes starting on page 52.

The annual declarations of conformity, remuneration reports and relevant basic information are permanently available on the website at www.syzygy.net under Investor Relations.

Declaration of conformity concerning the German Corporate Governance Code 2006

Pursuant to Article 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of Syzygy AG declare:

I. The recommendations of the German Corporate Governance Code (GCGC) (in its version published by the Federal Ministry of Justice detailing the recommendations of the government commission "German Corporate Governance Code" as amended on June 12, 2006) have not been and will not be complied with in the following cases:

(1) The recommendation of setting a limitation ("cap") for long-term incentive schemes for remuneration of the Management Board regarding extraordinary and unforeseen developments (sec. 4.2.3 para. 2 GCGC) is not conformed to, since in issuing options the option programme of Syzygy AG is guided by market prices. The number of options conferred is set and approved by the Supervisory Board on an annual basis. Furthermore, existing option programmes cannot be adjusted retrospectively.

(2) The recommendations concerning the Supervisory Board establishing a committee with sufficient expertise (sec. 5.3.1 GCGC) as well as an audit committee (sec. 5.3.2 GCGC) were, as in the previous year, not applied, since the Supervisory Board still consists of only three members.

II. All other recommendations of the government commission "German Corporate Governance Code" as amended on June 12, 2006 are fully complied with.

Bad Homburg v.d.H., December 1, 2006

Syzygy AG

The Management and Supervisory Boards

Financial Statements 2006

For an overview of the financial figures 2006 please see the preface pages B-E

Group Management Report

I. General

The Syzygy Group (subsequently referred to as "Syzygy" or "Group") consists of the Syzygy AG and its subsidiaries. These subsidiaries are Gesellschaft für elektronischen Handel mbH (GFEH), Syzygy Deutschland GmbH, Syzygy UK Ltd. and Mediopoly Ltd.

Syzygy is an Internet agency for consulting, planning, design and implementation services for corporate Internet solutions. The range of services offered by GFEH includes search engine marketing and online media planning as well as affiliate marketing. Syzygy AG acts as the management holding company, while the subsidiaries are responsible for the consultancy and service sides of the business. Because of this relationship, the report on Syzygy AG is presented here together with the report on the Group. All comments in this report therefore refer to the Group, unless direct reference has been made to Syzygy AG.

II. Market environment

The economic environment in Europe experienced in 2006 its greatest recovery since the year 2000. Economic growth in Germany was more dynamic than the Economic Research Institutes had expected and came to 2.7 per cent last year. In Great Britain, gross domestic product also increased by 2.7 per cent. The positive performance of recent years continued here as well.

The ifo[1] economic index kept on rising over the first six months of the year, declined slightly during the summer and reached its annual height in December last year. Both investment expenditure as well as expenditure on consumption rose significantly. Exports experienced a growth rate of 12.4 per cent.

If one looks at the Western European market for information and communication technology, expenditures in this area increased by 3.1 per cent in 2006 according to the European Information Technology Observatory (EITO). The study showed that investments in Germany increased by 1.6 per cent year-on-year, while the same figure grew by 3.3 per cent in the UK.

According to GroupM[2] , the proportion of advertising expenditure that went into the Internet as a medium of communication amounted to 2.8 per cent in Germany. This corresponds to a 30 per cent increase on the previous year. The proportion in Great Britain is as high as 13.5 per cent, representing growth of close to 40 per cent.

1 ifo: Institut für Wirtschaftsforschung, Munich
2 GroupM: London, Worldwide media & marketing forecasts, december 2006

Syzygy benefited from the increased trend towards investment last year as well. The first half of the year in particular experienced organic growth, which was well above market performance. The main factors behind this growth were the IT and telecommunication sector and the financial services sector. Willingness to invest was much higher here than in the previous year.

III. Development and status of the Group

Sales growth of 22 per cent

Syzygy grew considerably in comparison with the previous year and generated total sales of EUR 20.3 million, compared to EUR 16.7 million in 2005. This represents an increase of 22 per cent.

Fig. 1.1

Syzygy Deutschland GmbH experienced particularly dynamic growth in the first six months of the reporting period thanks to strong project business with existing customers as well as the acquisition of some new clients. As a result, the company achieved sales growth of 28 per cent over the whole year.

Fig. 2.2 Fig. 2.3

Syzygy UK Ltd. generated sales growth of 11 per cent, while sales in the previous year had been declining at 4 per cent. The UK subsidiary is therefore back on the growth path again.

Fig. 2.2 Fig. 2.3

The two subsidiaries are very similar in terms of their size and structure, with the German company achieving stronger sales growth in the past two years. Syzygy Deutschland now accounts for 58 per cent of sales (previous year: 55 per cent), Syzygy UK accounting for 41 per cent. In addition, GFEH, which has been fully consolidated since December 2006, generated around 1 per cent of sales.

For Syzygy, the distribution of sales by industry continued to be in favour of clients in the automotive industry, although the other sectors grew considerably in the past financial year, while pro-ject business in the automotive sector developed at a stable level. Here, 56 per cent of sales were generated (previous year: 66 per cent). The telecommunication/IT sector remains important as well for the Group with 19 per cent of the sales (previous year: 18 per cent). With 6 per cent of sales, financial services continued to increase in importance (previous year: 5 per cent), while retail services accounted for 4 per cent, an increase on the previous year's figure of 2 percentage points. Sales that do not fall into these four core markets totalled 15 per cent (previous year: 9 per cent).
Fig. 2.4

The ten largest clients accounted for around 77 per cent of sales. In 2005, the rate was 89 per cent. The Group's customer base thus expanded considerably last year. This is mainly due to the successful creation of new customer relations.

Operating income of 6.9 per cent

Over the past financial year, Syzygy achieved an EBIT margin of 6.9 per cent, a decrease of 0.3 percentage points on the previous year. In the past financial year, the company focussed on generating growth, and this had a negative impact on profitability. It was not only Syzygy Germany but also Syzygy UK in particular that increasingly invested in acquiring new clients, with the result that some resources were not available for operating project business.
Fig. 1.3

The Company's operating income (EBIT) reached EUR 1.4 million, compared to EUR 1.2 million in the previous year. Thus, Syzygy has generated a positive operating income in every quarter of the past four years.
Fig. 1.2

Syzygy Deutschland's profitability is reflected in the EBIT margin of 13.6 per cent, whereas the UK subsidiary achieved an EBIT margin of 4.9 per cent. This translates to an overall EBIT margin of 6.9 per cent for the Group as a whole, attributable to the costs of Syzygy AG, which cannot be passed on.
Fig. 2.2 Fig. 2.3

Operating expenses and fixed-asset depreciation

Production costs as a percentage of sales were 68 per cent in the reporting period after 64 per cent in the previous year. This increase is partly due to greater use of freelance employees as well as external service providers. General administration costs fell by 3 per cent to the current level of 16 per cent as the administrative outlay remained largely constant in comparison with the other costs. Sales activities increased by EUR 0.2 million to the current level of EUR 1.8 million. Fixed-asset depreciation totalled around EUR 0.8 million, i.e. EUR 0.1 million above the previous year's figure.

Good financial income despite a difficult capital market situation

At EUR 2.3 million, financial income was much lower than the previous year's value of EUR 3.3 million. A yield of approximately 5.1 per cent of the average available liquid reserves was achieved. Last year, the rate was almost 7 per cent. The decline is attributable to the lower average available capital resources, which itself is due to the dividend distribution in the middle of the year and the acquisition of GFEH. In the third quarter of 2007, the company also started setting aside capital for the special distribution in February 2007 in order to reduce the interest fluctuation risk in relation to the upcoming distribution date. However, it was only possible to invest free funds in the short-term with an 3 to 3.5 per cent interest rate. This had a negative impact on the average overall yield of the portfolio.

Fig. 1.4

The interest rate of ten-year federal government bonds reached a value of 4.1 per cent as of December 31, 2006 (previous year: 3.5 per cent) meaning that overall the prices of the bonds decreased.

The investment strategy remains conservative and gears towards long-term profitability. In doing so, the liquid funds have been invested in various risk categories with a strong focus on corporate bonds at investment grade. The average residual maturity for all the securities amounts to approximately six years. At year-end, the investment structure consisted of 59 per cent corporate bonds, 30 per cent fixed-term deposits and 11 per cent bearer bonds.

Fig. 2.5

Income before taxes

The operating income of EUR 1.4 million and financial income of EUR 2.3 million translate into an income before taxes of EUR 3.7 million compared to EUR 4.5 million in the previous year. The decline in the financial income could only be partially offset by an improved operating income.

Net income, income taxes, earnings per share

With income taxes of about EUR 1.4 million, the net income amounted to EUR 2.3 million compared to EUR 3.0 million in the previous year. Consequently, earnings per share are EUR 0.19 after EUR 0.25 in 2005.

Fig. 1.5 Fig. 1.6

Positive operating cash flow

In 2006, the operating cash flow amounted to EUR 1.9 compared to EUR 2.6 million in the previous year. The positive operating cash flow was principally affected by the net income of EUR 2.3 million, depreciation of EUR 0.8 million and a EUR 1.2 million increase in liabilities and accrued expenses. Part of the released liquidity was linked to higher accounts receivable, which increased by EUR 0.6 million due to higher sales. Tax payments and a EUR 1.0 million decline in deferred taxes also had a negative impact on the operating cash flow in the reporting period.

Fig. 2.6

Solid balance sheet structure – changes caused by special distribution

The year-end equity ratio was 57 per cent, compared to 93 per cent in the previous year. This decline is due solely to the special distribution of EUR 18.1 million, which took place in February 2007. This figure is reported as a liability and is therefore no longer a part of equity. At EUR 43.7 million, high cash reserves and marketable securities continued to dominate the assets side of the balance sheet. This slight decline compared to the previous year is mainly the result of the dividend distribution of EUR 2.8 million.

Fig. 2.7

Investments and Research & Development

Investment in 2006 totalled EUR 0.5 million and thus EUR 0.4 million below the previous year's level. Investments were mainly made in software and hardware to optimise the in-house infrastructure and in equipment for our own employees. Because Syzygy is a service provider that does not offer its own products in that sense, it does not incur expenses for R&D.

Employees

At year-end 2006, the total number of staff had increased dramatically by 41 to 174. Staff numbers at Syzygy UK increased from 55 to 64 employees, while Syzygy Deutschland increased its staff numbers by 12 to 82. As of the balance sheet date, GFEH had a workforce of 20 and staff numbers at Syzygy AG remained unchanged at 8. On an annual average, there were 150 employees at Syzygy, 2 of whom were employed by GFEH (on average), which has been part of the Syzygy Group since December 1. During peak periods, up to 10 freelance employees were brought in to optimise capacity utilisation. These were employed primarily in the design department. On this basis, sales per employee were kEUR 127, slightly higher than the previous year's level with kEUR 125.

Fig. 2.8

The focus of activities was on the technology segment, employing 31 per cent of all staff. The design department made up 22 per cent of the workforce, project management 21 per cent, administration approximately 12 per cent, online marketing 9 per cent and strategy consulting 5 per cent.

Fig. 2.9

IV. Risks and opportunities

The identification of individual risks is subdivided into various risk categories. Risks are identified, quantified and qualitatively evaluated throughout the entire Group using an integrated management, planning and reporting system. Below there is a report of the risks that could have a significant impact on Syzygy's net worth, financial position and earnings.

The information currently available shows no indications of risks that would jeopardise the further existence of Syzygy AG and its subsidiaries as a going concern. Risk factors refer to overall economic trends, to the nature of the service sector as well as to the speed with which the market for Internet services is changing.

The majority of Syzygy's sales are generated from its business with a few selected clients. The loss of any one of these clients can only be compensated for with delays, if at all. During such a phase, it is usually not possible to reduce expenses accordingly.

Syzygy's sales are not protected by long-term contracts; rather, sales are primarily generated on the basis of individual contracts of limited duration. For this reason, budgets that rely on sales development are necessarily fraught with a high degree of risk.

Fixed price agreements form the lion's share of Syzygy's sales. Therefore, it is possible that unforeseeable losses might be incurred if the calculated project budget is exceeded unexpectedly. In addition, Syzygy assumes for each project the standard warranty and liability obligations, which may potentially lead to considerable follow-up costs per project.

The services Syzygy performs have a public impact. Consequently, if there are any quality defects in the execution of one of its projects, Syzygy may suffer widespread damage to its image. This kind of damage has the potential to have a noticeable negative impact on the future development of the Company.

The professional performance of Syzygy's employees is, to a great extent, the necessary basis for the performance of the entire company. Because of their extensive qualifications, individual employees are particularly important. If the Company is unable to retain this calibre of employees, or to continuously attract and retain new, highly qualified employees, Syzygy's success may be curbed.

Syzygy generates almost half of its sales in the UK. Exchange rate fluctuations between pound sterling and the euro may, depending on price movements, affect sales and the annual net income positively or negatively in relation to the budget. Syzygy does not enter into any hedging transactions, since, as a rule, both the net income as well as the costs are calculated in pound sterling. Thus, Syzygy is only exposed to a foreign-exchange risk in terms of the amount of its annual net income.

The investment strategy regarding liquid funds is on principle geared towards long-term profitability. In doing so, the liquid funds have been invested in different risk categories in corporate bonds and other fixed-interest securities. All fixed-interest securities are generally subject to interest rate fluctuations and default risks. In general, the increase of long-term interest rates has a negative impact, the decline of interest rates a positive impact on the prices of securities. Syzygy minimises such default risks by investing in securities at investment grade and counters interest fluctuation risks by buying securities with varying terms.

Acquisitions have been and still are part of Syzygy's corporate policy. The success of all acquisitions depends on how well the new acquisition can be integrated into the existing structure and how well the Company manages to generate the synergies which were originally the aim of the acquisition. If an acquisition cannot be successfully integrated, it may decrease in value considerably, entailing extraordinary depreciation.

V. Outlook and events since the end of the 2006 financial year

According to a study conducted by the ZenithOptimedia media agency in December 2006, advertising expenditures on the Internet will increase by 28.2 per cent in the coming year. The traditional media division has a growth rate of only 2.9 per cent. The Internet will be able to chalk up a share of 7 per cent of overall expenditure on advertising. This represents an increase of 1.2 per cent. Zenith Optimedia expects the global growth in expenditure on advertising to slow down in the coming year, but to remain at a high level. This slower increase is mainly due to the fact that companies are experiencing a transition from traditional advertising to online advertising. The latter is less expensive than campaigns in the traditional areas and can even be quantified by advertisers.

In 2007, the economic upturn of the last year will continue in Germany, according to ifo. In keeping with this, economic growth in the current year will come to 2 per cent. The increase in taxes and duties will lessen economic activity at the start of the year; however, this will not have a long-term negative effect on the year as a whole. In Great Britain, the economic research institutes predict a 3 per cent increase in gross domestic product for 2007.

The European Information Technology Observatory (EITO) forecasts that the market for information and communications technology will grow by 1.4 per cent in Germany and 2.9 per cent in the UK for 2007. GroupM expects expenditure on Internet advertising to grow by 25 per cent and 36 per cent in Germany and the UK respectively.

Syzygy is convinced that the market for Internet solutions is one of the most interesting growth markets in the professional services sector in the medium and long term.

Syzygy believes it has an excellent market position and online marketing services exhibit considerable growth potential. Syzygy has systematically strengthened its position in these growth fields through the acquisition of GFEH; in addition, new teams at Syzygy will open up opportunities in these areas. The Company's outstanding financial stability and the quality of its implemented solutions continue to fan interest in the services of the Syzygy Group.

The automotive industry remains one of the pillars of Syzygy's business. Syzygy believes that this market offers substantial possibilities for integrated Internet solutions that support sales processes.

The order backlog for the first half of 2007 is above last year's level. All in all, Syzygy expects a significant growth in sales for the 2007 financial year as well as doubling its operating income. Syzygy also predicts growing revenues and operating income in the 2008 financial year.

Bad Homburg v.d.H., March 12, 2007

Syzygy AG

The Management Board

Consolidated Balance Sheets

in kEUR	Note	Page	2006	2005
Non-current assets				
Goodwill	(3.1)	(44)	3,243	0
Intangible and fixed assets	(3.2)	(44)	976	1,279
Other non-current assets	(3.3)	(44)	128	125
Total non-current assets			**4,347**	**1,404**
Deferred tax assets	(3.4)	(44)	**70**	**56**
Current assets				
Cash and cash equivalents	(3.5)	(45)	5,982	1,560
Marketable securities	(3.5)	(45)	37,673	44,853
Accounts receivable, net	(3.6)	(45)	4,547	3,233
Prepaid expenses and other current assets	(3.7)	(45)	1,912	1,944
Total current assets			**50,114**	**51,590**
Total assets			**54,531**	**53,050**

in kEUR	Note	Page	2006	2005
Equity				
Common stock*	(3.8.1)	(46)	12,060	12,021
Additional paid-in capital	(3.8.3)	(46)	17,994	35,994
Treasury stock	(3.8.4)	(46)	-858	-1,603
Accumulated other comprehensive income	(3.8.5)	(47)	-121	410
Retained earnings	(3.8.6)	(47)	1,922	2,458
Minority interest	(3.8.7)	(47)	60	0
Total equity			**31,057**	**49,280**
Deferred tax liabilities	(4.6)	(50)	**60**	**346**
Current liabilities				
Accounts payable and accrued expenses	(3.10)	(48)	4,090	1,495
Customer advances			238	389
Tax accruals and liabilities	(3.11)	(48)	637	1,150
Other current liabilities	(3.12)	(48)	18,449	390
Total current liabilities			**23,414**	**3,424**
Total equity and liabilities			**54,531**	**53,050**

* Contingent capital kEUR 1,140 (Prior year: kEUR 1,178
The accompanying notes are an integral part of the financial statements.

Consolidated Income Statements

in kEUR	Note	Page	2006	2005
Revenues	(4.1)	(49)	**20,313**	**16,692**
Cost of revenues			-13,899	-10,718
Sales and marketing expenses			-1,823	-1,651
General and administrative expenses			-3,276	-3,173
Other operating income	(4.2)	(50)	89	47
Operating income			**1,404**	**1,197**
Financial income, net	(4.5)	(50)	2,302	3,330
Income before taxes			**3,706**	**4,527**
Income taxes	(4.6)	(50)	-1,379	-1,561
Net income			**2,327**	**2,966**
Income share to other shareholders			60	0
Income share to shareholders of Syzygy AG			**2,267**	**2,966**
Earnings per share (basic in EUR)	(5.1)	(51)	**0.19**	**0.25**
Earnings per share (diluted in EUR)*	(5.1)	(51)	**0.19**	**0.24**

* Earnings per share – fully diluted – correspond to a total number of shares of 11,749 thsd.
(previous year: 12,409 thsd.) and are calculated under the assumption that all outstanding options were exercised.

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

in kEUR	2006	2005
Income from continuing operations	2,327	2,966
Adjustments to reconcile income from continuing operations to net cash provided by operating activities		
– Stock-based compensation expense	-45	-21
– Depreciation and amortization	789	669
Changes in operating assets and liabilities		
– Accounts receivable	-616	-890
– Prepaid expenses and other current assets	46	165
– Customer advances	-324	-196
– Accounts payable and accrues expenses	1,238	117
– Tax accruals and payables, deferred taxes	-991	-243
– Other current liabilities	-501	5
Cash flow provided by operating activities	**1,923**	**2,572**
Investments in fixed assets	-446	-909
Investments in financial assets	-1,034	0
Changes in other non-current assets	-3	22
Purchases of marketable securities	-16,298	-10,949
Proceeds from sale of marketable securities	23,053	13,884
Cash flow used in investing activities	**5,272**	**2,048**
Capital increase from employee stock option plan	136	39
Dividend	-2,803	-2,642
Treasury stock	0	-1,603
Cash flow from financing activities	**-2,667**	**-4,206**
Exchange rate differences	-106	-240
Cash flow total	**4,422**	**174**
Cash and cash equivalents at the beginning of the year	**1,560**	**1,386**
Cash and cash equivalents at the end of the year	**5,982**	**1,560**

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Equity

in kEUR	Common stock	Additional paid-in capital	Treasury stock	Comprehensive income	Accumulated other compre-hensive income	Retained earnings	Minority interest	Total equity
January 1, 2005	**12,011**	**35,986**	**0**		**1,519**	**2,134**	**0**	**51,650**
Net income				2,966		2,966		2,966
Foreign currency translation adjustment				-240				
Unrealised gains on marketable securities				-869				
Other comprehensive income				-1,109	-1,109			-1,109
Comprehensive income				1,857				
Stock-based compensation expense for the period		-21						-21
Treasury stock			-1,603					-1,603
Dividend						-2,642		-2,642
Capital increase from employee stock option plan	10	29						39
December 31, 2005	**12,021**	**35,994**	**-1,603**		**410**	**2,458**	**0**	**49,280**
January 1, 2006	**12,021**	**35,994**	**-1,603**		**410**	**2,458**	**0**	**49,280**
Net income				2,267		2,267		2,267
Unrealised gains on marketable securities				-106				
Unrealised gains on marketable securities				-425				
Other comprehensive income				-531	-531			-531
Comprehensive income				1,736				
Stock-based compensation expense for the period		-45						-45
Capital reduction		-18,052						-18,052
Treasury stock			745					745
Dividend						-2,803		-2,803
Capital increase from employee stock option plan	39	97						136
Minority interest							60	60
December 31, 2006	**12,060**	**17,994**	**-858**		**-121**	**1,922**	**60**	**31,057**

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements for the year 2006

1. Principles and methods

1.1 General

The consolidated financial statements of Syzygy AG (collectively „Syzygy“, „Syzygy Group“ or „Company“) for the year 2006 have been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – as they are to be applied in the European Union and correspond to the principles contained in Art. 315a of the German Commercial Code.

1.2 Business activity

As an Internet agency, Syzygy provides comprehensive consultancy services from its offices in Germany and the United Kingdom for large European enterprises and organizations. The range of services pertaining to interactive marketing measures involves consultancy, project planning, design and technical implementation including necessary processes up to market launch. The range of services offered by GFEH includes search engine marketing and online media planning as well as affiliate marketing. The Group develops and implements strategies and solutions that enable its clients to communicate and interact with their business partners, employees and customers over the Internet.

1.3 Scope and principles of consolidation

The consolidated financial statements are based on the annual financial statements of the companies consolidated in the Group, which were prepared in accordance with the standardised IFRS regulations. The closing dates of these companies correspond to the closing date of the Group.

As per December 31, 2006, the following companies were included in the consolidated financial statements of Syzygy AG and fully consolidated:

(1) Gesellschaft für elektronischen Handel mbH (GFEH), Germany
(2) Mediopoly Limited, United Kingdom
(3) Syzygy Deutschland GmbH, Germany
(4) Syzygy UK Limited, United Kingdom

Syzygy acquired 51 per cent of the shares in the company named under (1), GFEH. This acquisition is backdated to November 1, 2006. Control of the financial and corporate policy passed to Syzygy on December 4, 2006. To simplify matters, this company is incorporated into the consolidated financial statements and fully consolidated as per December 1, 2006. The capital is consolidated in accordance with IFRS 3 using the purchase method. The investment book values are offset against the subsidiary's equity at the time of acquisition. For this purpose, assets, liabilities and contingent liabilities are shown at their current fair value. Residual differentials are shown as goodwill in the balance sheet. With this acquisition, liquid assets of the Group increased by kEUR 1,504, accounts receivable by kEUR 698, fixed assets by kEUR 45 and other non-current assets by kEUR 14. Furthermore, accounts payable of kEUR 1,006 were included as well as other current liabilities of kEUR 864. Equity capital amounted to kEUR 40. The difference between the acquisition price of kEUR 3,283 and equity capital refers to goodwill of kEUR 3,242. One part of the acquisition costs (kEUR 2,410) was paid in cash, leading to a net reduction of liquid assets of kEUR 906. The other part of the acquisition costs was settled by granting Syzygy shares from the treasury stock. The market value of these shares was kEUR 873.

The companies listed from (2) to (4) are fully owned by Syzygy AG. The first-time consolidation of these companies took place in line with US-GAAP accounting principles. In May 2000, all shares of Mediopoly Limited, the sole shareholder of Syzygy UK, and Syzygy Deutschland GmbH were combined to Syzygy AG by share exchange. In accordance with US-GAAP (APB Opinion No. 16 "Business Combinations"), the merger was reported in the balance sheet using the "Pooling of Interest Method", meaning the shares were transferred at current book value. Thus, no goodwill was generated. Following conversion to accounting on the basis of IFRS, the regulations contained in IFRS 3 were applied. There was no impact on the accounting of the participations or on associated goodwill. Regarding the elimination of intercompany accounts, receivables and payables between all consolidated subsidiaries are accumulated. Considerung the consolidation of expenses and revenues, the intercompany revenues are charged against the corresponding expenditures. The assets from intercompany trade contained in fixed assets and inventories were corrected for the interim results. The income tax effects are taken into account and deferred taxes are deployed in the consolidation procedures affecting income.

1.4 Use of assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that may affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates were especially applied in evaluating accruals and provisions as well as recievables from work in progress. Actual results could differ from those estimates. Assumptions and estimates are always made on the basis of the up-to-date information available at the time in question. If the outcome deviates from expectations, the relevant items will be adjusted if necessary.

1.5 Foreign currency translation

The notion of the functional currency is applied to the translation of financial statements of consolidated companies prepared in foreign currencies. Since the foreign subsidiaries are economically independent, in accordance with IAS 21, the assets and liabilities are translated using the exchange rate at closing date, whereas income and expenditures are translated at the average annual exchange rate. The resulting difference is charged against equity and does not affect income.

In the individual financial statements of the consolidated companies, which are prepared in local currency, monetary items in foreign currency are valued at the end of the year in accordance with IAS 21 using the exchange rate at closing date. Any resulting currency gains or losses directly affect income.

1.6 Standards, interpretations and amendments issued, but not yet adopted

In the period under review, the IASB issued several standards, interpretations and amendments that are not compulsory to adopt at this time, since they have not been translated by the European Union into European law yet.

The following items were issued:

IFRS/IFRIC	Content	Effective for annual periods beginning on or after
IFRS 7	Financial Instruments: Disclosures	January 1, 2007
IFRS 8	Operating Segments	January 1, 2009
IFRIC 7	Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies	March 1, 2006
IFRIC 8	Scope of IFRS 2	May 1, 2006
IFRIC 9	Reassessment of Embedded Derivates	June 1, 2006
IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	March 1, 2007
IFRIC 12	Service Concession Arrangements	January 1, 2008

The initial application of IFRS 7 could lead to additional explanations within the notes. Possible impacts of IFRS 8 are examined at the moment. The initial application of all other items should not have a material impact on the results of operations, financial positions or cash flows.

2. Significant accounting policies

2.1 Intangible and fixed assets

Intangible assets are valued and reported in the balance sheet in accordance with IAS 38. Consequently, acquired intangible assets are valued at cost and depreciated using the straightline method over a period of three years, if they have a certain useful life. Otherwise, there is no such depreciation.

Intangible assets which were taken over during acquisition of a company are shown at their market value at the time of the acquisition in accordance with IFRS 3. Impairment losses are treated as unscheduled depreciation. If assets which have already undergone unscheduled depreciation experience an increase in market value, this is recorded as reinstatement of the original value. However, this does not apply to goodwill.

Fixed assets include leasehold improvements and other equipment and are shown at acquisition cost less scheduled accumulated depreciation. Leasehold improvements are depreciated on a straight-line basis over their estimated useful life or the term of the lease, whichever is shorter. Operational and office equipment is depreciated on a straight-line basis, normally over a period of three or four years. Low-value assets are fully depreciated in the year of acquisition, whereas the disposal is assumed to be in the same year. Maintenance and minor repairs are charged to operations as incurred.

If unscheduled impairment losses for fixed assets incur, a decision needs to be made in accordance with IAS 36 as to whether the fixed assets concerned are to be depreciated to their market value or fair value. This is the case if the net realisable value is lower than the book value. If reasons for unscheduled depreciation with regard to fixed assets cease to exist, the original values are reinstated.

2.2 Financial instruments

Financial instruments include liquid assets as well as securities. Liquid assets include cash, current bank accounts and interest bearing time-deposits with maturities under 3 months.

When first reported, securities are valued at acquisition cost. They are subsequently reported at their current market value. In accordance with IAS 39, securities are classified as available-for-sale. Unrealised gains and losses are reported in accumulated other comprehensive income, which is a separate component of equity taking deferred taxes into account. Realised gains and losses from such securities are included in the income statements when the investment is sold or matures.

Changes in interest rates for fixed-interest bearing securities may lead to a fluctuation of market prices subject to duration. However, no hedging activities are concluded.

2.3 Accounts receivable

Accounts receivable are reported at the time of revenue recognition or the consideration submitted. Individual recognisable risks due to valuation allowances are taken into account. They are stated at their nominal value, if no allowances are necessary. Receivables with a term to maturity of more than one year are discounted in line with the market. Payments from fixed price projects, which are realised according to the percentage of completion method (POC) are also shown in accounts receivable (see also section 2.9 Revenue recognition).

2.4 Treasury stock
According to IAS 32, treasury stock is not to be capitalised, but reported as a deduction from equity. In this respect, the extent of the share buy-back reduces equity. The total acquisition costs for the acquisition of treasury stock are therefore reported as an item to be deducted from equity.

2.5 Stock-based compensation
Syzygy applied a stock-based compensation plan for its employees with the objective of attracting and retaining personnel as well as promoting the success of the Group by providing the opportunity to acquire shares. In accordance with IFRS 2, the expenses for the stock option plan are to be recorded at fair value at the date of grant. The fair value of the Company's stock-based awards was estimated as of the date of grant using the Black-Scholes option pricing method.

2.6 Deferred taxes
In accordance with IAS 12, calculation of deferred taxes includes calculating tax deferments on different valuations of assets and liabilities in the accounts prepared for financial reporting purposes (IFRS) and the accounts prepared for tax purposes as well as on consolidation procedures and recoverable tax loss carry forwards. Accordingly, deferred tax assets are reported if the gain in the accounts prepared for financial reporting purposes is lower that the corresponding tax accounts for the period due to temporary differences. In contrast, deferred tax liabilities are determined if the gain in accordance with IFRS is higher than in the corresponding tax accounts for the period due to temporary differences.

Deferred tax assets and liabilities are shown separately in the balance sheet for each tax subject. In case there are both deferred tax assets and liabilities, these have been offset. Deferred taxes are valuated at the statutory tax rates applicable at closing date or for the future.

2.7 Accounts payable and accrued expenses
In accordance with IAS 39, current liabilities are shown at the time of acquisition at the amounts to be paid, which approximates their market value. Non-current liabilities are valuated at continued acquisition cost. They are determined according to the effect interest method by discounting the amount payable.

In accordance with IAS 37, accrued liabilities are only recorded if an obligation to a third party is incurred, the claim is probable and the amount payable can be reliably assessed. In determining accrued liabilities, all applicable costs are taken into consideration.

2.8 Other assets and liabilities
Other assets and liabilities are shown in the balance sheet at nominal value or at the amount to be paid.

2.9 Revenue recognition
Primarily, revenues are obtained from consulting services as well as production of content for digital media. Revenue is realised when the payment is generated in accordance with the terms of the contractual agreement, the payment is reasonably assured and the invoice is fixed or determinable.

Consulting services on a fixed-price basis are realised according to percentage of completion method in line with IAS 11 and IAS 18. The percentage of completion of a project is calculated by the ratio of realised man days to planned man days. Project plans are forecasted and updated on a regular basis. Provisions for estimated losses on contracts are established in the period such losses are determined.

In exceptional cases, the Company is compensated only when a project is completed. Here, the Company recognises revenues when it has performed all substantial project duties. In some of these projects milestones are specified. Then, revenue attached to a particular milestone is recognised when the Company has finished all duties related to the milestone and the client has accepted the performance.

Revenue for media services performed during publicity campaigns for customers are generally recorded as net revenues in the consolidated income statements. Net revenues are the difference between the total amount, which the client is charged and direct costs for media purchases. Revenues are usually generated with the appearance of the campaign in question.

Revenues from software licenses are recognised when software is delivered in accordance with IAS 25, when a valid contract exists, the software is delivered in full, the license fee is fixed and payment is likely to be settled and determinable. Gains from are interests and comparable positions are deferred on an accrual basis.

2.10 Advertising expenses
Advertising expenses are directly included in the income statements.

2.11 Income taxes
The actual income taxes are determined on the basis of the national tax rules applicable in the countries in which the respective company operates. In accordance with IAS 12, calculation of deferred taxes includes calculating tax deferments on different valuations of assets and liabilities in the accounts prepated for financial accounting purposes (IFRS) and the accounts prepared for tax purposes.

2.12 Earnings per share
Earnings per share were calculated in accordance with IAS 33, and correspond to the total net income of the Group divided by the weighted average number of issued shares for the period. The acquisition of treasury stock reduces the number of outstanding shares accordingly.

In addition to the outstanding shares, all outstanding options which have not been exercised and whose intrinsic value during the reporting period was positive must be taken into consideration in calculating the diluted earnings. The intrinsic value is the difference between the current market value and the exercise price of an option. The number of additional shares to be taken into consideration from this is calculated by offsetting the proceeds generated by exercising the shares against the market value of the shares. The difference between these two figures, expressed in number of shares at market value, corresponds to the dilution effect which would have arisen if these options had been exercised.

3. Notes on the balance sheet

3.1 Goodwill

The balance sheet figure for goodwill of kEUR 3,243 reflects the acquisition of GFEH on December 4, 2006. This corresponds to the differential between the acquisition costs for the merger minus identifiable assets, liabilities and contingent liabilities of the company acquired. These figures were shown at their current market value.

3.2 Intangible and fixed assets

Development of fixed assets in the 2006 financial year was as follows:

in kEUR	Software	Leasehold improve-ments	Operational and office equipment*	Total
Acquisition costs January 1, 2006	**460**	**798**	**2,827**	**4,085**
Additions	48	11	432	491
Disposals	-2	0	-139	-141
Additions GFEH, net	0	0	47	47
Exchange rate differences	4	8	16	28
Acquisition costs December 31, 2006	**510**	**817**	**3,183**	**4,510**
Accumulated depreciation January 1, 2006	**299**	**559**	**1,948**	**2,806**
Additions	113	107	569	789
Disposals	0	0	-111	-111
Additions GFEH, net	0	0	26	26
Exchange rate differences	1	56	-33	24
Accumulated depreciation December 31, 2006	**413**	**722**	**2,399**	**3,534**
Net book value December 31, 2005	**161**	**239**	**879**	**1,279**
Net book value December 31, 2006	**97**	**95**	**784**	**976**

* Operational and office equipment mainly refers to hardware and office fittings.

3.3 Other non-current assets

Other non-current assets contain rent deposits of kEUR 128 (previous year: kEUR 125).

3.4 Deferred tax assets

Due to different valuations of Syzygy UK's fixed assets, deferred tax assets amount to kEUR 70 (previous year: kEUR 56).

3.5 Financial instruments

Cash, current bank accounts and interest-bearing time deposits with maturities under 3 months are shown in the table below:

in kEUR	2006	2005
Cash and cash equivalents	5,982	1,560

In the period under review kEUR 1,864 are attributable to GFEH.

All securities are classified as „available-for-sale" and, therefore, disclosed at market value. As can be seen in the following table, their market value as at December 31, 2006, was kEUR 188 below acquisition costs. This figure is the balance from unrealised gains of kEUR 1,301 and unrealised losses of kEUR 600. The prior year amount was kEUR 701 above acquisition costs. The unrealised gains – after deferred taxes – are reported under "Other comprehensive income" at the statements of changes in equity.

in kEUR	Marketable securities
Historical costs	37,861
Unrealised gains	260
Unrealised losses	-448
Book value/Market value 2006	37,673
Book value/Market value 2005	44,853

The following table shows the maturities of securities as per December 31, 2006:

in kEUR	Handelbare Anleihen
< 1 year	7,103
1-5 years	8,634
5-10 years	21,936
Indefinite	0
Total	**37,673**

3.6 Accounts receivable
These items comprise the following:

in kEUR	2006	2005
Accounts receivable	4,191	2,715
Unbilled receivables	356	518
	4,547	**3,233**

Accounts receivable include receivables of kEUR 838 that are attributable to GFEH.

Receivables with recognisable collection risks are provided for by adequate provisions, while uncollectible receivables are written off. No such provisions had to be made in 2005 and 2006.

3.7 Prepaid expenses and other current assets
Prepaid expenses and other current assets as of December 31, 2006 and 2005 consist of the following:

in kEUR	2006	2005
Interest receivables	928	1,356
Tax receivable	457	170
Prepaid expenses	440	306
Other	87	112
	1,912	**1,944**

Prepaid expenses include advance payments for rent, digital services and insurance.

3.8 Equity

3.8.1 Common stock

As of December 31, 2006, common stock comprised 12,059,900 ordinary no-par bearer shares. These shares have a stated value of EUR 1.00, 184,240 of these shares belonged to treasury stock. In 2006, common stock of the Company increased be EUR 38,550 with the exercise of 38,550 stock options.

The shareholders' structure of the Company as of December 31, 2006 was as follows:

in thsd.	Shares	%
WPP Group (UK) Ltd. (directly and throughindirect subsidiaries)	2,991	24.8
Marco Seiler	612	5.1
Free float	8,273	68.6
Treasury stock	184	1.5

3.8.2 Authorised and contingent capital

At the Annual General Meeting on June 30, 2006, the resolution to possibly increase common stock was renewed. Accordingly, the Management Board is authorised, subject to the approval of the Supervisory Board, to issue additional ordinary no-par bearer shares, which may be issued until the period ending June 2011. The authorised capital totals kEUR 6,000. During the 2006 financial year, no such shares were issued.

Furthermore, the Management Board was authorised to issue a maximum of 1,200,000 additional shares (contingent capital) in conjunction with the employee stock-based compensation plan. In 2006, 38,550 options were exercised (previous year: 10,550 options). In the period under review, no further share options entitling the conversion into the same number of Syzygy shares were issued to employees of the Syzygy Group companies.

3.8.3 Additional paid-in capital

The additional paid-in capital emerged from proceeds of the IPO on October 6, 2000, less the direct costs of the IPO.

On June 30, 2006, the Annual General Meeting resolved to increase and then decrease capital to the extent of EUR 1.50 per share, to be taken from additional paid-in capital. This will reduce additional paid-in capital by kEUR 18,052

In 2006, additional paid-in capital increased by kEUR 97 due to the exercise of options. Expired options led to a decrease of kEUR 45. In 2005, additional paid-in capital increased by kEUR 8, net.

3.8.4 Treasury stock

On June 2, 2005, the Annual General Meeting authorised the Management Board to acquire a maximum of 10 per cent of the Company's outstanding shares until December 2, 2006. This resolution was renewed on June 30, 2006, at the last Annual General Meeting and is valid until December 30, 2007. The treasury stock does not entitle the Company to any dividend or voting rights. Syzygy ist authorised to re-sell or call in treasury stock or to offer treasury stock to third parties in the course of acquiring companies.

During the acquisition of the shares in GFEH, part of the purchase price was paid with 160,000 of the company's treasury stock. On December 31, 2006, 184,240 remained in treasury stock. This equates to a 1.5 per cent share of the common stock.
The extent of the share buyback is shown as a separate item to be deducted from equity.

3.8.5 Other comprehensive income

As per December 31, 2006, other comprehensive income amounted to kEUR -121 (previous year: kEUR 410) and can be attributed mainly to losses from currency translations and unrealised gains from securities.

3.8.6 Retained earnings

Dividend distributions are based upon the distributable equity disclosed in the annual financial accounts of Syzygy AG according to German-GAAP. On June 30, 2006, the Annual General Meeting approved a dividend of EUR 0.24 per share for the 2005 financial year. As a result, distributable earnings decreased by kEUR 2,803 on July 3, 2006. The remaining retained earnings of kEUR 526 were reported in the profit brought forward. As of December 31, 2006, the individual financial statements of Syzygy AG recorded retained earnings of kEUR 3,532. The consolidated financial statements of the Group amounted to kEUR 1,922.

3.8.7 Minority interest

Minority interest, amounting to kEUR 60, are attributable to other shareholders of GFEH.

3.9 Employee stock option plan

On September 13, 2000, the Company's shareholders approved an employee stock option plan. According to this plan, each stock option may be exercised in exchange for one share of Syzygy AG over a maximum of 7 years subject to vesting requirements.

The table below summarises the information on tranches assigned to date and the outstanding options as of December 31, 2006.

40 per cent of options may be exercised two years after being granted, 30 per cent after 3 years and the remaining 30 per cent after 4 years.

As of December 31, 2006, 310,151 options were exercisable. In the financial year 2006, a total of 38,550 options were exercised; of these 33,700 options at the exercise price of EUR 3.42 and 4,850 options at EUR 4.26. Moreover, 37,651 options expired as a result of employees leaving the Company. Within the last financial year, no additional stock options were granted. In 2006, recording the stock option plan led to an income of kEUR 45 (previous year: kEUR 21).

Year of grant	Exercise price in EUR	Fair value at grant date in EUR	Number of options granted in thsd.	Number of options expired/returned/exercised in thsd.	Number of options outstanding in thsd.	Weighted-average exercise price in EUR	Weighted-average remaining contractual life in years
2000	22.00	21.60	1	1	0	22.00	0.8
2000	14.00	12.60	77	68	9	14.00	0.8
2000	12.00	11.83	378	242	136	12.00	0.8
2001	5.21	4.74	154	104	50	5.21	1.3
2002	3.42	3.11	166	122	46	3.42	0.4
2003	4.26	3.90	147	78	69	4.26	1.3
					310	**7.97**	**0.9**

3.10 Accounts payable and accrued expenses

As at December 31, 2006 and 2005, accounts payable and accrued expenses consisted of:

in kEUR	2006	2005
Accounts payable	2,533	348
Other accruals:		
– Obligations towards other parties	718	348
– Personnel-related accruals	441	323
– Investor Relations and financial reporting	224	269
– Other	174	207
	4,090	**1,495**

Accounts payable contain kEUR 1,444 that are attributable to GFEH. Other accounts payable include accruals for anticipated losses amounting to kEUR 50 and refer to subleased and vacant office premises in London and Offenbach. These are dependent on the possibility of future subleases.

The table below presents the development of the book values of different accrual groups:

3.11 Tax accruals and liabilities

Tax accruals and liabilities are shown in the following table

in kEUR	2006	2005
German income taxes	354	50
German VAT	131	725
English tax liabilities	152	375
	637	**1,150**

The German income taxes of kEUR 354 are solely attributable to GFEH.

3.12 Other liabilities

Other liabilities consist of the following:

in kEUR	2006	2005
Special distribution	18,052	0
Social insurance and salary taxes	98	333
Other	299	57
	18,449	**390**

In general, this item refers to liabilities for social insurance and salary taxes. The single item of kEUR 18,052 presents the special distribution of EUR 1.50 per share transacted on February 19, 2007 and the corresponding decrease of the paid-in capital. 'Other' include kEUR 267 of capital gains that are attributable to the minority shareholders of GFEH.

Accruals as per December 31, 2006 in kEUR	Book value 1/1/2006	Usage	Allocation	Book value 12/31/2006
Obligations towards other parties	348	-348	718	718
Personnel-related accruals	323	-323	441	441
Investor Relations and financial reporting	269	-269	224	224
Other	207	-207	174	174
	1,147	**-1,147**	**1,557**	**1,557**

4. Notes on the income statement

4.1 Revenues and segment reporting
The Company's businesses operate in the European market. Accordingly, segments refer to the two operating companies in Germany, Syzygy Deutschland GmbH and GFEH, and Syzygy UK Ltd. in United Kingdom. These companies are managed locally and, to a major extent, operate in their local markets independently. Consequently, the Syzygy Group's segment reporting in accordance with IAS 14 follows geographical criteria.

The holding company (Syzygy AG) serves all operating entities and, therefore, is segregated. United Kingdom consolidates Syzygy UK Ltd. and Mediopoly Ltd., as these two companies are to be viewed as one entity. The different segments apply the same accounting principles as the consolidated entity. Transactions between segments have been eliminated.

Syzygy generated about 77 per cent of revenues with its ten largest customers.

Segment information 12/31/2006

in kEUR	Germany	United Kingdom	Central functions and consolidation	Total
Revenues	12,077	8,431	-195	20,313
Operating income (EBIT)	1,640	414	-650	1,404
Financial income	14	6	2,282	2,302
Net income	1,610	210	507	2,327
Fixed assets	577	378	21	976
Capital expenditures	273	165	8	446
Depreciation	495	285	9	789
Current assets	5,379	2,606	42,129	50,114

Segment information 12/31/2005

in kEUR	Germany	United Kingdom	Central functions and consolidation	Total
Revenues	9,175	7,626	-109	16,692
Operating income (EBIT)	1,307	583	-693	1,197
Financial income	-10	22	3,318	3,330
Net income	1,297	400	1,269	2,966
Fixed assets	755	502	22	1,279
Capital expenditures	678	211	20	909
Depreciation	385	274	10	669
Current assets	1,949	2,776	46,921	51,646

4.2 Other operating income/expenses, net

Other operating income/expenses for 2006 consist of the following:

in kEUR	2006	2005
Employee usage of company cars	44	44
Release of provisions	12	0
Other	33	3
	89	**47**

4.3 Cost of purchased services

The cost of purchased services mainly contains expenses for freelance workers and outsourced services:

in kEUR	2006	2005
Cost of purchased services	4,249	2,245

4.4 Personnel expenses

In the years 2006 and 2005, Personnel expenses, which are included in various items in the consolidated income statements, were as follows:

in kEUR	2006	2005
Salaries and wages	9,087	8,236
Social security	1,275	1,152
	10,362	**9,388**

In 2006, the average number of full-time employees in the Syzygy Group was 150 (previous year: 134 employees).

4.5 Financial income

in kEUR	2006	2005
Interest and related income	2,179	2,485
Gains from sales of marketable securities	185	878
Interest expense and other	-62	-33
	2,302	**3,330**

4.6 Income taxes

in kEUR	2006	2005
Domestic income taxes	1,251	1,304
Foreign income taxes	123	205
Income taxes (deferred)	5	52
	1,379	**1,561**

In Germany, effective since January 1, 2001, a standard tax rate of 25 per cent on both distributed and retained earnings is applicable. The tax rate amounts to 26.4 per cent including the solidarity surcharge of 5.5 per cent. The tax rate for municipal trade taxes was unchanged at 14.9 per cent. Since municipal trade taxes are deductible from corporate income tax base this leads to a combined statutory rate of 37.3 per cent.

Deferred tax assets and liabilities can be summarised as follows:

in kEUR	2006	2005
Deferred taxes (assets)		
Fixed assets (Syzygy UK)	70	56
Fixed assets (Syzygy Germany)	60	59
Provisions	56	80
Deferred taxes (liabilities)		
Current assets (securities)	-176	-485
Deferred taxes (net)	**10**	**-290**

The deferred tax assets can be attributed to lower tax depreciation on capital goods in comparison to the IFRS balance sheet in United Kingdom. In Germany, the deferred tax assets referring to fixed assets as well as provisions are set off with the deferred tax liabilities, which are the result of different valuations of the financial instruments in the accounts prepared for tax purposes and those prepared for financial reporting purposes in Germany.

Tax transfer:

in kEUR	2006	2005
Income before taxes	**3,706**	**4,527**
Tax-free income/expenses		
– stock-based compensation expenses	-45	-21
Taxable income	**3,661**	**4,506**
Expected tax expense	1,366	1,681
Foreign tax rates differential	13	-61
Other	0	-59
Tax charge	**1,379**	**1,561**

5. Other notes

5.1 Earnings per share

Earnings per share – diluted and basic – are shown in the following table:

	2006	2005
Weighted average number of shares (in thsd.)	11,713	11,912
Income from continuing operations (in kEUR)	2,367	2,966
Income share to shareholders of Syzygy AG (in kEUR)	2,267	2,966
EPS from continuing operations, basic (in EUR)	0.19	0.25
EPS from total operations, basic (in EUR)	0.19	0.25
Maximum dilution (in thsd.)	36	497
EPS from continuing operations, diluted (in EUR)	0.19	0.24
EPS from total operations, diluted (in EUR)	0.19	0.24

5.2 Consolidated statements of cash flows

The consolidated statements of cash flows was developed in accordance with IAS 7 by applying the indirect method. In 2006, the operating cash flow amounted to EUR 1.9 million (previous year: EUR 2.6 million). In the period under review, the operating cash flow cannot be directly derived from the balance sheet due to special items of the first consolidation of GFEH. The fund of financial instruments comprises only of liquid assets. Further information are given within the Group Management Report.

5.3 Contingent liabilities

As in the previous year, the Company does not bear any contingent liabilities as of December 31, 2006.

5.4 Other financial obligations
The Group companies have concluded leasing and rental agreements for various facilities and vehicles. The future annual minimum payments from these agreements amount to:

Year	in kEUR
2007	1,291
2008	311
2009	0
2010	0
Total	**1,602**

The total expenses for rent amounted to kEUR 1,226 in 2006 (previous year: kEUR 1,223). These expenses were set off by sublease income amounting to kEUR 123 (previous year: kEUR 325). The total of expected future sublease income on the basis of existing agreements amounts approx. to kEUR 127.

5.5 Auditing company's fee
The BDO Deutsche Warentreuhand AG auditing company received a fee of kEUR 49 for auditing the annual and consolidated financial statements of Syzygy AG for the financial year 2006. No further orders were awarded to BDO Deutsche Warentreuhand Wirtschaftsprüfungsgesellschaft.

5.6 Information on associated companies and persons
The associated persons include the boards of Syzygy AG. In 2006 and 2005, no transactions were effected with associated parties.

5.7 Exemption according to art. 264 sec. 3 German-GAAP
Syzygy Deutschland GmbH avails itself of the exemption according to art. 264 sec. 3 German-GAAP.

5.8 Subsequent events
After closing date, no extraordinary events occurred, which would have to be reported.

5.9 Parent company boards

5.9.1 Management Board
- Marco Seiler, CEO
  Managing Director Syzygy Deutschland GmbH
- Frank Wolfram, CTO
  Managing Director Syzygy Deutschland GmbH

The members of the Management Board do not hold any Supervisory Board or similar positions. Total remuneration of the Management Board members amounted to kEUR 472 in 2006, kEUR 242 of which went to Marco Seiler (fixed: 210, variable: 32) and kEUR 230 to Frank Wolfram (fixed: 200, variable: 30). The members of the Management Board received no options in 2006. The remuneration report, as an integral part of the Corporate Governance Declaration, contains further explanations regarding the remuneration of the Management Board. The report can be downloaded from the Company's website at the IR section.

5.9.2 Supervisory Board
- Michael Mädel , Chairman
  President J. Walter Thompson
  Europe, Asia and Africa
- Adriaan Rietveld, Deputy Chairman
  General Managing Partner EsNet, Ltd.
  Supervisory Board UbiQ b.v. Rotterdam
- Wilfried Beeck
  CEO ePages Software GmbH

The Supervisory Board received a total remuneration of kEUR 60 for 2006. This corresponds to a remuneration of kEUR 20 for each member of the Supervisory Board. The remuneration consists of a fixed component of kEUR 15 and a variable component of kEUR 5. Members of the Supervisory Board have no options for Syzygy shares. The remuneration report contains further explanations regarding the remuneration of the Supervisory Board.

5.10 Directors' Dealings

Management Board

Number of shares	Marco Seiler	Frank Wolfram	Total
as per December 31, 2005	611,779	5,000	**616,779**
Purchases	24,500	6,000	**30,500**
Sales	-24,500	0	**-24,500**
as per December 31, 2006	**611,779**	**11,000**	**622,779**

Management Board

Number of options	Marco Seiler	Frank Wolfram	Total
as per December 31, 2005	35,000	118,000	**153,000**
Additions	0	0	**0**
Disposals	-24,500	-6,000	**-30,500**
as per December 31, 2006	**10,500**	**112,000**	**122,500**

Supervisory Board

Number of shares	Michael Mädel	Adriaan Rietveld	Wilfried Beeck	Total
as per December 31, 2005	0	10,000	0	**10,000**
Purchases	0	0	0	**0**
Sales	0	0	0	**0**
as per December 31, 2006	**0**	**10,000**	**0**	**10,000**

5.11 Disclosures in accordance with art. 160 sec. 1 para. 8 AktG

5.11.1 Undershooting of the 5 per cent treshold in accordance with art. 21 in conjunction with art. 25 WpHG

"In accordance with Section 21 para.1 of the German Securities Trading Act (WpHG), Marco Seiler, CEO of Syzygy AG, informed us on May 22, 2006 that his share of voting rights of Syzygy AG had fallen below the 5 per cent threshold as per May 15, 2006 and amounted to 4.88 per cent. Furthermore, in accordance with Section 21 para.1 of the German Securities Trading Act (WpHG), Marco Seiler, CEO of Syzygy AG, informed us on May 22, 2006 that his share of voting rights of Syzygy AG exceeded the 5 per cent threshold as per May 22, 2006. Now his share of voting rights amounts to 5.08 per cent."

5.11.2 Disclosures according to art. 25 sec. 1 in conjunction with 41 para. 3 (WpHG)

"On June 28, 2006, WPP Group plc., London, UK, informed us regarding the share of voting rights in Syzygy AG, Bad Homburg v.d.H., D, according to section 21 para. 1 and section 41 para. 2 WpHG with the following:

(1) Diebitz Stöppler Braun & Kuhlmann Werbeagentur Verwaltungs GmbH, Frankfurt am Main, D
(2) WPP Zweite Beteiligungs GmbH & Co. KG, Frankfurt am Main, D
(3) WPP Zweite Beteiligungs Verwaltungs GmbH, Frankfurt am Main, D
(4) WPP Service Verwaltungs GmbH, Frankfurt am Main, D
(5) WPP Germany Beteiligungs Verwaltungs GmbH, Frankfurt am Main, D
(6) WPP Marketing Communications Germany B.V., Rotterdam, Niederlande
(7) Dolphin Square B.V., Rotterdam, Niederlande
(8) WPP Luxembourg Theta S.a.r.l., Luxembourg, Luxembourg
(9) WPP 2318 Limited, London, UK
(10) Line Exchange Limited, London, UK
(11) WPP Sparkle Limited, London, UK
(12) WPP Magic Limited, London, UK
(13) WPP Sparky Limited, London, UK
(14) WPP LN Limited, London, UK
(15) WPP Spike Limited, London, UK

1) The companies listed under 1 to 5 and 9 held 6.91 per cent of voting rights in Syzygy AG, Bad Homburg, as per April 1, 2002, whereas 6.91 per cent of these shareholdings were attributable to these companies according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to these companies according to section 22 para. 1 cl. 1 no. 1 WpHG.

2) The company listed under 6 exceeded the threshold of 5 per cent as per December 21, 2002 and then held 6.91 per cent of voting rights in Syzygy AG, whereas 6.91 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG.

3) The company listed under 7 amends the disclosure as per April 5, 2002, which is hereby withdrawn, and states that it had no share of voting rights in Syzygy AG as per April 1, 2002. (Amendment of the disclosure according to section 25 para. 1 WpHG as per February 7, 2005)

4) The company listed under 8 held 6.91 per cent of voting rights in Syzygy AG, as per April 1, 2002, whereas 6.91 per cent of these shareholdings were attributable to these companies according to section 22 para. 1 cl. 1 no. 1 WpHG. The shareholdings fell below the threshold of 5 per cent as per December 17, 2002 down to 0 per cent. The share of voting rights exceeded the threshold of 5 per cent as per February 26, 2003 and amounted to 6.91 per cent, whereas 6.91 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The shareholdings fell below the threshold of 5 per cent as per December 11, 2003 down to 0 per cent.

5) The company listed under 10 fell below the threshold of 5 per cent as per June 26, 2003 down to 0 per cent. The shareholdings exceeded the threshold of 5 per cent as per March 23, 2004 and amounted to 6.91 per cent of voting rights in Syzygy AG, whereas 6.91 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG.

6) The company listed under 11 exceeded the threshold of 5 per cent as per March 23, 2004 and then held 6.91 per cent of voting rights in Syzygy AG, whereas 6.91 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG.

7) The company listed under 12 exceeded the threshold of 5 per cent as per March 23, 2004 and then held 6.91 per cent of voting rights in Syzygy AG, whereas 6.91 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG.

8) The company listed under 13 exceeded the threshold of 5 per cent as per August 1, 2003 and then held 6.91 per cent of voting rights in Syzygy AG, whereas 6.91 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG.

9) The company listed under 14 exceeded the threshold of 5 per cent as per December 31, 2002 and then held 23.22 per cent of voting rights in Syzygy AG, whereas 23.22 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 24.80 per cent, whereas 24.80 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG.

10) The company listed under 15 exceeded the threshold of 5 per cent as per December 17, 2004 and then held 6.90 per cent of voting rights in Syzygy AG, whereas 6.90 per cent of these shareholdings were attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 6.90 per cent, whereas 6.90 per cent of these shareholdings are attributable to the company according to section 22 para. 1 cl. 1 no. 1 WpHG

11) Our share of voting right in Syzygy AG, i.e. WPP Group plc., 27 Farm Street, London W1J 5RJ, UK, exceeded the threshold of 5 per cent as per October 25, 2005 and amounted to 24.90 per cent of voting rights in Syzygy AG, whereas 24.90 per cent of these shareholdings were attributable us according to section 22 para. 1 cl. 1 no. 1 WpHG. The current share of voting rights amounts to 24.80 per cent, whereas 24.80 per cent of these shareholdings are attributable to us according to section 22 para. 1 cl. 1 no. 1 WpHG.

5.12 Declaration on the German Corporate Governance Code in accordance with art. 161 AktG

The declaration of compliance according to art. 161 German Stock Corporation Act (AktG) was pronounced on December 1, 2006 and is available to all shareholders on the Company's website.

Bad Homburg v.d.H., March 12, 2007
The Management Board

Marco Seiler Frank Wolfram

Translation of the German Auditors' Report

We have audited the consolidated financial statements prepared by Syzygy AG, Bad Homburg v.d.Höhe comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. 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 § 315a (1) German commercial law 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 § 317 German commercial law and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such 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 consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by 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 reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) German commercial law and give a true and fair view of the net assets, financial position and results of operations 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.

Frankfurt am Main, March 12, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd. Simon-Heckroth	ppa. Meyer
Wirtschaftsprüfer	Wirtschaftsprüfer

Financial Calendar 2007

Interim Report per Q1-2007	May 04, 2007
Annual General Meeting, Frankfurt	June 28, 2007
Interim Report per Q2-2007	July 31, 2007
Interim Report per Q3-2007	October 31, 2007

Syzygy AG

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