SinnerSchrader

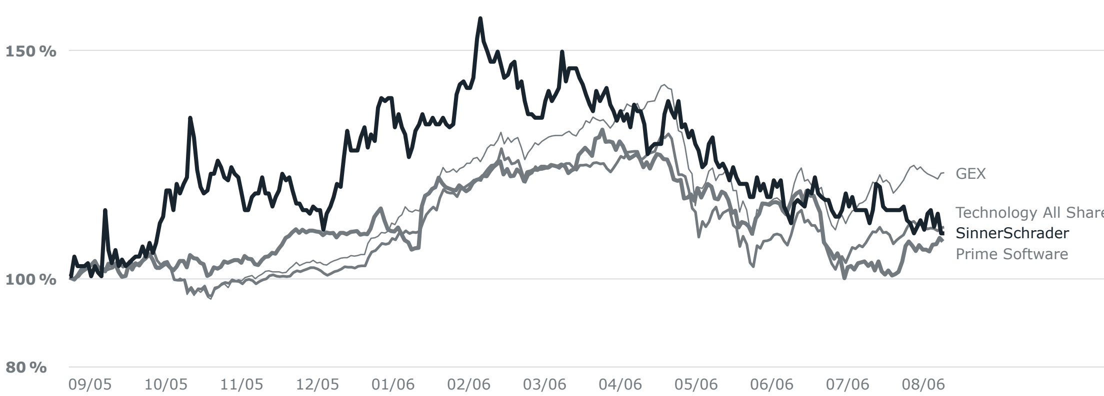
SINNERSCHRADER AKTIENGESELLSCHAFT 2005/2006 ANNUAL REPORT

Key figures of the SinnerSchrader Group, acc. to IFRS

in € 000s, € and number	01.09.2005 31.08.2006	01.09.2004 31.08.2005	Change
Revenues	15,819	14,315	11 %
Gross profit	4,609	4,698	–2 %
EBITDA	1,152	718	60 %
EBITA	600	177	239 %
Net income	1,192	544	119 %
Net income per share[1]	0.10	0.05	100 %
Shares outstanding[1]	11,411	11,334	1 %
Cash flows from operating activities	194	2,788	–93 %
Employees, full time equivalents	129	132	–2 %
	31.08.2006	**31.08.2005**	**Change**
Liquid funds and marketable securities	10,005	10,570	–5 %
Shareholders’ equity	11,531	10,334	12 %
Balance sheet total	15,067	13,746	10 %
Employees, end of period	143	130	10 %

[1] Weighted average shares outstanding

SinnerSchrader share price performance 2005/2006 (index-linked)



SinnerSchrader

Thomas Dyckhoff, CFO and
Matthias Schrader, CEO

Dear Shareholders,

When SinnerSchrader started out in 1996, fewer than four million people in Germany used the Internet, it was not yet possible to book trips online, broadband connections were just a dream, the phrase “to google” didn’t mean anything and Amazon celebrated its first birthday with annual revenues of around USD 15 million.

Today, in 2006, nearly 39 million people in Germany are online, 13 million of them book trips over the Internet and just as many have a broadband Internet connection, the 24th edition of the Duden, the standard German dictionary, includes “to google” as a term for searching the Internet, and Amazon has become the world’s largest online retailer, with anticipated annual revenues of over USD 10 billion.

In the past ten years, numerous large and small innovations have made the Internet a permanent part of the everyday lives of many people. And in these ten years, SinnerSchrader has shaped the development of the Internet in Germany in its role as a partner to start-ups and established companies alike.

But there is still great potential for further development. This is expressed not least in the term “Web 2.0”, which has been used since the start of the year to describe the new excitement surrounding the interactive medium Internet, the new role customers and users are to be playing in shaping the online experience, and everything that might result from this. As before, SinnerSchrader will drive this development in the interests of its customers and its own success.

Consequently, “Next 10 Years – The Opportunities of Web 2.0” was the motto of the first German Web 2.0 conference held in May 2006 on the occasion of SinnerSchrader’s tenth birthday, providing a glimpse into the future of the Internet economy.

And we have already begun to build this future together with our customers. For example, this year we began working with OTTO to develop the Web shop of the future. This will make online shopping a three-dimensional experience, and it will open up new possibilities for acquiring customers through emotion, interaction, inspiration and communication. The shop will be implemented on the basis of the new Windows Vista technology from Microsoft. It is one of twenty reference projects worldwide which will accompany the market launch of the new software by Microsoft in the coming year.

Thus, the tenth SinnerSchrader financial year was a year of stable and sustainable upward development. Revenues rose by 10.5 % to € 15.8 million, pushing the operating result (EBITA) to reach a value of € 0.6 million, after just € 0.2 million the year before. The net income amounted to € 1.2 million, or € 0.10 per share. We therefore achieved our economic goals for the financial year of revenue growth between 10 % and 15 % and an EBITA between € 0.3 million and € 0.5 million. In addition, by moving to new office premises in Hamburg at the end of the financial year, we were able to significantly reduce our cost basis for the coming years. The increased use of external service providers has also made our cost structure even more flexible.

Through its Interactive Marketing, Interactive Software and Interactive Services segments, SinnerSchrader offers its customers an extensive portfolio of consulting, creation and technical services for developing and implementing marketing, sales and customer management strategies over the Internet. With this portfolio, SinnerSchrader asserted its position among the top five interactive service providers in Germany in the past financial year, even though we have not yet managed to expand the portfolio through acquisitions which would bring clear advantages to our customers and ensure promising prospects for the future.

For the 2006/2007 financial year, we are aiming at organic growth of 15 % to attain revenues of over € 18 million and an EBITA of € 1.2 million. In the medium term, we want to achieve double-digit growth annually and raise the operating margin up to 10 % to 12 %. And we will continue to search for partners with whom we can expand the business of SinnerSchrader.

The dynamics in our industry and the performance of the SinnerSchrader team – of which we are very proud – make us confident that we will shape the coming years with great success for you, our shareholders.

Hamburg, 16 November 2006

The Management Board

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SinnerSchrader 2005|2006

Corporate Governance at SinnerSchrader

Corporate Governance comprises all the values, principles and rules governing corporate management and control. Since 2002, the Government Commission on the German Corporate Governance Code has published principles and standards which characterise good, responsible Corporate Governance and with which all German companies listed on the stock exchange must comply. Since its creation, the Code has been continually modified on the basis of current knowledge and requirements. It was most recently amended on 12 June 2006 with regard to the transparency of the compensation for Management Board and Supervisory Board members.

The Management Board and Supervisory Board of SinnerSchrader AG have always been committed to the principles in the Code which aim at creating value through responsible corporate management and monitoring, and they welcome the development of Corporate Governance in Germany.

Company Boards
The management board of a stock corporation is appointed by the supervisory board and is independently responsible for managing the enterprise. It carries out business following the law, the statutes of the company and the rules of procedure decreed by the supervisory board for the management board. Under these rules, the management board is required to seek approval from the supervisory board prior to undertaking certain business transactions.

The Management Board of SinnerSchrader AG currently consists of two members. The Chief Executive Officer, Matthias Schrader, has been appointed to the Board until 31 December 2010; the current appointment to the Board of the Chief Financial Officer, Thomas Dyckhoff, will end on 31 December 2007. Conflicts of interest according to Section 4.3 of the German Corporate Governance Code did not arise in the 2005/2006 financial year.

The Supervisory Board monitors the Management Board and advises it in the management of the company. The key tasks of the Supervisory Board include acting as the representative of SinnerSchrader AG to the Management Board, appointing members of the Management Board, establishing the compensation for these members, commissioning the financial auditors, approving the Annual Financial Statements and Consolidated Financial Statements, and making decisions regarding the business transactions of the Management Board which require approval under the law, the Statutes of the Company, or the rules of procedure.

The Supervisory Board of SinnerSchrader AG consists of three members elected by the Annual General Meeting. Reinhard Pöllath and Frank Nörenberg have been elected to the Supervisory Board until the end of the Annual General Meeting which will vote on discharging the Supervisory Board of its duties for the 2007/2008 financial year. Dieter Heyde was elected to the Supervisory Board at the 2004/2005 Annual General Meeting on 27 January 2006 for the period of time until the end of the Annual General Meeting which will vote on discharging the Supervisory Board of its duties for the 2007/2008 financial year. Conflicts of interest according to Section 5.5 of the German Corporate Governance Code did not arise in the 2005/2006 financial year.

Compensation Report for the Management Board and Supervisory Board

The Supervisory Board is responsible for establishing the structure and level of compensation for the Management Board. The compensation for the Supervisory Board is determined by the Annual General Meeting.

The goal of the compensation system for the Management Board is to appropriately compensate the individual members for their respective fields of activity and responsibility. A substantial portion of this compensation is variable in order to take proper account of the performance of individual Management Board members, the success of the company and the development of the share price. This compensation is composed of the following components:

» a fixed base salary to be paid monthly in twelve equal instalments
» a performance-related annual bonus based on the achievement of individual goals and the company goals set out in the annual plan
» share-based compensation components which act as a medium- to long-term incentive and are orientated on the respective period of appointment to the Board
» other benefits consisting primarily of company cars, accident insurance, directors' and officers' insurance with a deductible, and the reimbursement of expenses

The individual weighting of each component is in line with the fact that the members of the Management Board hold varying stakes in the company. Matthias Schrader, co-founder of SinnerSchrader AG, currently holds 2,342,675 shares, or 20.3 % of all shares issued. Thomas Dyckhoff joined the Management Board of SinnerSchrader AG in 1999 and acquired 49,950 shares at the share price of the time. He continues to hold these shares, which correspond to 0.4 % of all shares issued. The salary package for Mr Schrader therefore consists only of a fixed base salary and the other benefits, while the salary agreement for Mr Dyckhoff includes all compensation components.

The share-based compensation components are made up of stock options from the SinnerSchrader stock option programmes of 1999 and 2000, as well as a share-price-based bonus. The stock options plans provide for an exercise price of 20 % over the average closing price of the SinnerSchrader share on the ten days of trading prior to the allocation of the shares; retention periods of two, three and four years for exercising one-third of the allocated shares; a total option period of six years; and a forfeiture of the options if the member leaves the Board prior to the end of the retention period. A total of 25,000 options with an exercise price averaging € 1.53 and a valuation based on the Black-Scholes model on the day of allocation of € 0.72 were assigned to Mr Dyckhoff through the programmes.

The share-based bonus commitment guarantees a bonus payable in January 2008 which is dependent on the average closing price of the last ten trading days of 2007 less € 1.61 and was allocated for a notional number of 200,000 shares. The share-based bonus provides for adjustments in the event of dividend payments, repayments from capital decreases, capital increases and similar events to ensure that Mr Dyckhoff is not in a worse position than a shareholder who has held the shares over the same period of time. Furthermore, the bonus commitment provides for an early bonus in the event of a takeover of 75 % or more of the shares of SinnerSchrader AG by an investor or other similar situations.

The members of the Management Board are subject to a post-contractual restriction on competition which involves remuneration for observing the period of restriction in the amount of 50 % of the most recent fixed compensation payment. The directors' and officers' insurance for the members of the Management Board involves a deductible of € 10,000.

An individualised and itemised overview of the compensation for the members of the Management Board for the 2005/2006 financial year can be found in the Notes to the Annual Financial Statements of SinnerSchrader AG on p. 71 and p. 83 of this report.

The compensation for the regular members of the Supervisory Board is composed of the following components in accordance with the decision of the Annual General Meeting of 28 January 2004:

» a fixed base compensation of € 4,000 per year
» a variable compensation of an additional € 4,000 per year maximum, which is dependent upon an increase in the consolidated income per share compared to the previous year, whereby a positive change of € 0.01 per share results in a variable compensation of € 400
» the reimbursement of expenses
» directors' and officers' insurance without a deductible
» reimbursement for the VAT to be paid for the compensation of the Supervisory Board and the reimbursement of expenses

The Chairman of the Supervisory Board receives a fixed and variable compensation which is double the compensation of the regular Supervisory Board members. His deputy receives one and a half times the amount of this fixed and variable compensation.

An individualised and itemised overview of the compensation for the members of the Supervisory Board for the 2005/2006 financial year can be found in the Notes to the Annual Financial Statements of SinnerSchrader AG on p. 71 and p. 84 of this report.

Shares Held by Board Members
An overview on p. 72 and p. 87 of this report provides information on the shares and share derivatives held by the members of the Management Board and Supervisory Board as of 31 August 2006, as well as any changes reported in the 2005/2006 financial year. The shares held by the Management Board comprise 20.7 % of the shares issued by Sinner-Schrader. The shares held by the Supervisory Board correspond to a share of under 1 %.

Directors' Dealings
According to Article 15a of the German Securities Trading Act, the Board members, other individuals in management positions and persons closely connected to the Board members or individuals in management positions are obliged to disclose the purchase or sale of SinnerSchrader shares or derivates related to these shares to SinnerSchrader AG if their equivalent value during the year exceeds a total of € 5,000. In the 2005/2006 financial year, the Company did not receive any such notifications.

Accounting Principles
Following EU Regulation 1606/2002, the accounting of the SinnerSchrader Group has been carried out according to International Financial Reporting Standards for the first time for the 2005/2006 financial year. Up until then, United States Generally Accepted Accounting Principles ("US-GAAP") were used. The Annual Financial Statements of SinnerSchrader AG continue to be prepared in accordance with the accounting regulations of the German Commercial Code.

Both Annual Financial Statements were audited by an auditing firm which declared its independence to the Supervisory Board and which was chosen by the Annual General Meeting on 27 January 2006 for this task.

Declaration of Compliance
On 16 November 2006, the Supervisory Board and Management Board of SinnerSchrader AG submitted a declaration of compliance based on the version of the German Corporate Governance Code from 12 June 2006 in accordance with Article 161 of the German Stock Corporation Act. This declaration is reprinted in the following, and it is also permanently available to all shareholders and other interested parties in the "Investors" section under the heading of "Corporate Governance" on the www.sinnerschrader.de website together with the current version of the Code.

Declaration of the Management Board and Supervisory Board of SinnerSchrader Aktiengesellschaft on the Recommendations of the "Government Commission on the German Corporate Governance Code" according to Article 161 of the German Stock Corporation Act

The Management Board and Supervisory Board of SinnerSchrader AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 12 June 2006 were met with the following reservations in the 2005/2006 financial year (01.09.2005–31.08.2006) and will be met in the current 2006/2007 financial year (01.09.2006–31.08.2007) and in future:

Management Board
Code 4.2.3:
Variable remuneration components and share options have been waived in the remuneration package of Mr Matthias Schrader, CEO of SinnerSchrader AG, due to his high participation share in SinnerSchrader AG.

Code 4.2.3:
The share options so far awarded to other Management Board members originate from the 1999 and 2000 Stock Option Plans adopted by the Annual General Meeting. In accordance with the conditions adopted by the Annual General Meeting, the exercise criteria are reaching a price rise of 20 % in terms of the average price of the SinnerSchrader share on the ten trading days prior to allocation, waiting periods of two, three and four years and a term of six years. The option conditions make no provision for a cap for extraordinary, unforeseen developments.

No cap was set on a share-based bonus component awarded to a Management Board member in early 2005 because a cap of this kind runs counter to the intended incentive effect, especially where there are waiting periods of several years.

Supervisory Board
Code 3.8:
D&O insurance without an excess has been taken out for the members of the Supervisory Board because an excess of this kind would be disproportionate in view of the relatively low remuneration.

Code 5.3.1 ff.:
The Supervisory Board has not formed any committees because it only comprises three members.

Hamburg, 16 November 2006
SinnerSchrader Aktiengesellschaft

For the Supervisory Board
Reinhard Pöllath

For the Management Board
Matthias Schrader

The 514190 Share

Stock Market

In SinnerSchrader's 2005/2006 financial year from 1 September 2005 to 31 August 2006, the German stock market developed very well. The DAX, Germany's leading share index, started below the 5,000-point mark in September but closed above the psychologically important 6,000-point mark once again on 3 April 2006. After plummeting in May as a result of profit taking, rising oil prices and interest rate anxieties, it reached a low of just 5,292 points on 13 June, but recovered by 31 August 2006 to reach 5,860 points. Overall, the DAX rose 21.3 % in the reporting year.

There were similar, though considerably weaker, developments in the other indices relevant to SinnerSchrader: The Technology All Share rose by 11.4 % over the course of the year, and the Prime Software Index rose by 7.9 %. The GEX, a multi-industry index of owner-operated stock corporations which also includes SinnerSchrader, increased by 23.2 % in the year under review.

The SinnerSchrader Share

The price performance of the SinnerSchrader share was comparable to the performance of the relevant industry indices over the course of the reporting year. The share rose from a Xetra closing price of € 1.39 on 31 August 2005 to a closing price of € 1.53 on 31 August 2006, an increase of 9.3 %. In the first half of the year, the share price performed much better than the indices, reaching a high of € 2.18 on 17 February 2006, an increase of 55.7 %.

Key Figures of the Share	
German Securities Code no.	514190
ISIN	DE0005141907
Symbol	SZZ
Reuters symbol	SZZG
Stock exchanges	Xetra, Frankfurt am Main, Hamburg, Stuttgart, Munich, Düsseldorf, Berlin
Segment	Regulated market/Prime Standard
Indices	Prime All Share, Prime Software, Technology All Share, CDAX, GEX
Designated Sponsor	Concord Effekten AG
Issued shares	11,542,764
Outstanding shares	11,411,417
Previous financial year closing price	€ 1.39
High share price[1)]	€ 2.18
Low share price[1)]	€ 1.40
Financial year closing price[1)]	€ 1.53
Performance[1)]	10.1 %
Average sales volume per day[2)]	36,246 shares/€ 64,155
Market capitalisation[3)]	€ 17.5 million
Free float market capitalisation[4)]	€ 9.5 million

[1)] Xetra

[2)] Xetra, Frankfurt am Main, Hamburg, Stuttgart, Munich, Düsseldorf, Hanover, Berlin-Bremen

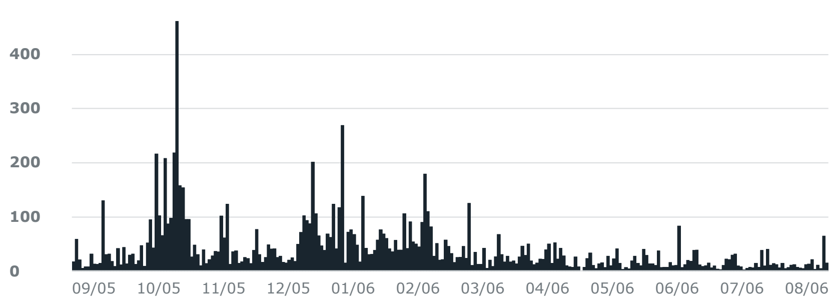
[3)] Outstanding shares × closing price Xetra 31.08.2006

[4)] Free float × closing price Xetra 31.08.2006 according to Deutsche Börse AG

SinnerSchrader share price performance 2005/2006 (index-linked)

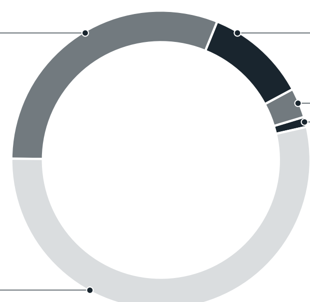
The price was boosted by positive appraisals from analysts based on the disproportionately high rise in profits which had been forecast, as well as on the acquisition expectations of investors. In the second half of the year, however, the share lost its lead over the indices. The lack of acquisitions and a more cautious appraisal of business development in the third quarterly report considerably cooled investor interest, a fact which is also apparent in the development of the share trading volume.

SinnerSchrader share sales volume 2005/2006 in 000s



Shareholder Structure

The increase in the free float in the 2005/2006 financial year continued to affect the development of the shareholder structure. According to the information available to SinnerSchrader AG, the proportion of shares in free float has now surpassed the 50 % mark for the first time. The founding families and pre-IPO investors continued to hold 45.2 % of the shares issued. As of 31 August 2006, the remaining 1.1 % of issued shares continued to be held by SinnerSchrader AG in the form of treasury stock. These shares come from the buy-backs carried out in 2002 and 2003. SinnerSchrader AG did not receive any obligatory notifications pursuant to Article 21 of the German Securities Trading Act in the reporting year.



Investor Relations

SinnerSchrader was active in the field of investor relations in a variety of ways in 2005/2006. This included meetings with interested investors in Frankfurt am Main, Munich, Stuttgart and Hamburg; presentations at investor conferences such as the German Equity Capital Forum; regular contact with analysts and representatives of the business press who continually observe the activities of SinnerSchrader AG and comparable companies; and conversations with individual shareholders who contacted SinnerSchrader directly with questions on published information.

At the start of the 2005/2006 financial year, SES Research GmbH began its coverage of the SinnerSchrader share with an initial study, and since then it has regularly published appraisals of the figures and information from SinnerSchrader.

The quarterly and annual financial reports play an important role in supplying information to shareholders and other interested individuals. In these reports, SinnerSchrader provides detailed explanations of the development of its business figures. These reports, along with a great deal of other relevant information on the SinnerSchrader share, are permanently available to all shareholders and interested individuals in the “Investors” section of the SinnerSchrader website at www.sinnerschrader.de.

Trust, transparency and constancy guide SinnerSchrader’s support services for its shareholders. This is a key element of good, transparent corporate management in the spirit of the standards set out in the Corporate Governance Code.

Reinhard Pöllath, Chairman of the Supervisory Board

Report of the Supervisory Board

The Supervisory Board closely followed the business development of SinnerSchrader Aktiengesellschaft and its subsidiaries in the 2005/2006 financial year. At Supervisory Board meetings and in monthly reports, the Management Board kept the Supervisory Board informed of strategy, planning, the current situation and business development, as well as important business transactions. Furthermore, there were written, telephone and personal exchanges between the Management Board and the Supervisory Board with regard to current issues. On this basis, the Supervisory Board discharged its duties as required by law and the Statues and supervised the business conduct of the Management Board.

Supervisory Board Meetings
In the past financial year, the Supervisory Board met for five regular meetings on 6 September 2005, 25 November 2005, 27 January 2006, 4 April 2006 and 27 July 2006. All members of the Supervisory Board were present at these meetings, with the exception of the meeting on 27 July 2006, which one member of the Board was unable to attend. On 21 December 2005, the Supervisory Board also passed a resolution by way of circulation.

Focus of Meetings
In its meetings, the Supervisory Board addressed issues such as the business development of the Group and its segments in each quarter, the selection and analysis of potential acquisition partners, the rental of new office space in Hamburg and the move to these premises at the end of the financial year, and the annual plans for the 2006/2007 financial year. At its meeting on 25 November 2005, the Supervisory Board approved the Consolidated Financial Statements and the Annual Financial Statements of SinnerSchrader Aktiengesellschaft for the 2004/2005 financial year.

Constitution of the Boards
At the end of the Annual General Meeting on 27 January 2006, Dr Markus Conrad, Spokesman for the Management Board of Tchibo GmbH, resigned from his position on the Supervisory Board. Dr Conrad had been a member of the Supervisory Board since the founding of the AG in 1999. As Chairman of the Supervisory Board, he played a key role in the successful IPO of SinnerSchrader AG in November 1999, and he helped SinnerSchrader emerge from the boom and bust as one of the five largest interactive service providers in Germany.

On 27 January 2006, Dieter Heyde, Managing Partner of SALT Solutions GmbH, was elected to the Supervisory Board of SinnerSchrader AG by the Annual General Meeting. In its meeting on the same day, the Supervisory Board appointed Mr Pöllath as the new Chairman and Mr Heyde as his deputy.

Corporate Governance
On 21 November 2005, the Supervisory Board and the Management Board submitted the declaration of conformity with the Corporate Governance Code which is demanded by Article 161 of the German Stock Corporation Act and which documents general compliance with the courses of action recommended by the Code. On 16 November 2006, the Board renewed this declaration for the current financial year on the basis of the Code amended on 12 June 2006.

Consolidated and Annual Financial Statements
The accounts and Annual Financial Statements of SinnerSchrader AG, as well as the Consolidated Financial Statements including the combined Status Report of the Group and SinnerSchrader AG, which were drawn up for the first time in accordance with International Financial Reporting Standards (IFRS) as required under Article 315a of the German Commercial Code for the 2005/2006 financial year as of 31 August 2006, were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Hamburg, at the request of the Supervisory Board and received an unqualified auditor's opinion on 30 October 2006. At its meeting on 16 November 2006, the Supervisory Board discussed the Annual and Consolidated Financial Statements in detail in the presence of the auditor and the Management Board. The Annual and Consolidated Financial Statements prepared by the Management Board and the auditor's report had been given to the members of the Supervisory Board in advance of this meeting. Following detailed examination and discussion at this meeting, the Supervisory Board had no objections and endorsed the results of the auditor. The Board approved both the Consolidated and Annual Financial Statements. The Annual Financial Statements are thereby adopted. Furthermore, the Supervisory Board approved the suggestion of the Management Board to propose to the Annual General Meeting that the net income be carried forward to the new accounts.

Business Development
SinnerSchrader made good progress in the past financial year. Revenues rose by 10.5 % and the operating margin doubled to 3.8 %. This is an important intermediary step on the path towards a target operating margin of 10 % to 12 % in the medium term with continued double-digit growth in revenues. The welcome economic and industry environment, the good market position of SinnerSchrader, the elimination of rental costs for vacant offices at the end of the reporting year and the solid financial situation have created a good basis for SinnerSchrader to continue its positive development ten years after it was founded. The Supervisory Board will continue to support the Management Board in every respect so that the Company can move forward without losing sight of the risks facing it.

The Supervisory Board would like to thank the Management Board and all employees of the SinnerSchrader Group for their efforts and dedication in the past financial year.

Hamburg, 16. November 2006

Reinhard Pöllath

Chairman of the Supervisory Board

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Joint Status Report of SinnerSchrader AG

Joint Status Report

1 General

The following Status Report is the joint Consolidated Status Report and Group Status Report of SinnerSchrader Aktiengesellschaft ("SinnerSchrader AG" or "AG"). It shows the business development of the SinnerSchrader Group ("SinnerSchrader" or "Group") and the AG, including the business results for the 2005/2006 financial year, from 1 September 2005 to 31 August 2006, as well as the situation of the Group and the AG as of the reporting date 31 August 2006. Unless explicit reference is made to the AG, the statements refer to the Group.

SinnerSchrader is reporting in accordance with IFRS for the first time in 2005/2006.

The Group's Consolidated Financial Statements, to which this Status Report refers, have been drawn up according to the International Financial Reporting Standards ("IFRS") for the first time for the 2005/2006 financial year; these standards are binding for all consolidated financial statements of companies listed on stock exchanges in the European Union for financial years that started after 1 January 2005. The statements of the previous year have been adjusted to IFRS in accordance with the rules for the conversion of accounts and are therefore comparable. The Annual Report of the AG still follows the German accounting regulations.

The Status Report and the Group Status Report contain forward-looking statements and information, especially Section 7. These can be recognised by the use of words such as "expect", "anticipate", "forecast", "intend", "plan", "strive", "estimate" and "become". Such forward-looking statements are based on current knowledge, estimates and assumptions and therefore entail a number of risks and uncertainties. A variety of factors, many of which are outside SinnerSchrader's sphere of influence, have an impact on business development and results. This means that the actual future business development of SinnerSchrader and the actual results achieved may differ significantly from the explicit or implicit information in the forward-looking statements.

2 Group Business and Structure

SinnerSchrader is one of the biggest interactive service providers in Germany and offers its customers a comprehensive range of services for the use of interactive technologies, especially the Internet, to optimise and further develop their business. The emphasis of the Group's business is on the use of websites for the establishment and communication of brands, for the sale of goods and services and for the acquisition and retention of customers.

SinnerSchrader organises its business activities into the "Interactive Software", "Interactive Marketing" and "Interactive Services" segments; each of these segments covers different aspects of the range of services.

In the Interactive Software segment, SinnerSchrader offers its customers the conceptual development, implementation and servicing of custom-made interactive IT systems. In the Interactive Marketing segment, SinnerSchrader provides consulting, creative and implementation services for establishing and managing brands, for customer acquisition, conversion and retention and for promoting sales on the Internet. In the Interactive

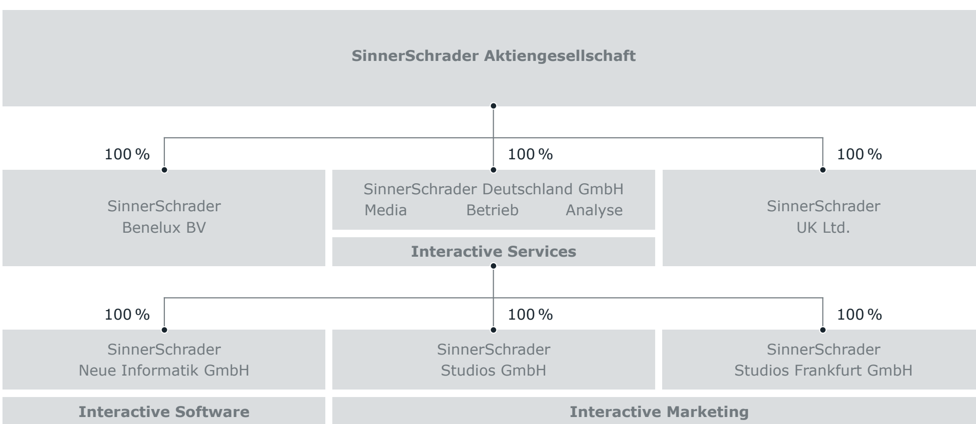
The graphs and the summaries presented on the margins of the pages are not part of the audited Status Report.

Services segment, SinnerSchrader bundles together online media services, data analysis services and IT operating services that are needed for successfully and reliably operating and managing an Internet system.

SinnerSchrader Neue Informatik GmbH is active in the Interactive Software segment, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH in the Interactive Marketing segment, and SinnerSchrader Deutschland GmbH in the Interactive Services segment. These are directly or indirectly 100 % subsidiaries of the AG which the Group manages as a managing holding company.

SinnerSchrader offers extensive Internet services from three segments.

Structure of the SinnerSchrader Group



SinnerSchrader currently provides its services only from its German locations in Hamburg and Frankfurt am Main, primarily for companies based in Germany. The foreign subsidiaries of the AG that still belong to the Group – SinnerSchrader UK Limited, London, UK and SinnerSchrader Benelux BV, Rotterdam, the Netherlands – were not operatively active in the period covered by the report.

3 Market and Competitive Environment

The economic environment in Germany developed positively over the course of the 2005/2006 financial year and was the basis for an equally positive development in the two sub-markets relevant to SinnerSchrader: marketing and advertising on the one hand and IT services on the other.

» According to the Federal Statistical Office, the gross domestic product (“GDP”) grew in the last quarter of 2005 and in the first two quarters of 2006, in each case by more than 1 % in comparison to the previous year. In its prognosis published on 19 October 2006, the Committee of Experts is predicting GDP growth of 2.3 %.

» According to the Central Association of the German Advertising Industry, expenditure on advertising in Germany will increase by 2 % in 2006 in comparison to a rise of 1.1 % in the previous year.

» The German market for IT services will probably continue its good development – which started in 2005 with growth of 4.4 % – with a rise of 4.5 % in 2006.

SinnerSchrader benefits from the positive development of the economy and steady increase in the importance of the Internet.

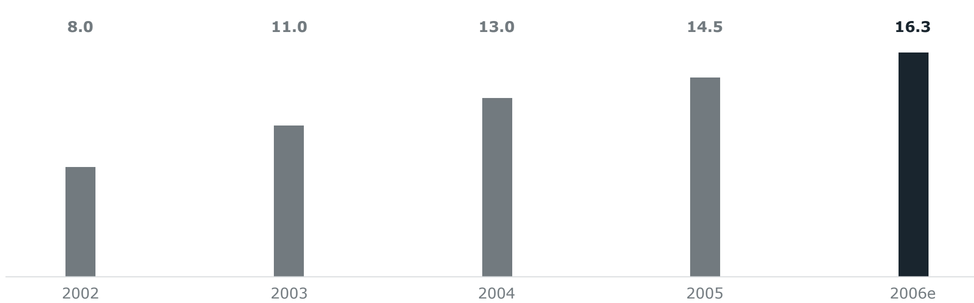
The continuing ingress of the Internet into everyday life has driven the development of SinnerSchrader's business forward much more than the more general market development.

» According to a poll by Forschungsgruppe Wahlen, an institute which conducts election polls for German television, the proportion of Germans over the age of 18 who use the Internet had risen by another two percentage points to 66 % in 2006 in comparison to the third calendar quarter of 2005.

» The number of broadband ADSL connections, which enable more extensive use of the offers on the Internet due to higher transmission speeds, rose by 30 % to 13.4 million connections in 2006 according to information from the European Information Technology Observatory. In 2005 the figure rose by 54 %.

» Revenue from e-commerce (purchases and orders of goods and services by end consumers over the Internet) will increase by over 12 % to € 16.3 billion in 2006 according to figures from the Central Association of German Retailers.

E-commerce revenues in Germany in € billion



Thanks to the above-mentioned developments, the Internet has continued to increase in importance for companies as a platform for customer acquisition and for shaping their relations with their customers. As a consequence, companies have increased – and are continuing to increase – their investments in establishing and expanding these platforms and in online communication with customers, from initial contact with the customer to support for regular customers. An impressive example of this is the development of expenditure for online advertising: the group of online marketers organised in the Federal Association for the Digital Economy is expecting expenditure for online advertising to grow by 59 % to € 1.6 billion in 2006.

This means that the growth in demand for interactive services that resumed two years ago continued in the 2005/2006 financial year and became even more dynamic. This greatly improved the business figures and the scope for action of the major providers on this market. Increasingly, they have considered and implemented – and are still considering and implementing – acquisitions to develop the provider landscape and their own positions. The aim of these efforts is, on the one hand, to utilise the convergence of interactive services with classic advertising and marketing services. On the other hand, a policy of consolidation in the still highly fragmented interactive service provider landscape is being pursued, while more new providers are entering the market due to growth. The announced negotiations about a merger between Pixelpark AG and Elephant Seven AG are the first time that a merger has been considered between two of Germany's ten biggest providers listed on the stock exchange. In this financial year, SinnerSchrader occupied a place in the top 5 in this group.

SinnerSchrader is one of the top 5 interactive service providers in Germany.

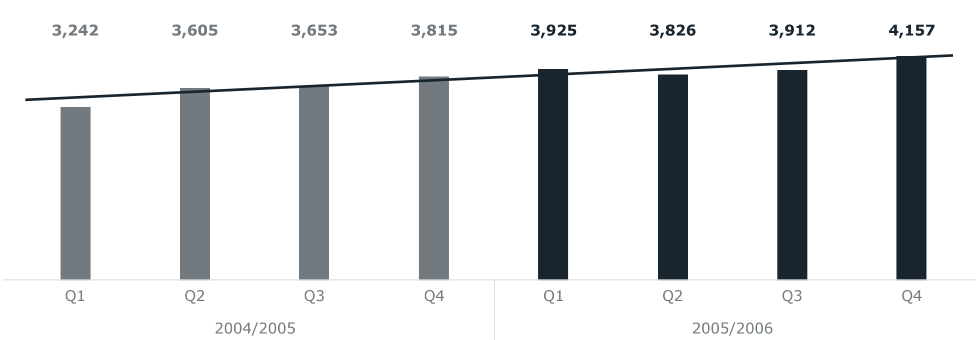
4 Business Development and Group Situation

Supported by the positive market development, in the 2005/2006 financial year Sinner-Schrader achieved revenue growth of 10.5 % and an operating result of just under € 0.6 million, measured before interest, tax and depreciation effects from acquisitions (EBITA). The targets set for operating development at the beginning of the financial year – revenue growth of between 10 % and 15 % and an EBITA of € 0.3 million to € 0.5 million – were achieved or exceeded. This and the move to new, cheaper office premises at the main location in Hamburg, which was completed at the end of the financial year, mean that SinnerSchrader has taken an important step in the direction of appropriate profitability in the 2005/2006 financial year. Due to the good operating development, the net income in 2005/2006 rose to just over € 1 million, or € 0.10 per share. The development in the financial year was exclusively organic, so the Group's financial and asset situation changed only very slightly. As of 31 August 2006 the liquidity reserve was € 10 million and the equity ratio amounted to a good 76 %.

The goals for the 2005/2006 financial year were achieved or surpassed: revenue growth of 10.5 %, EBITA of € 0.6 million.

The development of the key indices for business development and the Group's asset and financial situation in the period covered by the report will be described in the following.

Development of revenues according to quarters in € 000s



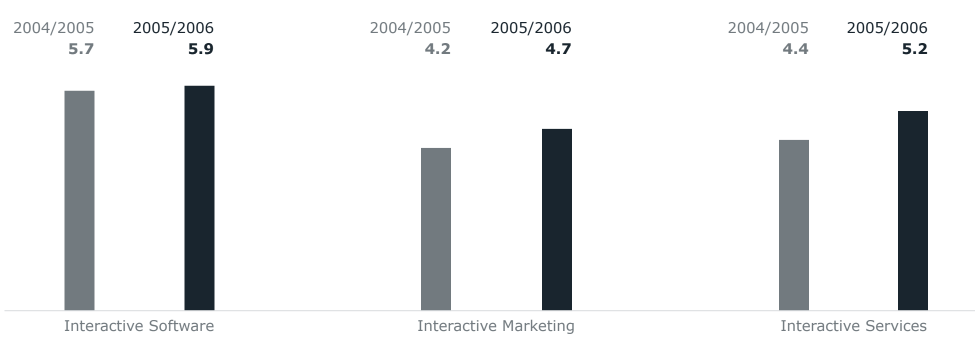
4.1 Revenue

In the 2005/2006 financial year SinnerSchrader earned revenue of € 15.8 million, thus exceeding the revenue of the previous year of € 14.3 million by 10.5 %. Following a strong first quarter, in which a growth rate of around 21 % in comparison to the previous year was achieved, the dynamics in the seasonally weak second quarter fell back to growth over the previous quarter of 6.1 %, but then rose again by the fourth quarter to reach a growth rate of 9 %, just slightly below the target corridor of 10 % to 15 %. With revenue of € 4.1 million in the fourth quarter, SinnerSchrader broke through the 4 million barrier for the first time since the first quarter of 2001/2002.

All three segments contributed to the revenue growth, with the biggest growth rates being achieved in Interactive Services again in the 2005/2006 financial year. Revenue with external customers in this segment amounted to € 5.2 million, 18 % more than in the previous year. Within the service portfolio of the segment, SinnerSchrader experienced an especially pleasing demand for operating services; this demand largely originated from customers who also have or had business relations with one of the other segments. By contrast, the growth of media services slowed down considerably in comparison to the previous year. This is not least due to the fact that SinnerSchrader, with its specialised orientation on so-called cost-per-order (CPO) transactions in the media segment, benefits only to a limited extent from the positive development in the online advertising market. No growth impetus came from analysis services in the year covered by the report because of the change in the business approach towards a larger share of consulting and project business.

All segments reported revenue growth in 2005/2006.

Development of revenues[1] according to segments in € million



[1] Revenues from business with external customers

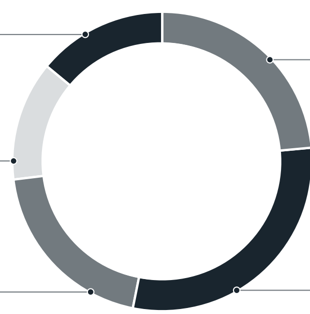
The rise in revenue in the Interactive Marketing segment amounted to 12.7 %. The volume of revenue with external customers was € 4.7 million in the 2005/2006 financial year. Consistent consolidation of some core customer relations and the acquisition of two large new high-potential customers in the second half of the financial year boosted growth. A temporary dip in growth in the second and third quarters was caused by the fact that a major customer from the automobile industry significantly reduced its orders to SinnerSchrader because of restructuring. However, this was more than compensated for by business with new customers, which underlines the fact that the Interactive Marketing segment has successfully established itself on the market.

In the Interactive Software segment, revenue with external customers rose by 2.5 % to reach € 5.9 million, which means that development in this segment was much more subdued in the year covered by the report than in the other two segments. If the services provided for other segments, especially Interactive Marketing, are taken into account, the growth rate rose to 5.4 %. A number of new customers were acquired in the segment, but these orders could not be expanded to an adequate size in the financial year. Business developed well with customers in the Banking and Financial Services sector, which is one of the main focal points of this segment. Here, the growth rate was just under 20 %.

With regard to the distribution of revenue from various sectors, this strong growth rate meant that the share of revenue from customers in the Financial Services sector, which had been falling steadily over recent financial years, rose again by three percentage points to 30 %. The share of the Media and Entertainment sector also increased greatly; in 2005/2006 it accounted for 13 % of total revenue (previous year: 7 %). The proportion of revenue from all other industries declined, falling to 23 % for Retail & Consumer Goods, 20 % for Transport & Tourism and 14 % for Communications & Technology.

Customers from the financial services industry increased their investment in Internet platforms.

Revenues according to sectors in %



With a revenue share of a good 17 %, the biggest customer came from the Financial Services sector. In the previous year it was a company from the Retail & Consumer Goods sector that led the customer list with a good 20 % share of revenue. In 2005/2006, the five biggest customers accounted for just under 61 % of total revenue, while the ten biggest customers accounted for 77 %. In the previous year, the comparable values were 64 % and 83 % respectively.

Two of the top ten customers were new; the new customer rate was 15 %.

As in the previous year, two of the ten biggest companies were new customers. In total, revenue with new customers in the 2005/2006 financial year was € 2.4 million, which corresponds to a share of 15 %. In the previous year the figures were € 3.1 and 21 %.

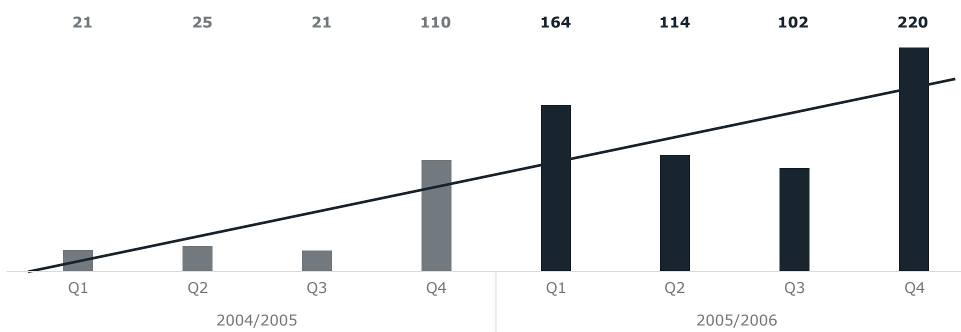
Measured in terms of the proportion of overall revenue, the segments have continued to balance out due to the different growth rates: Interactive Software was responsible for 37 %, Interactive Services for 33 % and Interactive Marketing for 30 % of total revenue. In the previous year, the shares were 40 %, 31 % and 29 %.

4.2 Operating Result

In the 2005/2006 financial year SinnerSchrader earned an operating result (measured by the EBITA) of just under € 0.6 million. This greatly exceeded the previous year's result of € 0.2 million and was a large step in the direction of appropriate operating profitability. The operating margin, the ratio from EBITA and revenue, more than trebled from 1.2 % in the previous year to 3.8 % in 2005/2006. There has therefore been a sustained rise in the operating margin over the quarters. In the fourth quarter of 2005/2006 the operating margin was already 5.3 %.

In each quarter, the operating result was above that of the previous year; the operating margin reached 5.3 % in the fourth quarter.

EBITA development according to quarters in € 000s



The improvement in profits and margins was brought about by the disappearance of restructuring costs. In the 2004/2005 financial year around € 0.36 million had to be reserved with an effect on costs for the last employment law disputes resulting from the personnel reduction measures of previous years and for compensation payments associated with the termination of the contract for the previous office premises in Hamburg. Comparable costs were not incurred in the 2005/2006 financial year.

Furthermore, in comparison to the previous year, administrative costs were reduced once again by € 0.08 million, and costs incurred for research and development activities were € 0.07 million lower. The expenditure on marketing and sales was stable.

In the 2005/2006 financial year, business growth did not yet result in an overall improvement in profits. Gross profit fell slightly by just under € 0.1 million. On the one hand, this is due to the normalisation of the margin situation in the business with media services, which came about as expected; as a result of this, the gross profit in this business fell by around € 0.21 million in spite of rising revenue. On the other hand, the deliberately greater use of external service providers, particularly in the Interactive Software segment, in order to make costs more flexible has resulted in a decline in gross profit with only a slight increase in business. Furthermore, we used more stringent standards for allocation to warranty reserves when evaluating projects, which also contributed to the decline in gross profit in the Interactive Software segment in particular.

The cost structure thus developed to the detriment of the costs of sales revenue, including media costs. In 2005/2006 this block of costs accounted for 70.8 % of revenue; in the previous year it was only 67.2 %. By contrast, the other cost blocks dropped significantly in terms of percentage of revenue in comparison to the previous year: marketing expenses fell from 7.8 % to 7.0 %, administrative expenses, including restructuring costs, fell from 23.4 % to 18.4 % and research and development costs fell from 0.9 % to 0.4 %.

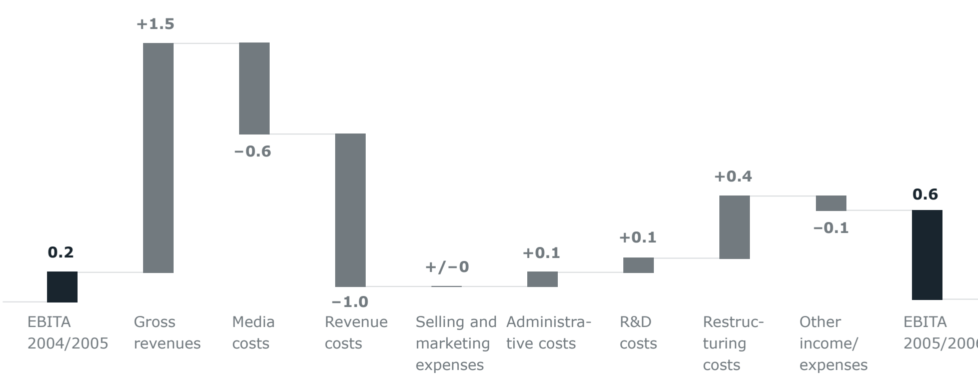
With the exception of the disappearance of the burden on the reserves for the compensation payment that has now been made, the move to smaller and cheaper office premises in Hamburg did not have a significant impact on the cost development of the year of the report in comparison to the previous year because the move only took place on 1 August 2006. In the cost breakdown according to cost types, the other operating costs therefore declined only by the amount of the compensation payment of around € 0.3 million to € 2.7 million, while depreciation (including the depreciation of the tenant's fixtures and fittings in the previous offices in Hamburg) once again accounted for around € 0.55 million. The efforts to use business growth to make the cost structure more flexible were clear in the development of personnel costs and costs for external service providers and material: whereas personnel costs remained at the level of the previous year at € 7.8 million, external costs doubled to almost € 1.6 million.

The move to new office premises as of 1 August 2006 reduced the cost basis for the coming financial years.

The balance from other income/expenses has not changed in comparison to the previous year and contributed around € 0.1 million to the EBITA. The positive contribution mainly came from the dissolution of the reserves formed in previous years.

The rise in EBITA was due primarily to the elimination of restructuring costs associated with the office premises.

EBITA reconciliation 2004/2005 to 2005/2006 in € million



The development of the segment results reflects that fact that the rise in the operating result in 2005/2006 was largely due to the disappearance of or improvements to administrative and restructuring costs. The operating segments improved their contribution to the income only slightly by € 0.04 million to € 1.86 million, whereas the remaining costs at the holding level fell by € 0.38 million. The Interactive Software and Interactive Services segments both slightly improved their segment results, while the result of the Interactive Marketing segment remained practically unchanged.

4.3 Annual Result

The positive development of the operating result was complemented by a slight improvement in the result from investing the liquidity reserve and a positive income tax effect from the formation of deferred tax assets on loss carry-forwards.

The financial result was stable.

The financial result increased slightly from € 0.22 million to € 0.23 million due to the continuous rise in the interest rate for short-term financial investments. In the 2005/2006 financial year, SinnerSchrader continued to invest the liquidity reserve on a short-term basis so that it was available without any major interest rate change risks. The 1-month Euribor relevant to such investments rose over the financial year from 2.11 % as of 31 August 2005 to 3.09 % on 31 August 2006. The resultant effect was greater than can be seen from the development of the financial result because in the previous year, too, there had been a contribution to the financial result from the partial repayment of an amortised financing of a participation in the amount of € 0.03 million.

This means that the earnings before tax in the 2005/2006 financial year were € 0.8 million, in comparison to € 0.4 million in the previous year.

Deferred taxes on loss carry-forwards led to a positive tax effect.

In spite of the positive pre-tax result, there was no current tax on income because the result could be completely offset against existing loss carry-forwards. Moreover, for the loss carry-forwards remaining after offsetting against the pre-tax earnings, deferred tax assets had to be formed with an effect on profits in accordance with international accounting standards. Due to the heightened expectation of future pre-tax profits after the last two financial years, with which the loss carry-forwards can be used, the basis for the formation of a value adjustment on the full active deferred tax assets disappeared, with the result that the use of the existing domestic loss carry-forwards in the statements for the 2005/2006 financial year had a full effect on profits. After offsetting with other deferred effects due to differences between international accounting and tax accounting, there was a deferred tax revenue of € 0.35 million. In the previous year, a tax revenue of € 0.15 million was achieved.

The net income in 2005/2006 was twice as high as in the previous year.

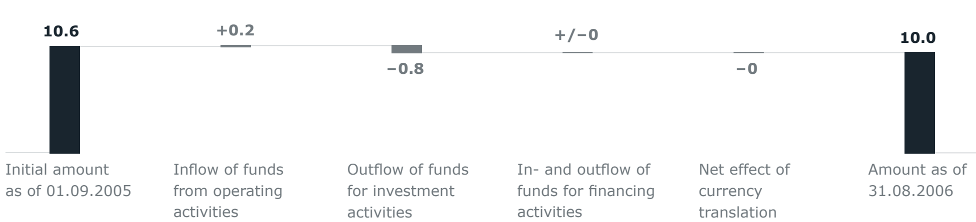
Overall, in the 2005/2006 financial year SinnerSchrader earned net income of almost € 1.2 million, which was thus more than twice as much as in the previous year. With around 11.4 million shares in circulation, this results in earnings per share of € 0.10, in comparison to € 0.05 in the previous year.

4.4 Cash Flow

Over the 2005/2006 financial year, the liquidity reserve from cash and cash equivalents – these are mainly marketable securities with a term or duration of less than three months – fell by almost € 0.6 million from € 10.6 million on 31 August 2005 to € 10.0 million on 31 August 2006. The expenditure on investment – which was high in comparison to previous years – of almost € 0.8 million could not be covered by the cash flow from operating activities of € 0.2 million.

The liquidity reserve decreased slightly due to investments.

Changes to cash and cash equivalents in € million



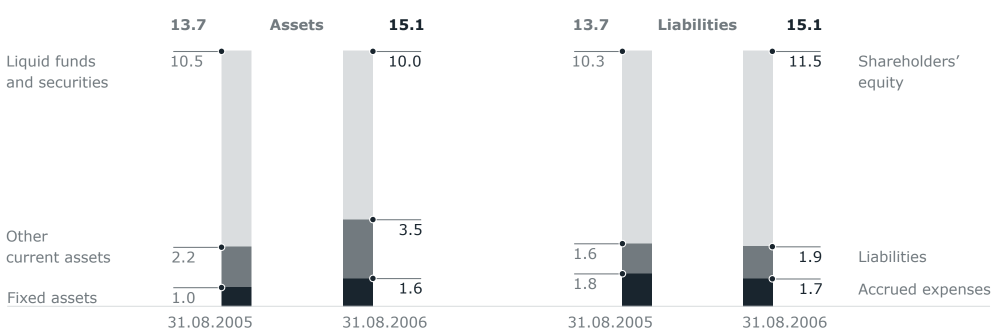
The cash flow from operating activities was comparatively low at around € 0.2 million in the 2005/2006 financial year. A large proportion of the net income of € 1.4 million, adjusted for depreciation and other income and expenditure not affecting liquidity, was tied up in greatly increased net current assets as per the balance sheet date, primarily in liabilities vis-à-vis customers. The accounts receivable rose beyond the level that would have been expected as part of the business expansion because the invoices for services rendered in July and August in particular were especially high and were not yet due for payment on the balance sheet date.

Cash flow from operating activities was countered by investment expenditure in the amount of nearly € 0.8 million. In conjunction with the move to new office premises in Hamburg at the end of July 2006, SinnerSchrader invested € 0.3 million in tenant's fixtures and fittings and € 0.1 million in procuring new office and business equipment. A further € 0.3 million were invested in IT hardware. The computer centre operated in the Interactive Services segment to provide hosting services was expanded for around € 0.1 million. Replacement and expansion procurements for the company's own server and network facilities and workstation equipment accounted for around € 0.2 million. Moreover, almost € 0.1 million were invested in updates and the expansion of the central accounting and controlling systems.

4.5 Asset and Financial Situation

The asset and financial situation of SinnerSchrader was stable in the 2005/2006 financial year in view of the exclusively organic development of business. The company is still debt-free and has a significant liquidity reserve of around € 10 million.

Balance Sheet as of 31.08.2005 and 31.08.2006 in € million



The equity ratio on the balance sheet date increased to 76.5 % compared to 75.2 % in the previous year.

The short-term current assets, without the liquidity reserve, increased by around € 1.4 million to around € 3.4 million from 31 August 2005 to 31 August 2006 because of business growth, which was particularly dynamic in the last two months of the year of the report. At € 0.1 million, this rise was only slightly covered by a parallel rise in short-term liabilities including the other reserves.

After years with a low investment level and falling fixed assets, in the 2005/2006 financial year SinnerSchrader once again made considerable investments in tangible assets and software. The relevant asset items rose by almost € 0.2 million.

Furthermore, the deferred tax asset item rose by € 0.36 million to € 0.5 million. Under IFRS, the value adjustment for deferred tax assets which related to the use of domestic loss carry-forwards had to be dissolved as of 31 August 2006 because the use of loss carry-forwards could no longer be classed as less probable on account of future profits.

Due to the above-mentioned developments of the asset items, the balance sheet total rose by a total of € 1.3 million to a value of € 15.1 million on 31 August 2006. In the year of the report, the equity rose to € 11.5 million on account of the net income achieved in the financial year. This means that the equity ratio on the balance sheet date was 76.5 % in comparison to a rate of 75.2 % one year earlier.

4.6 Employees

The average number of people employed in the 2005/2006 financial year, standardised to a full-time basis, was 129 (including the Management Board and managements of the operating companies, apprentices and trainees) and was therefore approximately 3 full-time employees or 2.2 % below the capacity of the previous year, in spite of business growth.

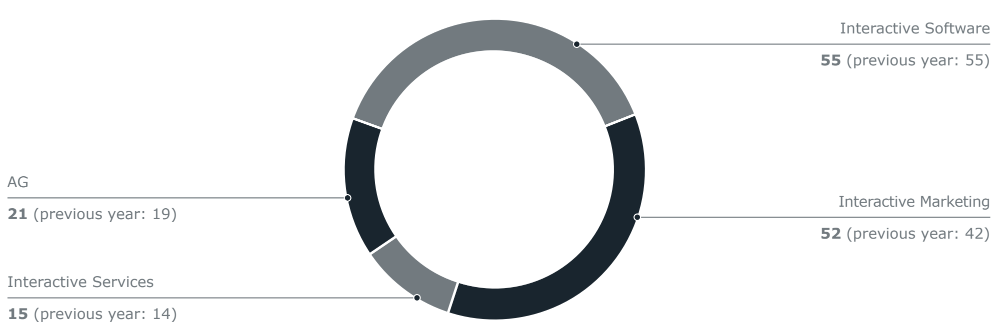
Restrictive capacity management made the cost structure more flexible.

Thanks to the diametrically opposed development of revenue and employee capacity, which necessitated the increased use of freelancers, SinnerSchrader managed to make its cost basis more flexible. The revenue per full-time employee rose by 13 % from € 109,000 to € 123,000.

The decrease in capacity took place only in the Interactive Software segment, where the average number of full-time employees fell from 58 to 53. The external services rate was lowest in this segment in previous years. By contrast, the Interactive Marketing segment slightly expanded its capacity by two full-time employees in the 2005/2006 financial year, while the average number of employees in the Interactive Services segment and the managing holding company remained the same at 14 and 18 full-time employees respectively.

At the end of the financial year, the number of employees increased again to 143.

Employee structure as of 31.08.2006



As of 31 August 2006, SinnerSchrader had 143 full- and part-time employees (including the Management Board, the managements of the operating companies, apprentices and trainees). Standardised to a full-time basis, this corresponds to around 136 employees. The year-end figures show that SinnerSchrader started to expand its capacity again with the continued growth of business at the end of the reporting year.

5 Development and Situation of SinnerSchrader AG

SinnerSchrader AG is the managing holding company of the SinnerSchrader Group. As in the previous year, its business activities mainly comprise guiding, controlling and financing the operative companies in the Group, administering and controlling Group liquidity, managing the German tax integration, providing and administering the infrastructures jointly used by the Group companies (in particular the office space), providing centralised administrative services and performing central Group tasks, such as investor relations work.

There are direct or indirect profit and loss transfer agreements between SinnerSchrader AG and the German subsidiaries, SinnerSchrader Deutschland GmbH, SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH. This means that the profits and losses from operating business are also reflected in the individual result of the AG for the relevant year of the report, in each case as income from transfers of profits or as expenditure from transfers of losses.

With respect to the provision of infrastructure and the central provision of administrative services, SinnerSchrader AG is in a direct business relationship with the German subsidiaries; it charges them for the services rendered and earns its own revenue from this.

The annual result of the AG, determined according to German accounting principles, amounted to € 3.5 million in the 2005/2006 financial year. As in the previous year, the result greatly exceeded the net income in the Group.

The net income in the individual financial statements considerably surpassed the consolidated income on account of an increase in the value of investments in subsidiaries and associated companies.

The difference of approximately € 2.4 million between the net income in the financial statements of the AG and the Consolidated Financial Statements is mainly due to the fact that the AG has to write up the value of its participation in SinnerSchrader Deutschland GmbH, in which the entire operating business of the SinnerSchrader Group is bundled, up to the original acquisition value in the event of increases in value. Due to the operating result of the financial year and the strengthening of the positive outlook, the value determination for SinnerSchrader Deutschland GmbH resulted in a value increase of € 2.5 million to a new value of € 14.0 million on the basis of the discounted cashflow method. The value recovery as of 31 August 2006 correspondingly resulted in other operating income in the AG’s statement of operations.

In the previous year, value recovery in the amount of € 3.5 million was achieved. This difference, and the disappearance of the one-off income from the sale of treasury stock in the amount of € 1 million, largely explains why the previous year’s net income of € 5.6 million could not be reached again in the year of the report.

The AG's further revenue, income and expenditure items developed stably in the 2005/2006 financial year in comparison to the previous year. Revenue from services provided for the subsidiaries grew by € 0.1 million to € 2.4 million. Thanks to the profit and loss transfer agreement with the subsidiaries, income of € 1.6 million flowed into the AG. In contrast with the operating results according to IFRS, the income to be paid was € 0.2 million below that of the previous year. This is due to the differences between international and German accounting principles with regard to revenue and income realisation from projects.

The income of around € 0.2 million earned by the AG from investing liquid funds, balanced with interest and interest-like expenses, was comparable to that of the previous year.

The total operating costs of nearly € 3.3 million, comprising expenditure on material, personnel, depreciations and other operating expenditure, hardly changed in the 2005/2006 financial year in comparison to the previous year. A slight increase in personnel costs was compensated for by the reduction of depreciations and other operating expenses.

Once again, there was no income tax in the year of the report. The pre-tax profit, adjusted for non-taxable value recovery and other non-taxable profit components, could not be completely offset against existing loss carry-forwards in the domestic tax group.

The net income was used to strengthen reserves.

In accordance with Article 58 paras 2 and 2a of the German Stock Corporation Act ("Aktiengesetz"), in conjunction with the Statutes of SinnerSchrader AG, an amount of almost € 3.3 million from the net income was posted in the other reserves, which thus amounted to € 9.5 million on 31 August 2006. The remaining share of the net income increased the balance sheet profit to around € 0.8 million. On the balance sheet date, the equity thus totalled € 24.6 million.

On the liabilities side of the balance sheet, the increase in equity was accompanied by a reduction of the other reserves by € 0.3 million to € 0.5 million and a reduction of other liabilities by almost € 0.5 million to € 0.1 million. These changes were associated with the termination of the tenancy of the former office space in Hamburg by moving to new premises at the end of July 2006. On the one hand, the existing pending loss reserves for the unoccupied old premises were completely used up, and on the other hand, when the old premises were vacated, compensation payments became due that had been posted as other liabilities when termination was issued in the previous year.

The equity ratio of the AG amounts to 97.0 %.

The rise in the balance sheet total in the year of the report was correspondingly around € 0.7 million lower than the rise in equity. As a result, the equity ratio rose further and reached a value of 97 % on 31 August 2006 compared with 94 % at the end of the previous year.

The corresponding increase in assets largely took place in the shares in associated companies, which were upgraded by € 2.5 million. Furthermore, the liabilities vis-à-vis Group subsidiaries increased by around € 0.4 million. By contrast, the level of liquid funds and securities fell slightly by € 0.1 million.

Within securities, the value of treasury stock rose slightly, but the 131,347 shares of treasury stock were not increased by further buy-backs. Due to the development of the closing price of the SinnerSchrader share from € 1.39 on 31 August 2005 to € 1.53 on 31 August 2006, the value adjustment to treasury stock made in the previous year was reversed.

6 Risks and Opportunities for Future Business Development

In its business, SinnerSchrader is subject to many risks which could have a negative impact on the Group's and the AG's asset, financial and income situation or could result in SinnerSchrader failing to meet the goals it has set for future business development.

It is necessary to take risks when engaged in entrepreneurial activity aimed at earning profits. To ensure that the success is sustainable, it is important to manage these risks. On the one hand, this means evaluating them for probability of occurrence and the possible impact on the asset, financial and income situation and continuously monitoring them. On the other hand, it means identifying measures with which risks can be limited or avoided and – with regard to the Group's own core expertise, financial strength and the costs of the relevant measures – defining which limitation or avoidance measures should be taken to what extent for which risks.

Risk management is the responsibility of the Management Board.

In managing the Group, it is one of the key tasks of the Management Board to define general conditions and processes for risk management for the SinnerSchrader Group, to monitor compliance with them and to regularly analyse the development of the risks in each division with the managers of the operating units and administrative divisions.

The SinnerSchrader Group's risk management system and the risk profiles of the individual divisions are documented in a risk manual. An employee from the financial division of the AG has been appointed the Group's risk officer and has been commissioned to ensure that the specified risk management system is internally evaluated on a regular basis and that the results of this evaluation are documented at least once a year. Furthermore, it is the task of the risk officer to randomly analyse individual divisions on behalf of the Management Board with regard to the extent to which the specified measures to limit or avoid risks are being implemented.

It is the responsibility of the managers of the individual divisions to continuously monitor and manage the risks in their own divisions. If there is a significant increase in the degree of individual risks above a specified threshold, the managers are required to report this immediately to the Management Board.

Good risk management depends on quickly and reliably providing information to the management about the course of business. To this end, SinnerSchrader has set up a controlling and reporting system which reports on a monthly basis on the development of key business data in the individual divisions and on the financial results.

The risk situation has hardly changed since last year.

As far as the key risk areas are concerned, the risk profile of the SinnerSchrader Group has hardly changed in the 2005/2006 financial year. In the following, individual important risk areas will be explained in more detail. This selection of risks does not mean that there can be no significant impact on the asset, financial and income situation of SinnerSchrader from other risks that have not been mentioned.

» Economic Risks
The general economic development influences the volume of investments in IT and Internet services as well as expenditure on online advertising and supporting services. A deterioration in the economic situation could further reduce the market volume addressed by SinnerSchrader with regard to quantity and price. The measures for capacity adjustment which are necessary as a reaction to such a development may be effective only with a time lag and would once again lead to costs for restructuring measures.

» Competition
Competition in the market for IT and Internet services has increased continuously in recent years. In particular, there are providers active in this market – or who are appearing on this market – who have a broader portfolio of services, more international business and longer and better-established customer relationships than SinnerSchrader. The future development of SinnerSchrader largely depends on how well SinnerSchrader succeeds in establishing adequate prices on the market for its services as a specialised service provider without the means of temporary cross-subsidisation.

The extent to which the procurement of programming services in emerging nations becomes more important for competitiveness in relation to the individual developments offered by SinnerSchrader is also significant in this context. SinnerSchrader does not currently have sources for such services and, if necessary, could only build them up over time. Bigger competitors with an international market presence already have the relevant structures or would be able to establish them more quickly.

» Operational Risks
Sinner Schrader earns 17 % of its revenue with one customer; the five biggest customers have a joint share of almost 61 % of revenue. In the best case, it would only be possible to compensate for the loss of the business of these important customers after a considerable amount of time, and during this time it would not be possible to reduce costs correspondingly.

The proportion of revenues from the largest customer dropped from 20 % to 17 % in 2005/2006.

Since SinnerSchrader's business revenues are not secured by long-term contracts, but instead largely come about on the basis of individual orders for a limited period, revenue plans are subject to a high degree of uncertainty. The tendency of SinnerSchrader's customers to commission whole projects in small steps has not yet diminished, with the result that orders on hand do not extend beyond one quarter's revenue.

SinnerSchrader processes a major part of its revenue within the framework of fixed price agreements. Because of complexity and high technical demands, the originally calculated costs may be exceeded, resulting in unplanned losses. Furthermore, SinnerSchrader assumes standard guarantee and liability stipulations within the framework of project contracts, which can result in considerable follow-up costs for individual projects.

The projects that SinnerSchrader undertakes for renowned customers sometimes have a considerable effect in the public sphere. Quality deficiencies in providing the service can therefore result in negative publicity, which could significantly impair the sale of services and thus future business development.

» Personnel Risks
The success of SinnerSchrader is heavily dependent on the qualification and motivation of its staff. Particular importance is attached to certain employees in key positions. If SinnerSchrader does not succeed in keeping these employees in the company or in continuously hiring qualified employees, the success of SinnerSchrader may be significantly impaired because of the loss of expertise.

» Technological Risks
The market for IT and Internet services is characterised by a high rate of change in the basic technologies used and by a level of standardisation which remains low. The future market success of SinnerSchrader depends on the extent to which the breadth and depth of the technological expertise can be kept at an adequate level and technological dead-ends can be avoided in view of high employee training costs with limited resources.

» Risks from Acquisitions
SinnerSchrader is also interested in expanding its market position in Germany through targeted acquisitions. The success of acquisitions depends on the extent to which the acquired company can be integrated in the Group structure and the desired synergies are achieved. In this context, acquisitions in the field of professional services entail a particular risk in that the expertise, market knowledge and customer relations which are being acquired are rarely permanently tied to the acquired company. Unsuccessful integration can therefore quickly lead to the need for considerable depreciation, or even a total loss of the investment.

In spite of the relevance of the risks listed above and on the basis of the available information, no risks are currently apparent that would threaten the future existence of the SinnerSchrader Group or SinnerSchrader AG. Because of the positive business development in the 2005/2006 financial year, the asset and financial situation of the Group is stable.

Our brand name and customer base offer key opportunities.

The risks are countered by opportunities, and SinnerSchrader could exceed its goals if they occur. The main opportunities lie with existing customers, the SinnerSchrader brand name and the performance of some key members of staff, especially those with sales and customer care tasks. Above and beyond what is assumed in the plans, these three factors could result in currently unforeseeable individual orders from existing customers or a higher-than-planned new customer rate.

Another opportunity lies in the development of the prices that can be achieved on the market for SinnerSchrader services. The rising demand for the services offered by SinnerSchrader could result in SinnerSchrader being able to achieve higher prices on the market than assumed in the plans.

Furthermore, a successful acquisition could bring about a very positive change in the planned development. The forecasts are based only on the organic development of SinnerSchrader.

7 Forecast

At the start of the new 2006/2007 financial year, the general data for SinnerSchrader's business development continues to be positive. The importance of the Internet for shaping relations between companies and customers will continue to increase. The triumphal progress of search engine marketing, which started in 2005, and the current trend towards greater interaction among and with users/customers of Internet systems, linked to the buzzword "Web 2.0", document the dynamism with which Internet business is developing. According to the annual Technology Fast 500 survey conducted by Deloitte, in 2006 American CEOs continued to believe that the "Internet/IP" industry segment would be the segment with the strongest growth in the three years ahead. With an overall positive expectation of economic development in Germany, for which the burden caused by the imminent rise in VAT seems to be growing less important, SinnerSchrader is expecting double-digit growth rates in the market for interactive services in Germany.

Interactive services remain an attractive growth market.

Due to the positive overall environment, its market position as one of the five biggest Internet service providers in Germany and the current orders on hand, SinnerSchrader expects organic revenue growth of 15 % to over € 18 million in the 2006/2007 financial year.

Our goals for 2006/2007: revenue growth of 15 % and an EBITA of around € 1.2 million.

Now that the last legacy of the boom phase of 1999/2000 has been removed following the move into new office space in Hamburg in July 2006, in the 2006/2007 financial year SinnerSchrader will come much closer to its medium-term goal of an operating margin of between 10 % and 12 %. According to the current forecast, the operating result (EBITA) will double over that achieved in the 2005/2006 financial year and will be on the order of € 1.2 million.

All business segments will contribute to the planned rise in revenue and income. After strong growth rates in the Interactive Services segment in the 2004/2005 and 2005/2006 financial years, the dynamism in the Interactive Software and Interactive Marketing segments should increase in 2006/2007.

Since the advantages of offsetting losses against tax already had to be taken into account in the 2005/2006 statement of operations, the operating development will only be reflected in the net income to a limited extent.

For 2007/2008 SinnerSchrader expects to be able to continue with double-digit growth and to increase the EBITA disproportionately.

Acquisitions remain an option for growth.

Furthermore, it remains the goal of SinnerSchrader to expand its service portfolio by means of acquisitions and to develop further potential for growth and results.

Hamburg, October 2006

The Management Board

Matthias Schrader Thomas Dyckhoff

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Consolidated Financial Statements of SinnerSchrader AG

Consolidated Balance Sheets, Acc. to IFRS

as of 31 August 2006 and 31 August 2005

Assets in €	Notes No./Page	31.08.2006	31.08.2005
Current assets:			
Liquid funds	3.9/52	2,510,285	9,614,529
Marketable securities	5.5/60	7,495,189	955,622
Cash and cash equivalents		10,005,474	10,570,151
Accounts receivable, net of allowances for doubtful accounts of € 156,759 and € 155,924 at 31.08.2006 and 31.08.2005, respectively	3.7/52	2,774,928	1,553,805
Unbilled revenues	5.3/59	410,649	170,404
Tax receivables	5.4/60	125,920	178,274
Other current assets and prepaid expenses	5.4/60	105,205	152,877
Total current assets		13,422,176	12,625,511
Non-current assets:			
Intangible assets	5.1/58	109,899	101,172
Property and equipment	5.1/58	1,028,960	872,586
Deferred tax assets	6.5/65	505,824	146,962
Total non-current assets		1,644,683	1,120,720
Total assets		**15,066,859**	**13,746,231**

Liabilities and shareholders' equity in €	Notes No./Page	31.08.2006	31.08.2005
Current liabilities:			
Trade accounts payable	3.11/53	1,240,316	801,924
Advance payments received		280,772	313,187
Accrued expenses	5.7/61	1,709,274	1,465,386
Deferred income and other current liabilities	5.8/62	305,234	831,697
Total current liabilities		3,535,596	3,412,194
Shareholders' equity:			
Common stock, stated value € 1, issued: 11,542,764 and 11,542,764, outstanding: 11,411,417 and 11,411,417 at 31.08.2006 and 31.08.2005, respectively	5.6/61	11,542,764	11,542,764
Additional paid-in capital	5.6/61	17,596,005	17,596,005
Reserves for share-based compensation		17,121	9,165
Treasury stock, 131,347 and 131,347 at 31.08.2006 and 31.08.2005, respectively	5.6/61	− 200,933	− 200,933
Accumulated deficit		− 17,449,040	− 18,640,760
Changes in shareholders' equity not affecting net income	5.6/61	25,346	27,796
Total shareholders' equity		11,531,263	10,334,037
Total liabilities and shareholders' equity		**15,066,859**	**13,746,231**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Operations, Acc. to IFRS
for the 2005/2006 and 2004/2005 financial years

in €	Notes No./Page	2005/2006	2004/2005
Revenues, gross	3.15/53	15,818,961	14,315,141
Media costs		−2,665,433	−2,092,386
Total revenues, net		13,153,528	12,222,755
Cost of revenues		−8,544,469	−7,524,276
Gross profit		**4,609,059**	**4,698,479**
Selling and marketing expenses		−1,114,709	−1,120,210
General and administrative expenses		−2,910,013	−2,993,872
Research and development expenses	3.17/54	−61,275	−131,795
Restructuring and other related costs	6.2/64	—	−356,275
Operating profit		**523,062**	**96,327**
Other income, net	6.3/65	77,123	80,771
Financial income, net	6.4/65	234,330	218,789
Profit before provision for income tax		**834,515**	**395,887**
Income tax	6.5/65	357,205	148,412
Net profit		**1,191,720**	**544,299**
Net income per share (basic)	6.6/68	0.10	0.05
Net income per share (diluted)	6.6/68	0.10	0.05
Weighted average shares outstanding (basic)	6.6/68	11,411,417	11,333,908
Weighted average shares outstanding (diluted)	6.6/68	11,414,556	11,345,570

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity, Acc. to IFRS
for the 2005/2006 and 2004/2005 financial years

in €	Notes No./Page	Number of shares outstanding
Balance at 31.08.2004		**10,937,164**
Unrealised gains and losses on marketable securities	5.5/60	—
Foreign currency translation adjustment	3.3/50	—
Changes in shareholders' equity not affecting net income		—
Net income		—
Deferred compensation	5.6/61	—
Re-issuance of treasury stock	5.6/61	474,253
Balance at 31.08.2005		**11,411,417**
Unrealised gains and losses on marketable securities	5.5/60	—
Foreign currency translation adjustment	3.3/50	—
Changes in shareholders' equity not affecting net income		—
Net income		—
Deferred compensation	5.6/61	—
Balance at 31.08.2006		**11,411,417**

Common stock	Additional paid-in capital	Reserves for share-based compensation	Treasury stock	Retained earnings/ losses	Changes in share-holders' equity not affecting net income	Total shareholders' equity
11,542,764	**16,594,840**	**8,122**	**−926,438**	**−19,185,059**	**19,445**	**8,053,674**
—	—	—	—	—	8,389	8,389
—	—	—	—	—	−38	−38
—	—	—	—	—	8,351	8,351
—	—	—	—	544,299	—	544,299
—	—	1,043	—	—	—	1,043
—	1,001,165	—	725,505	—	—	1,726,670
11,542,764	**17,596,005**	**9,165**	**−200,933**	**−18,640,760**	**27,796**	**10,334,037**
—	—	—	—	—	−2,447	−2,447
—	—	—	—	—	−3	−3
—	—	—	—	—	−2,450	−2,450
—	—	—	—	1,191,720	—	1,191,720
—	—	7,956	—	—	—	7,956
11,542,764	**17,596,005**	**17,121**	**−200,933**	**−17,449,040**	**25,346**	**11,531,263**

Consolidated Statements of Cash Flows, Acc. to IFRS
for the 2005/2006 and 2004/2005 financial years

in €	Notes No./Page	2005/2006	2004/2005
Cash flows from operating activities:			
Net profit/loss		1,191,720	544,299
Adjustments to reconcile net profit/loss to net cash used in operating activities:			
Depreciation of property and equipment	5.1/58	552,198	540,993
Stock-based compensation	7/69	7,956	1,043
Bad debt expense		835	−250
Gains/losses on the disposal of fixed assets	6.3/65	36,987	3,539
Deferred tax provision	6.5/65	−357,205	−148,412
Other non-cash expense/revenue		—	−25
Changes in assets and liabilities:			
Accounts receivable	3.7/52	−1,221,957	226,022
Unbilled revenue	5.3/59	−240,245	183,024
Tax receivables	5.4/60	52,354	390,142
Other current assets and prepaid expenses	5.4/60	47,673	65,103
Accounts payable, deferred revenues and other liabilities	5.8/62	−120,486	599,204
Other accrued expenses	5.7/61	243,876	383,808
Net cash provided by (used in) operating activities		**193,706**	**2,788,491**
Cash flows from investing activities:			
Purchase of property and equipment	5.1/58	−763,586	−229,599
Proceeds from sale of equipment		9,299	5,145
Net cash provided by (used in) investing activities		**−754,287**	**−224,454**
Cash flows from financing activities:			
Payment for shareholders		—	−20,768,780
Incoming payment for treasury stock	5.6/61	—	1,726,670
Net cash provided by (used in) financing activities		**—**	**−19,042,110**
Net effect of rate changes on in cash and cash equivalents		−4,096	9,809
Net increase/decrease in cash and cash equivalents		**−564,677**	**−16,468,264**
Cash and cash equivalents at beginning of period	3.10/53	10,570,151	27,038,415
Cash and cash equivalents at end of period	3.10/53	10,005,474	10,570,151
thereof back-up of bank guarantees		680,563	1,478,668
For information only, contained in cash flows from operating activities:			
Interest payment received	6.4/65	191,427	39,240
Paid interest	6.4/65	−1,476	−19,927

Notes to the Consolidated Financial Statements for the 2005/2006 Financial Year

1 General Foundations and Business Activities of the Company

The Consolidated Financial Statements of SinnerSchrader AG and its subsidiaries (hereinafter referred to as the "Sinner-Schrader Group", "SinnerSchrader" or "Group") for the 2005/2006 financial year were completed according to the International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board ("IASB") in force on the report date, 31 August 2006, taking account of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), and they correspond to the supplementary requirements of Article 315a of the German Commercial Code ("HGB"). The Consolidated Financial Statements as of 31 August 2006 were drawn up according to the decision of the Management Board of 20 October 2006. In principle, it is possible for the Annual General Meeting to amend the Consolidated Financial Statements after release for publication.

In the 2005/2006 financial year, SinnerSchrader was required to draw up its Consolidated Financial Statements according to IFRS for the first time. In previous financial years, Sinner-Schrader had drawn up its Consolidated Financial Statements with discharging effect on the basis of the United States Generally Accepted Accounting Principles ("US-GAAP"). Details concerning the transition from US-GAAP to IFRS and the differences relevant to SinnerSchrader are explained in 2.

The SinnerSchrader Group is a service company mainly active in Germany with its headquarters in Hamburg. With its services, SinnerSchrader supports its customers in the use of interactive technologies, especially the Internet. In particular, Sinner-Schrader provides the following services:

» Conception, implementation and servicing of custom-made interactive IT systems
» Consulting, conception, design and technical implementation of interactive advertising and marketing campaigns and measures for brand management on the Internet
» Planning and management of online marketing campaigns
» Technical operation and administration of Internet-based IT systems
» Structuring, analysis and preparation of data on the behaviour of users of interactive systems

The SinnerSchrader Group started its work in 1996. Sinner-Schrader AG was founded in 1999 as a new managing parent company. All 11,542,764 shares issued of SinnerSchrader AG have been approved for trade in the Regulated market of the Frankfurt Stock Exchange.

2 Explanations on the Change in Accounting from US-GAAP to IFRS

The Annual Financial Statements of SinnerSchrader Aktiengesellschaft ("SinnerSchrader AG" or "Company") have been compiled in accordance with the regulations of the German Commercial Code and the German Stock Corporation Act. The Company is considered to be a large company limited by shares within the meaning of Article 267 of the German Commercial Code.

On 19 July 2002, EU Regulation No. 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards was passed. According to this, all publicly traded companies are required to prepare their consolidated accounts using IFRS for financial years that start after 1 January 2005.

2.1 Principles of the First Use of IFRS

The 2005/2006 financial year from 1 September 2005 to 31 August 2006 is the first year in which SinnerSchrader has had to prepare its Consolidated Financial Statements under IFRS in accordance with the EU Regulation. In the past, the Consolidated Financial Statements were prepared according to US-GAAP. Since IFRS requires comparative figures, the 2004/2005 financial year also has to be shown according to IFRS retrospectively. 1 September 2004 is therefore deemed to be the date of transition from US-GAAP to IFRS.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" specifies the methodology of the change. According to this, an opening balance sheet is to be drawn up for the date of transition. In this connection, the regulations in force on the balance sheet date of the first IFRS report are decisive for the preparation of the opening balance sheet. For SinnerSchrader, this date was 31 August 2006.

All necessary adjustments to the balancing and evaluation methods must be made retrospectively. The resultant differences between the entries of assets and liabilities in the balance sheet of 31 August 2004 under US-GAAP and those on 1 September 2004 under IFRS had to be offset against the revenue reserves with a neutral effect on profit. A reduction in assets or increase in liabilities resulting from the use of IFRS led to a reduction in shareholders' equity, and an increase in assets or reduction in liabilities led to in an increase in shareholders' equity.

The level of knowledge and awareness that was the basis of the preparation of the reports for the 2004/2005 financial year was decisive for drawing up the opening balance sheet as of 1 September 2004 and determining the comparative figures for the 2004/2005 financial year. Improved findings that were received after the day of issue of the relevant audit certificate only had to be taken into account in the subsequent financial year.

2.2 Main Differences in Accounting under IFRS and US-GAAP
When changing over the opening balance sheet as of 1 September 2004 and the financial report for the 2004/2005 financial year, the following differences between accounting according to IFRS and US-GAAP had an effect for SinnerSchrader:

» Share-based Compensation
According to IFRS 2 "Share-based Payment", share-based compensation must be recorded with an effect on income. In this connection, the proportion of the market value on the issue date that is applicable to the period of the report should be entered in the statements of operations as personnel costs. These costs shall be formed in the relevant corresponding amount in the shareholders' equity. IFRS 2 is to be used for the first time in reporting periods that start on or after 1 January 2005. When using it for the first time, it is essential to ensure that the regulations of IFRS 2 are applied retrospectively to share-based compensations issued after 7 November 2002 for which the waiting period had not yet expired as of 1 January 2005.

Under US-GAAP, SinnerSchrader had the option, until 31 August 2005, of entering share-based compensation plans on the balance sheet at their internal value in accordance with Accounting Principles Board Opinion ("APB") No. 25 and to present the effect of the market-value approach on the income as pro-forma information in the Notes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123. From 1 September 2005, SFAS No. 123 (R) was to be applied to SinnerSchrader according to US-GAAP, and the expenses for employee options were to be treated with an effect on income. The required prospective use of SFAS No. 123 (R) starting in the first reporting quarter of 2005/2006 applied proportionately to all employee options for which the waiting period had not expired at the start of the reporting period.

When preparing the opening balance sheet as of 1 September 2004 according to IFRS, the use of IFRS 2 resulted in additional personnel expenses in the amount of € 8,122, which increased the loss carry-forwards as of 1 September 2004. According to IFRS 2, an item known as "Reserve for Share-based Compensation" had to be formed as a balancing position in the shareholders' equity.

» Reporting Deferred Taxes
Deferred taxes must be reported as long-term balance sheet items according to IFRS. Under US-GAAP, a distinction had to be made between long-term and short-term deferred taxes within the items for deferred taxes.

» Reporting Usage Rights for Software
Under IFRS, usage rights for software have to be reported as intangible assets. Under US-GAAP, Sinner-Schrader had subsumed them under tangible assets.

Table 1a shows the transfer of the balance sheet as of 31 August 2004 according to US-GAAP to the opening balance sheet as of 1 September 2004 under IFRS:

Tab. 1a | **Reconciliation of balance sheet as of 1 September 2004** in €

	Acc. to US-GAAP 31.08.2004	Reclassification not affecting net income	Acc. to IFRS 01.09.2004
Assets			
Current assets:			
Liquid funds	1,334,258	—	1,334,258
Marketable securities	25,704,158	—	25,704,158
Accounts receivable, net of allowances for doubtful accounts	1,779,577	—	1,779,577
Unbilled revenues	353,428	—	353,428
Tax receivables	—	568,417	568,417
Other current assets and prepaid expenses	786,397	–568,417	217,980
Deferred tax assets	—	—	—
Total current assets	29,957,818	—	29,957,818
Non-current assets:			
Intangible assets	—	56,179	56,179
Property and equipment	1,293,835	–56,179	1,237,656
Deferred tax assets	—	—	—
Total non-current assets	1,293,835	—	1,293,835
Total assets	**31,251,653**	**—**	**31,251,653**
Liabilities and shareholders' equity			
Current liabilities:			
Liability to shareholders	20,768,780	—	20,768,780
Trade accounts payable	428,171	—	428,171
Advance payments received	70,094	—	70,094
Accrued expenses	1,081,589	—	1,081,589
Deferred income and other current liabilities	762,504	—	762,504
Total current liabilities	23,111,138	—	23,111,138
Non-current liabilities	86,841	—	86,841
Shareholders' equity:			
Common stock, stated value 1 €, issued: 11,542,764, outstanding: 10,937,164	11,542,764	—	11,542,764
Additional paid-in capital	16,594,840	—	16,594,840
Reserves for share-based compensation	—	8,122	8,122
Treasury stock, 605,600 at 31.08.2004	–926,438	—	–926,438
Accumulated deficit	–19,176,937	–8,122	–19,185,059
Changes in shareholders' equity not affecting net income	19,445	—	19,445
Total shareholders' equity	8,053,674	—	8,053,674
Total liabilities and shareholders' equity	**31,251,653**	**—**	**31,251,653**

The transfer of the consolidated shareholders' capital as of 31 August 2004 according to US-GAAP to consolidated shareholders' capital in the opening balance sheet of 1 September 2004 under IFRS is as follows:

Tab. 1b | Reconciliation of consolidated shareholders' equity in €

Shareholders' equity acc. to US-GAAP as of 31.08.2004	**8,053,674**
Increasing of reserves for share-based compensation	8,122
Increasing of accumulated deficit caused by share-based compensation	–8,122
Shareholders' equity acc. to IFRS as of 01.09.2004	**8,053,674**

When transferring the balance sheet as of 31 August 2005 according to US-GAAP to the balance sheet according to IFRS, the following items had to be adjusted:

» In the shareholders' capital, a reserve for stock-based compensation in the amount of € 9,165 had to be formed; the accumulated loss thus rose from € –18,631,595 to € –18,640,760.
» Software with a book value of € 101,172 had to be moved from the tangible assets to the intangible assets.
» Tax receivables in the amount of € 178,274 had to be reported separately from the other current assets and prepaid expenses.
» The deferred tax assets had to be moved from the group of current assets to the group of non-current assets.

In the transfer of the statements of operations for the 2004/2005 financial year, the posting of costs for stock-based compensation with an effect on income reduced the consolidated income by € 1,043, from € 545,342 to € 544,299.

As part of the change from US-GAAP to IFRS, SinnerSchrader has expanded the financial funds in respect of the statement of cash flows so that securities related to liquidity with a term of up to three months – which also include tradable money market funds – are considered to be currency equivalents along with the previously included cash on hand, credit balances with a term of three months or less, and cheques.

3 Presentation of the Main Evaluation and Balancing Methods

3.1 Accounting Principles and Financial Year

The Consolidated Financial Statements of the SinnerSchrader Group were prepared according to International Financial Reporting Standards ("IFRS") and take account of all the rules of these standards and the interpretations of the IFRIC which were in force as of 31 August 2006. They refer to the financial years covering 1 September 2005 to 31 August 2006 ("2005/2006") and from 1 September 2004 to 31 August 2005 ("2004/2005") as well as the reporting dates of 31 August 2006 and 31 August 2005.

» New Accounting Principles

SinnerSchrader AG did not prematurely use the following standards and IFRIC interpretations, which had already been published but which had not gone into effect:

IFRS 7 "Financial instruments: Disclosures" is only mandatory from financial years starting on or after 1 January 2007, and it was not taken into account in the preparation of this report. SinnerSchrader AG does not intend to prematurely apply this standard. The use of IFRS 7 is expected to lead only to additional disclosures in the Consolidated Financial Statements with no impact on the inclusion or evaluation of financial instruments.

Changes to the information on capital resulting from IAS 1 "Presentation of Financial Statements", which is only mandatory from financial years starting after 1 January 2007, were also not taken into account. SinnerSchrader AG does not intend to prematurely apply the changes resulting from this standard. The use of the changes in IAS 1 is expected to lead only to additional disclosures in the Consolidated Financial Statements.

Other standards have also been approved, the use of which has no major impact on SinnerSchrader.

3.2 Consolidation Group and Principles

The Consolidated Financial Statements comprise the individual Financial Statements of SinnerSchrader AG and all direct and indirect subsidiaries in which the AG has a majority interest and over which it has de facto control. In the Consolidated Financial Statements for the 2005/2006 and 2004/2005 financial years, the consolidation group comprised SinnerSchrader Deutschland GmbH, SinnerSchrader UK Ltd. and SinnerSchrader Benelux BV alongside SinnerSchrader AG, as well as the indirect subsidiaries SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH.

All transactions and balances within the group between affiliated companies were eliminated. The Consolidated Financial Statements were prepared on the basis of the Individual Financial Statements of the above-mentioned consolidated companies, which are compiled according to the relevant local accounting regulations, in particular the regulations of the German Commercial Code, with any necessary adjustments being made to IFRS.

For the Consolidated Financial Statements, the same balancing and evaluation principles are used as a basis for the same business incidents and events under similar conditions. The financial statements of all of the companies included in the consolidation group are prepared on the reporting date of the parent company. This is the same as the group reporting date.

3.3 Report Currency and Currency Conversion

The currency of the report is the euro (€). Figures are cited in full euro amounts.

The relevant national currency is used as the functional currency of the foreign subsidiaries outside the euro zone (the group of European countries that have introduced the euro as their currency). The financial statements of these foreign subsidiaries are converted into euros, with the assets and liabilities being converted at the conversion rate of the balance sheet date, and with the sales revenues, costs of sales revenues and expenditure being converted at the average rate for the financial year in question. The accumulated currency profits and currency losses from foreign currency conversion for the financial statements are identified in a separate balancing item in the shareholders' equity. Currency profits and losses from foreign currency transactions are treated with an effect on income.

3.4 Estimates and Assumptions

Drawing up Consolidated Financial Statements according to IFRS requires the management to make estimates and assumptions that have an influence on the values posted for assets and liabilities, on the information on contingent claims and contingent liabilities on the balance sheet date and on the posted revenue and expenses for the period covered by the report. The actual results may deviate from these estimates. The primary estimates relate to the use of the percentage-of-completion method and the inclusion of accrued expenses.

3.5 Fixed Assets

» Intangible Assets

Intangible assets are evaluated on receipt at their procurement or manufacturing cost. They are identified if it is probable that the future economic benefit to be assigned to the assets will flow into the company and if the procurement or manufacturing costs of the assets can be reliably assessed. After being initially reported, intangible assets are evaluated at their procurement or manufacturing costs minus the accumulated regular depreciation and the accumulated costs for the decrease in value. The depreciation of intangible assets is linear, in accordance with the usage period. The depreciation period and method are reviewed annually at the end of each financial year.

Costs for the procurement of software should be activated under intangible assets if they are not to be considered a component of the associated hardware.

Currently, SinnerSchrader posts only purchased software under intangible assets. Depreciation for this is linear over an estimated usage period of three years. The costs that are incurred to reinstate or maintain the future economic benefit that a company can expect from the originally assessed performance of existing software should be recorded as an expense.

» Tangible Assets
According to International Accounting Standard ("IAS") 16, tangible assets are to be posted as an asset if it is probable that the future economic benefit associated with them will flow into the company and if the procurement or manufacturing costs of the assets can be reliably assessed. The tangible assets shall be evaluated at their procurement and manufacturing costs minus accumulated regular and non-scheduled depreciation.

The procurement and manufacturing costs of tangible assets consists of the purchase price, import duties and other non-reimbursable taxes, as well as all directly assignable costs that are incurred to make the asset operational. Reductions in the purchase price, such as rebates, bonuses and discounts, are subtracted from the purchase price. Subsequently incurred costs, such as maintenance and repair costs, are recorded with an effect on expenses in the year in which they are incurred. If such costs demonstrably lead to an increase in the future economic benefit resulting from the use of the asset and above the original volume of performance, the costs shall be posted as subsequent procurement and manufacturing costs.

The property and equipment of SinnerSchrader comprises company and business equipment, computer hardware and leasehold improvements.

Depreciation is linear. A usage period of three years is usually assumed for computer hardware, four to eight years for other electronic and electrical devices and equipment, six years for cars and eight to thirteen years for office furniture. Improvements to rented premises are depreciated over the estimated usage period of the improvements or the residual term to the end of the tenancy, if this is shorter.

The cost of depreciation is included in the costs of sales revenue and operating expenses. The costs of repair and maintenance work are recorded with an effect on expenses.

In the event of the sale or decommissioning of tangible asset items, the relevant procurement or manufacturing costs and the accumulated depreciation are debited, and any profit or loss is posted in the statements of operations as other revenue or other expenses.

» Reductions in Value of Fixed Assets
The posted value of assets is reviewed if there are signs of a non-scheduled reduction in value. If the posted value of an asset exceeds its achievable amount, a non-scheduled depreciation is undertaken in accordance with IAS. The achievable amount is the net sale price or commercial value, whichever is higher. The net sale price is the amount that can be achieved from a sale under standard market conditions; commercial value is the cash value of the expected income from further use of the asset and the sale value at the end of the usage period. The commercial value is determined individually for every asset or for the individual unit generating funds. If the reasons for the non-scheduled depreciation no longer exist, the original value is reinstated.

In the 2005/2006 and 2004/2005 financial years, there were no signs of a reduction in value of the intangible or tangible assets.

3.6 Financial Instruments
According to IAS 39, financial instruments are to be posted for the first time with their procurement costs corresponding to the current value of the benefit in kind. Transaction costs are included in the first evaluation. Purchases and sales of financial instruments should be posted as of the trading day.

With respect to the subsequent evaluation, a distinction is made between various categories of financial instruments, including financial instruments held for trading purposes, financial instruments to be held until they are finally due, credits and accounts receivable handed out by the company and financial instruments available for sale.

Financial instruments with fixed or ascertainable payments and a fixed term which the company intends to hold until they are finally due, excluding credits and claims submitted by the company, are classified as financial instruments to be held until they are finally due.

All other financial instruments, excluding credits and claims submitted by the company, are classified as financial assets available for sale.

Financial instruments held for trading purposes and financial assets available for sale are evaluated at their current value without deduction of transaction costs in the subsequent evaluation. The current values usually arise from reporting date prices on financial markets. Gains and losses from the evaluation at the current value of financial instruments held for trading purposes shall be reported with an effect on income. Gains and losses from the evaluation of the current value of financial instruments available for sale shall be recorded directly in the shareholders' equity with a neutral effect on income until the financial instrument is sold, withdrawn or otherwise dispatched, or as soon as a permanent value reduction has been identified for the financial instrument. Gains and losses recorded directly in the shareholders' equity are posted in "Changes in shareholders' equity not affecting net income".

Financial instruments to be held until they are finally due shall be appraised at their continued procurement costs using the effective interest method.

Financial instruments to be held until they are finally due with a remaining term of up to 12 months are posted in the current assets. Financial assets available for sale are posted in the current assets if the company is planning to sell them in the next 12 months.

A financial asset is debited if the company loses authority over the contractual rights of which the financial asset is comprised. A financial liability is debited if the obligation upon which this liability is based is fulfilled, terminated or deleted.

With respect to classification, securities are the financial instruments relevant to SinnerSchrader. As of 31 August 2006, these securities comprise commercial papers with original periods of seven days to one month and shares in money market funds. The commercial papers were classified as financial instruments to be held until they are finally due and were posted to the balance sheet with their continued procurement costs accordingly as of 31 August 2006. The shares in money market funds were classified as available for sale and entered on the balance sheet accordingly. As of 31 August 2005, the securities comprised shares in money market funds, which were classified as available for sale. As of both reporting dates, the interest risks resulting from the financial instruments used by SinnerSchrader were negligible due to the short remaining term or duration.

3.7 Accounts Receivable and Unbilled Revenue

Accounts receivable are posted at their nominal value minus appropriate value corrections. The value of the claims is regularly checked on an individual basis. Value corrections are formed in the case of identifiable individual risks.

Services provided from fixed-price projects, which were realised according to the percentage-of-completion ("POC") method in accordance with their degree of completion but which had not yet been billed, are posted with a proportion of the total payment agreed for the fixed-price project, i.e. including the profit margin, as unbilled revenue, with any deposits that may have been made for the project being offset.

3.8 Other Assets

Other assets are entered on the balance sheet at their nominal value or the achievable amount, whichever is lower.

3.9 Liquid Funds and Currency Equivalents

Liquid funds comprise cash on hand, bank credits available on a daily basis and fixed deposits with a remaining period of less than three months. They are posted at their nominal value.

Securities with a period of less than three months and shares in money market funds qualify as currency equivalents. As of 31 August 2006 and 31 August 2005, all securities were thus to be classified as currency equivalents.

3.10 Statement of Cash Flows
The statement of cash flows is prepared using the indirect method according to IAS 7. The financial funds whose change is reflected in the statement of cash flows comprise cash and cash equivalents. Value adjustments for the securities in the cash equivalents which have a neutral effect on income are posted in the statement of cash flows together with the exchange-rate-related change in the cash under "Net effect of rate changes on cash and cash equivalents".

3.11 Trade Accounts Payable and Other Liabilities
Trade accounts payable and other liabilities are posted at their nominal value.

3.12 Other Accrued Expenses
According to IAS 37, other accrued expenses are formed for legal and actual obligations that were incurred economically by the reporting date if it is probable that fulfilment of the obligation will lead to Group funds being depleted and if a reliable estimate of the level of the obligation can be made. Accrued expenses are reviewed on every balance sheet date and adjusted to the best estimate in each case. The amount of the accrued expenses corresponds to the current value of the expenses probably needed to fulfil the obligation. The other accrued expenses take account of all recognisable obligations vis-à-vis third parties in accordance with IAS 37.

3.13 Treasury Stock
Under IAS 32, treasury stock is posted at its acquisition costs as a deducted item within the shareholders' equity.

3.14 Deferred Taxes
Under IAS 12, deferred tax claims or liabilities are to be posted in the balance sheet under IFRS if there are differences between the posted values of assets and liabilities in the balance sheet under IFRS and those in the tax balance sheet which reverse in future years ("temporary differences"). Furthermore, deferred tax claims must also be formed for the future use of tax loss carry-forwards. Deferred tax claims and liabilities are to be determined on the basis of the liability method.

The deferred tax claims and liabilities from temporary differences must be determined separately for every tax subject. Tax claims should be posted only if or to the extent in which they are countered by tax liabilities or in which their realisation can be classified as probable through future taxable profits. Tax claims and liabilities are posted in balanced form for a tax subject. Balancing between different tax subjects is not permitted.

For the evaluation of the temporary differences or loss carry-forwards, the tax rates valid on the balance sheet date or, for a future reversal of temporary differences, the tax rates which have become legally effective on the balance sheet date shall be used.

Deferred tax expenditures or revenues shall be directly offset in the shareholders' equity if they relate to differences that do not have an impact on the statements of operations, such as evaluation changes to financial assets available for sale.

3.15 Revenue Recognition
SinnerSchrader provides services of various kinds that are treated differently with respect to revenue recognition. In principle, SinnerSchrader realises revenue only if the service was performed according to the underlying contractual agreements and the risk has been transferred to the recipient of the service or the purchaser, if it is probable that the economic benefit from the business will flow into the company and if the level of sales revenue can be reliably determined. The revenues are posted in net form, without turnover tax, discounts, customer bonuses or rebates. They contain reimbursable expenses, such as travel expenses, if the customer has been invoiced for them and has paid them.

» Project and Consultancy Services
Project and consultancy services are billed either according to actual expenditure or on the basis of a fixed price. The revenues from projects on a fixed-price basis are entered on the balance sheet according to the progress achieved using the POC method according to IAS 11.22 ff. In this connection, progress is determined as a proportion of the person-hours already spent in relation to the expected person-hours for the project as a whole. To cover imminent losses from not yet completed projects, accrued expenses are formed on the basis of an individual consideration of the project at the expense of the period in which such a loss is probable. Revenues within the scope of contracts based on actual expense are generally posted monthly according to the expenditure incurred to provide the service.

Revenues realised on the basis of the POC method but as yet unbilled are posted as unbilled revenues in the balance sheet. Amounts billed to and paid by customers that exceed the scope of the recognised revenues are posted as deposits received.

» Media Services
SinnerSchrader performs services for its customers for planning and implementing advertising campaigns on the Internet (media services). In the context of implementing advertising campaigns, SinnerSchrader buys advertising space at its own expense. The costs for buying advertising space (media costs) are passed on to customers in the course of billing for the media services, as is a fixed payment or a payment calculated in relation to the actual media costs.

In principle, revenues for media services are realised with or after the appearance of the advertising. In this connection, the entire amount to be charged to the customer is recorded as gross revenue, and the amount reduced by the media costs that have been passed on to customers comprises the net revenue.

Realised revenues that have not yet been billed are posted in the balance sheet as unbilled services, reduced by deposits received for the advertising campaigns and including deposits paid for purchasing advertising space as part of advertising campaigns.

» Operating Services
SinnerSchrader performs operating services for its customers, which in particular also include the 24-hour monitoring and management of Internet applications with an on-call service. Payment for these services usually comprises a fixed monthly service fee plus variable, performance-related components, and customers are billed for them on a monthly or quarterly basis. If the IT system managed by SinnerSchrader is operated in SinnerSchrader's own computer centre, fixed usage fees are charged monthly.

» Sale of Hardware and Software
In addition to other services, SinnerSchrader supplies its customers with hardware and standard software on request that SinnerSchrader itself buys on the market. The revenue from this is realised after billing or after the transfer of risk.

3.16 Advertising Costs
In principle, SinnerSchrader takes the expenditure for advertising and promotional campaigns into account in the marketing costs in the statements of operations at the time the expenditure is incurred. In the 2005/2006 and 2004/2005 financial years, these expenses amounted to € 178,177 and € 95,229 respectively.

3.17 Research and Development Expenditure
Expenditure for research and development is recorded as an expense in the period in which it is incurred. Development costs that can be activated are an exception if they completely meet the criteria according to IAS 38.57.

In 2005/2006, research and development costs in the amount of € 61,275 were recorded as an expense, in comparison to € 131,795 in 2004/2005. In both years, the criteria for the activation of the research and development costs according to IAS 38.57 were not met.

3.18 Leasing

Leasing payments should be recorded in a linear fashion as an expense in the statements of operations over the term of the leasing contract if they are incurred within an operating leasing relationship where all risks remain with the lessor.

SinnerSchrader has concluded only operating leasing contracts. They mainly concern automobiles made available as company cars.

3.19 Share-based Compensation

IFRS 2 calls for the costs resulting from the issue of employee options to be entered in the balance sheet on the basis of their current value with an effect on income. In this connection, the market value of the option on the issue date should be distributed over the waiting period for exercising the option and then proportionately entered in the statements of operations as personnel costs for the relevant period. The costs are recorded against the shareholders' equity in the reserve for share-based compensation.

As of 31 August 2006, there were two share option plans at SinnerSchrader; their structure and effects on the statements of operations will be described in more detail in 7.1.

3.20 Earnings per Share

SinnerSchrader calculates the earnings per share in agreement with IAS 33. The undiluted earnings per share are determined on the basis of the weighted average of the outstanding common stock. According to this, treasury stock is not considered in the calculation of the basis for the earnings per share on the date they were bought back.

In order to determine the diluted earnings per share, the weighted average of the outstanding shares is increased by the dilution effect from the potential exercise of outstanding options, calculated according to the Treasury Stock Method.
As part of its employee option programmes of 1999 and 2000, SinnerSchrader issued options to employees to buy common stock. The outstanding options in the 2005/2006 and 2004/2005 financial years were considered accordingly in the calculation of the dilution effect.

4 Segment Reporting

In agreement with IAS 14, SinnerSchrader primarily divides its business into three segments by services: Interactive Software, Interactive Marketing and Interactive Services.

In the Interactive Software segment, SinnerSchrader concentrates on the development, implementation and servicing of custom-made interactive software. SinnerSchrader Neue Informatik GmbH is assigned to this segment. Business with consulting, creative and implementation services for the establishment and management of brands and for marketing and advertising activities on the Internet and in other digital channels are brought together in the Interactive Marketing segment. SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH are assigned to this segment. SinnerSchrader bundles three areas that provide specialised services to support the management of existing transaction-oriented websites for its customers in the Interactive Services segment. These services include the planning and implementation of online advertising campaigns, the technical servicing of the hardware and software of interactive IT systems as well as the statistical evaluation of data on the user behaviour of visitors to websites. These areas are managed together in SinnerSchrader Deutschland GmbH.

With respect to reporting on the basis of the geographical assignment of revenue, which is secondary to SinnerSchrader, SinnerSchrader assigns revenues to those countries from which the sale was initiated. Thus, in the 2005/2006 and 2004/2005 financial years, all revenues were assigned to Germany.

Table 2a shows the segment information for the 2005/2006 financial year and for the balance sheet date of 31 August 2006, whereas the comparative data from the previous year can be seen in Table 2b:

Tab. 2a | Notes to the Consolidated Financial Statements for the 2005/2006 financial year or as of 31 August 2006 in € and number

	Interactive Software	Interactive Marketing	Interactive Services	Segments total	Consolidation/ holding	Group
01.09.2005–31.08.2006:						
External revenues	5,878,506	4,712,501	5,202,604	15,793,611	25,350	15,818,961
Internal revenues	858,993	387,141	308,826	1,554,960	–1,554,960	—
Total revenues, gross	6,737,499	5,099,642	5,511,430	17,348,571	–1,529,610	15,818,961
Media costs	—	—	–2,665,433	–2,665,433	—	–2,665,433
Total revenues, net	6,737,499	5,099,642	2,845,997	14,683,138	–1,529,610	13,153,528
Segment profit/loss (EBITA)	**706,791**	**346,958**	**802,119**	**1,855,868**	**–1,255,683**	**600,185**
Depreciation of property and equipment	68,658	41,926	55,188	165,772	386,426	552,198
Purchase of investments	102,015	93,559	115,662	311,236	452,350	763,586
Employees, full-time equivalents	52.8	43.5	14.4	110.7	18.2	128.9
31.08.2006:						
Total assets	**2,853,400**	**1,796,191**	**1,089,847**	**5,739,438**	**9,327,421**	**15,066,859**
Non-current assets	182,784	137,360	135,919	456,063	1,188,620	1,644,683
Current assets	2,670,616	1,658,831	953,928	5,283,375	8,138,801	13,422,176
Liabilities	**1,389,074**	**841,906**	**1,284,517**	**3,515,497**	**20,099**	**3,535,596**
Number of employees, end of period	55	52	15	122	21	143

Tab. 2b | Notes to the Consolidated Financial Statements for the 2004/2005 financial year or as of 31 August 2005 in € and number

	Interactive Software	Interactive Marketing	Interactive Services	Segments total	Consolidation/ holding	Group
01.09.2004–31.08.2005:						
External revenues	5,737,009	4,179,739	4,398,393	14,315,141	—	14,315,141
Internal revenues	657,502	410,608	291,030	1,359,140	–1,359,140	—
Total revenues, gross	6,394,511	4,590,347	4,689,423	15,674,281	–1,359,140	14,315,141
Media costs	—	—	–2,092,386	–2,092,386	—	–2,092,386
Total revenues, net	6,394,511	4,590,347	2,597,037	13,581,895	–1,359,140	12,222,755
Segment profit/loss (EBITA)	**682,099**	**354,153**	**777,559**	**1,813,811**	**–1,636,713**	**177,098**
Depreciation of property and equipment	59,522	25,065	26,600	111,187	429,806	540,993
Purchase of investments	23,314	28,740	57,045	109,099	120,500	229,599
Employees, full-time equivalents	57.6	42.0	14.3	113.9	17.9	131.8
31.08.2005:						
Total assets	**2,626,795**	**1,456,891**	**903,497**	**4,987,183**	**8,759,048**	**13,746,231**
Non-current assets	151,562	87,480	75,449	314,491	659,267	973,758
Current assets	2,475,233	1,369,411	828,048	4,672,692	8,099,781	12,772,473
Liabilities	**1,135,421**	**483,707**	**900,294**	**2,519,422**	**892,772**	**3,412,194**
Number of employees, end of period	55	42	14	111	19	130

Accounting for the individual segments follows the accounting principles that are also used in the Group. Administrative costs incurred by SinnerSchrader AG are charged to the operative segments if they can be assigned. Costs that can not be assigned are not distributed to the segments. These are mainly costs for original holding tasks, such as investor relations work, as well as costs resulting from overcapacity in the office at the Hamburg location that was rented by SinnerSchrader AG. Transactions between reporting segments are executed as among external third parties and posted accordingly.

Table 2c explains the transfer of the total of the segment income to the earnings before tax in the Group for the 2005/2006 and 2004/2005 financial years:

Tab. 2c | **Reconciliation of total segment earnings to group before tax** in €

	01.09.2005 31.08.2006	01.09.2004 31.08.2005
Segment profit/loss (EBITA) of all reportable segments	**1,855,868**	**1,813,811**
Central holding cost not attributable to reportable segments	−1,254,765	−1,635,777
Earnings before tax of foreign subsidiaries	−918	−936
EBITA of the Group	**600,185**	**177,098**
Interest income/expense of the Group	234,330	218,789
Earnings before tax of the Group	**834,515**	**395,887**

5 Information on the Balance Sheet

5.1 Development of Fixed Assets

The development of the fixed assets in the 2005/2006 and 2004/2005 financial years is shown in Tables 3a and 3b:

Tab. 3a | Fixed assets in €

	01.09.2005	Additions	Disposals	31.08.2006
Acquisition costs:				
Software	425,398	59,478	2,499	482,377
Total intangible assets	425,398	59,478	2,499	482,377
Computer hardware	1,210,653	303,003	150,332	1,363,324
Furniture and fixtures	1,157,800	94,017	100,242	1,151,575
Leasehold improvements	1,159,392	307,088	1,079,427	387,053
Total tangible assets	3,527,845	704,108	1,330,001	2,901,952
Total fixed assets	**3,953,243**	**763,586**	**1,332,500**	**3,384,329**
	01.09.2005	Additions	Disposals	31.08.2006
Accumulated depreciation, amortisation and write-downs:				
Software	324,226	50,750	2,498	372,478
Total intangible assets	324,226	50,750	2,498	372,478
Computer hardware	1,061,873	138,689	149,864	1,050,698
Furniture and fixtures	698,924	98,261	60,128	737,057
Leasehold improvements	894,462	264,498	1,073,723	85,237
Total tangible assets	2,655,259	501,448	1,283,715	1,872,992
Total fixed assets	**2,979,485**	**552,198**	**1,286,213**	**2,245,470**
	31.08.2005			31.08.2006
Net book value:				
Software	101,172			109,899
Total intangible assets	101,172			109,899
Computer hardware	148,780			312,626
Furniture and fixtures	458,876			414,518
Leasehold improvements	264,930			301,816
Total tangible assets	872,586			1,028,960
Total fixed assets	**973,758**			**1,138,859**

Tab. 3b | Fixed assets in the 2004/2005 financial year in €

	01.09.2004	Additions	Disposals	31.08.2005
Acquisition costs:				
Software	330,525	96,484	1,611	425,398
Total intangible assets	330,525	96,484	1,611	425,398
Computer hardware	1,128,458	110,581	28,386	1,210,653
Furniture and fixtures	1,154,159	11,264	7,623	1,157,800
Leasehold improvements	1,157,841	11,270	9,719	1,159,392
Total tangible assets	3,440,458	133,115	45,728	3,527,845
Total fixed assets	**3,770,983**	**229,599**	**47,339**	**3,953,243**
	01.09.2004	Additions	Disposals	31.08.2005
Accumulated depreciation, amortisation and write-downs:				
Software	274,346	50,348	468	324,226
Total intangible assets	274,346	50,348	468	324,226
Computer hardware	1,002,506	86,159	26,792	1,061,873
Furniture and fixtures	611,387	93,369	5,832	698,924
Leasehold improvements	588,909	311,117	5,564	894,462
Total tangible assets	2,202,802	490,645	38,188	2,655,259
Total fixed assets	**2,477,148**	**540,993**	**38,656**	**2,979,485**
	31.08.2004			31.08.2005
Net book value:				
Software	56,179			101,172
Total intangible assets	56,179			101,172
Computer hardware	125,952			148,780
Furniture and fixtures	542,772			458,876
Leasehold improvements	568,932			264,930
Total tangible assets	1,237,656			872,586
Total fixed assets	**1,293,835**			**973,758**

5.2 Deferred Taxes

Both in the 2005/2006 and the 2004/2005 financial years, deferred tax assets had to be posted in the Group because of differences in the postings for assets and liabilities according to IFRS and according to the relevant tax regulations, as well as because of tax loss carry-forwards. 6.5 contains more details on this.

5.3 Unbilled Revenues

As of 31 August 2006 and 31 August 2005, ongoing fixed-price projects were activated as unbilled revenues with an amount of € 410,649 and € 170,404 respectively. In this connection, deposits received for the projects in the amount of € 103,726 and € 26,688 respectively were deducted from the POC evaluation of the projects totalling € 514,375 and € 197,092.

5.4 Tax Receivables, Other Current Assets and Prepaid Expenses

The tax reimbursement claims as of 31 August 2006 and 31 August 2005 in the amount of € 125,920 and € 178,274 respectively are mainly paid tax collected at source on capital and interest earnings upon which SinnerSchrader has a claim for reimbursement vis-à-vis the Tax authorities due to existing loss carry-forwards. In the 2005/2006 and 2004/2005 financial years, € 73,163 and € 52,757 respectively were paid in withholding tax.

Table 4 lists the other current assets and prepaid expenses as of 31 August 2006 and 31 August 2005:

Tab. 4 | Other current assets and prepaid expenses in €

	31.08.2006	31.08.2005
Remaining other current assets	50,267	39,531
Prepaid expenses	54,938	113,346
Total	**105,205**	**152,877**

5.5 Marketable Securities

Table 5 shows the total of marketable securities and the unrealised profits and losses they accounted for as of 31 August 2006 and 31 August 2005 respectively:

Tab. 5 | Marketable securities in €

	Acquisition cost	Change in acquisition cost	Unrealised gains	Unrealised losses	Recorded basis
31.08.2006					
Money market and profit-participation certificate funds	503,003	—	—	–513	502,490
Corporate debt securities	6,985,291	7,408	—	—	6,992,699
Total marketable securities	**7,488,294**	**7,408**	**—**	**–513**	**7,495,189**
31.08.2005					
Money market and profit-participation certificate funds	952,032	—	6,506	–2,916	955,622
Total marketable securities	**952,032**	**—**	**6,506**	**–2,916**	**955,622**

Money market funds and qualified dividend instruments similar to the money market were classified as available for sale, and commercial papers from industrial emitters were classified as to be kept until they are finally due. According to IAS 39, the money market funds were posted at their market value as of 31 August 2006 and 31 August 2005 respectively, with unrealised profits or unrealised losses being directly recorded in shareholders' equity, taking the tax effect into account, under the item "Changes to shareholders' equity not affecting net income". Commercial papers are securities that were acquired at a discount and fully repaid after the expiry of a fixed term. As of the balance sheet date of 31 August 2006, they were recorded at their acquisition costs which were continued according to the effective interest method.

On 31 August 2006, all securities had a residual term of less than three months or were not subject to any binding contractual term.

5.6 Shareholders' Equity

» Share Capital

As of 31 August 2006 and 31 August 2005, the share capital of SinnerSchrader AG was € 11,542,764 and was divided into 11,542,764 no-par-value share certificates in the names of the bearers, each with a calculated value of € 1 per share.

11,411,417 shares of all issued shares were in circulation on 31 August 2006 and 31 August 2005. The remaining 131,347 shares were held as treasury stock of SinnerSchrader AG.

» Authorised Capital

January 2004, the Annual General Meeting authorised the Management Board to increase the share capital of the Company once or repeatedly by issuing new shares up to a total of € 5,770,000 until 15 January 2009 with the approval of the Supervisory Board. This became legally effective upon entry of the decision in the trade register on 13 April 2004.

In the 2005/2006 and 2004/2005 financial years, no capital increases were carried out using the authorised capital.

» Conditional Capital

As of 31 August 2006 and 31 August 2005, SinnerSchrader AG had conditional capital in the amount of a total € 750,000 each, which was created in 1999 and 2000 for the issue of stock options to employees. Options were last issued to employees from the conditional capital in the 2005/2006 financial year. In the 2005/2006 and 2004/2005 financial years, 148,200 options and no options respectively were issued. Details on the option programmes and outstanding options are listed in 7.

» Reserve for Share-based Compensation

The reserve comprises the accumulated costs from issuing share-based compensation. As of 31 August 2006 and 31 August 2005, the reserve reached a value of € 17,121 and € 9,165 respectively.

» Treasury Stock

As of 31 August 2006 and 31 August 2005, the treasury stock amounted to 131,347 shares, which were repurchased via the stock exchange between July 2002 and September 2003 at an average price of € 1.53. They represent 1.14 % of the share capital. Under IFRS, a deducted item in the shareholders' equity representing acquisition costs has been formed for the treasury stock.

» Changes to Shareholders' Equity with a Neutral Effect on Income

Changes to shareholders' equity with a neutral effect on income in the amount of € –306 (previous year: € 2,141) result from recording unrealised gains or losses from securities that were classified as available for sale, and in the amount of € 25,652 (previous year: € 25,655) from currency conversions which were part of consolidating the companies in the consolidation group that report in foreign currencies.

5.7 Other Accrued Expenses

The other accrued expenses are made up as shown in Table 6:

Tab. 6 | Accrued expenses in €

	31.08.2005	Utilised	Allocated	Dissolved	31.08.2006
Accrued compensation	911,062	–871,013	919,484	–39,313	920,220
Accrued project-oriented expenses for warranties, allowances and losses on contracts	254,625	–199,745	420,141	—	475,021
Accrued rent and related expenses	155,891	–21,606	60,355	–16,644	177,996
Reporting and auditing expenses	81,900	–81,900	74,084	—	74,084
Other accruals	61,908	–40,017	40,062	—	61,953
Total	**1,465,386**	**–1,214,281**	**1,514,126**	**–55,957**	**1,709,274**

5.8 Other Short-term Liabilities and Deferred Revenues

As of 31 August 2006, the other short-term liabilities and deferred revenues had a remaining term of less than one year and are broken down into the main components listed in Table 7:

Tab. 7 | Other liabilities and deferred revenues in €

	31.08.2006	31.08.2005
Liabilities from income tax, social security and similar obligations	107,647	260,718
Liabilities from value added tax	103,846	137,280
Liabilities from asset retirement obligations and lease rental charges	—	400,563
Other liabilities	4,442	8,027
Deferred revenues and deferred income	89,299	25,109
Total	**305,234**	**831,697**

5.9 Financial Liabilities and Contingent Liabilities

SinnerSchrader rents its office premises at the Hamburg and Frankfurt am Main locations as well as company vehicles in the context of rental and operating leasing contracts. The minimum remaining term of the rental contracts for the offices in Hamburg and Frankfurt am Main was 58 and 56 months respectively as of 31 August 2006. The leasing contracts for the company vehicles had a remaining term of between 3 and 26 months on the balance sheet date. In the years ahead, the rental and leasing contracts will result in financial liabilities in the amount shown in Table 8:

Tab. 8 | Financial commitments in €

	31.08.2006	31.08.2005
01.09.2006–31.08.2007	767,237	996,802
01.09.2007–31.08.2008	755,937	23,437
01.09.2008–31.08.2009	740,034	12,407
01.09.2009–31.08.2010	738,357	2,162
After 31.08.2010	1,007,922	—
Total	**4,009,487**	**1,034,808**

In the 2005/2006 and 2004/2005 financial years, the total expenditure for rental and leasing contracts was € 1,058,565 and € 1,466,317 respectively. This expenditure was countered by income from sub-letting in the amount of € 11,100 and € 18,640 respectively.

In addition, SinnerSchrader has certain regular contingent liabilities that arise in the ordinary course of business activities. The Company will form accruals for these if it is probable that future expenditure will be associated with these and that such expenditure can be estimated with sufficient reliability.

As of the balance sheet date, the consolidated companies that are part of the SinnerSchrader Group were open to only one legal claim, which is based on the conversion of the former company building. As of 31 August 2006 and 31 August 2005, the accrual related to this legal claim amounted to € 100,000 because SinnerSchrader feels that it is sufficiently likely that this amount will be needed. It is part of the other accrued expenses shown in 5.7.

In the course of renting office space at the Hamburg and Frankfurt am Main locations, the landlords each demanded securities, which were provided in the form of bank guarantees. As of 31 August 2006, the volume of this guarantee was € 680,563 (previous year: € 1,478,668). SinnerSchrader can dispose of its liquid funds of an equivalent amount only with the explicit approval of the guaranteeing bank.

6 Elements of the Statements of Operations

6.1 Cost and Operating Expenses by Expenditure

The total revenue, marketing, administrative and research and development costs of the 2005/2006 and 2004/2005 financial years was broken down according to cost types, as shown in Table 9:

Tab. 9 | Operating cost (excluding restructuring cost) by expenditure in €

	2005/2006	2004/2005
Personnel expense	7,793,611	7,735,293
Cost of materials	353,619	190,180
Cost of services	1,212,833	617,288
Depreciation of property & equipment	552,198	540,993
Other operating expenses	2,718,206	2,685,356
Total	**12,630,467**	**11,769,110**

The personnel expenditure refers to an average personnel capacity of 129 full-time employees in the 2005/2006 financial year and 132 full-time employees in the 2004/2005 financial year.

The expenditure for purchased materials was largely incurred for hardware and software, which SinnerSchrader acquired to sell on to its customers. The expenditure for purchased services mainly comprises costs resulting from the deployment of freelancers and sub-contractors.

Within the other operating expenses, € 1,163,223 and € 1,224,106 were incurred for renting and operating the office space in the 2005/2006 and 2004/2005 financial years respectively.

6.2 Restructuring Costs and Comparable Costs

In the 2005/2006 financial year, restructuring was completed with the conclusion of the last employment law disputes on the personnel measures and the move into the new office premises in Hamburg. The expenses accrued to the account of the previous year's profits were utilised accordingly as of 31 August 2006 or could be dissolved.

New or additional measures were no longer necessary in the 2005/2006 financial year, and the costs posted in the previous year for the measures that were still to be implemented were sufficient, with the result that no further restructuring costs were incurred.

In the 2004/2005 financial year, the accrued expenses and liabilities were upgraded by a total of € 356,275 with an effect on income for restructuring in the field of personnel capacity and for the correction of the empty rented space.

Table 10 summarises the expenditure on restructuring measures in the 2005/2006 and 2004/2005 financial years and the level of the accrued expenses and liabilities for the restructuring measures taken as of 31 August 2006 and 31 August 2005:

Tab. 10 | **Restructuring costs and comparable costs** in €

2005/2006	Balance	Additional	Utilised		Dissolved	Balance
	01.09.2005	charges	Non-cash	Cash		31.08.2006
Workforce	90,000	—	—	−52,941	−37,059	—
Facilities	306,775	—	—	−306,775	—	—
Total	**396,775**	**—**	**—**	**−359,716**	**−37,059**	**—**

2004/2005	Balance	Additional	Utilised		Dissolved	Balance
	01.09.2004	charges	Non-cash	Cash		31.08.2005
Workforce	133,477	49,500	—	−92,977	—	90,000
Facilities	67,376	306,775	—	−67,376	—	306,775
Total	**200,853**	**356,275**	**—**	**−160,353**	**—**	**396,775**

6.3 Other Income/Expenses, Net

Table 11 shows the composition of the other income/expenses:

Tab. 11 I **Other income and expenses** in €	2005/2006	2004/2005
Income from dissolving of accrued expenses	115,136	79,914
Expense from disposal of plant and equipment	−36,987	−3,539
Other	−1,026	4,396
Total	**77,123**	**80,771**

6.4 Financial Income

The financial income is comprised of income from interest, income from the sale of securities and interest expenditure, as shown in Table 12:

Tab. 12 I **Financial income** in €	2005/2006	2004/2005
Interest income	191,427	39,240
Realised gains/losses, net on the sale of marketable securities	44,379	173,911
Income from investments and participations	—	25,565
Interest expense	−1,476	−19,927
Total financial income	**234,330**	**218,789**

Expenditure on interest was largely incurred for the guarantees provided by banks.

6.5 Taxes from Income and from Earnings

The taxes from income and earnings reported in the 2005/2006 and 2004/2005 financial years are made up of current and deferred components, as shown in Table 13a:

Tab. 13a I **Income tax** in €	2005/2006	2004/2005
Current	—	—
Deferred	−357,205	−148,412
Total	**−357,205**	**−148,412**

In both financial years, no current taxes were incurred because the pre-tax profits incurred solely in Germany could be completely offset against tax loss carry-forwards.

Deferred taxes had to be formed because of the evaluation differences between the balance sheet items according to IFRS and the postings in the relevant tax balances, as well as on the basis of loss carry-forwards that can be used for tax purposes. Table 13b shows the composition of the deferred tax item as of 31 August 2006 and 31 August 2005, broken down according to the items where there was an evaluation difference:

Tab. 13b | **Deferred tax positions** in €

	31.08.2006	31.08.2005
Deferred tax assets:		
Loss carry-forwards	1,188,738	1,476,129
Valuation of accrued expenses	35,437	17,152
Valuation allowance	–495,363	–1,221,263
Total deferred tax assets	728,812	272,018
Deferred tax liabilities:		
Valuation of unfinished/unbilled services	203,997	101,748
Valuation of marketable securities available for sale	–2,572	279
Valuation of fixed assets	10,498	17,092
Valuation of current assets	11,065	5,937
Total deferred tax liabilities	222,988	125,056
Total deferred tax assets/liabilities, net	**505,824**	**146,962**

As of 31 August 2006 and 31 August 2005, the calculation of deferrals was based on tax loss carry-forwards in Germany, the UK and the Netherlands. In these three countries, the relevant loss carry-forwards could be brought forward without limitation. The extent of the loss carry-forwards and the tax rates used to calculate them are listed in Table 13c:

Tab. 13c | **Loss carry-forwards and statutory income tax rates** in € and %

For corporate tax	31.08.2006		31.08.2005	
	Loss carry-forwards	Tax rate	Loss carry-forwards	Tax rate
Germany	−1,657,002	26.4 % [1]	−2,406,369	26.4 % [1]
thereof in tax group	−1,527,104	26.4 % [1]	−2,276,471	26.4 % [1]
Great Britain	−1,027,069	30.0 %	−985,879	30.0 %
Netherlands	−182,968	34.5 %	−174,617	34.5 %

For municipal trade tax	31.08.2006		31.08.2005	
	Loss carry-forwards	Tax rate	Loss carry-forwards	Tax rate
Germany	−2,715,697	19.0 %	−3,465,064	19.0 %
thereof in tax group	−2,074,299	19.0 %	−2,823,666	19.0 %
Great Britain	—	—	—	—
Netherlands	—	—	—	—

[1] 25 % corporation tax plus 5.5 % solidarity surcharge

Deferred tax assets may be posted only to the extent that the future realisation of the relevant advantage is sufficiently probable or if they are countered by deferred tax liabilities. Correspondingly, as of 31 August 2006 and 31 August 2005, the values of the tax claims from loss carry-forwards in the UK and the Netherlands were corrected because the operating business in these countries continues to be inactive. The same applies to tax claims from loss carry-forwards prior to the tax consolidation of a domestic subsidiary because here, too, realisation cannot yet be forecast with sufficient probability.

Furthermore, in the previous year, deferred tax assets above and beyond the level of the deferred tax liabilities were formed for the German group of companies only to the extent that realisation in the immediately following financial year was estimated to be sufficiently probable because of the still limited profit history after the turnaround. In view of the course of business in the 2005/2006 financial year, as of 31 August 2006 it was to be assumed that it would be possible to realise the deferred tax claims to the full extent in future periods with the result that the deferred tax assets of the German group of companies were to be posted in full.

The deferred tax assets and liabilities were posted separately for every tax subject for identification on the balance sheet. Of the total deferred tax item, the part that referred to the evaluation of the securities classified as available for sale was to be formed directly against the shareholders' equity.

The tax expenditure or income identified in the statements of operations deviates from the value that would result from the use of the statutory tax rates on the pre-tax profits. For the financial years ending on 31 August 2006 and 31 August 2005, the statutory tax rate for SinnerSchrader AG was 40.4 % overall. It was made up of the trade tax rate of 19 %, the corporation tax rate of 25 % and the solidarity surcharge of 5.5 % on the corporation tax. When determining the overall rate, it had to be taken into account that the trade tax reduced the income subject to corporation tax (including the solidarity surcharge).

Table 13d explains the difference between the calculated tax expenditure or income on the basis of the statutory tax rate and the tax expenditure or income recorded in the statements of operations for the two financial years 2005/2006 and 2004/2005:

Tab. 13d | Tax reconciliation in €

	2005/2006	2004/2005
Tax provision (+), tax credit (–) at statutory rate	**337,016**	**159,877**
Permanent difference for stock-based compensation	3,213	422
Other non-deductible expense/non-taxable income	7,511	9,238
Changes in valuation allowance for deferred tax assets and utilized loss carry-forward of domestic group companies	–705,316	–319,351
Changes in valuation allowances for deferred tax assets and differences in tax rates concerning losses in foreign group companies, net of tax effects on consolidation	371	1,402
Current taxes relating to previous years	—	—
Other	—	—
Income tax corresponding to income statement	**–357,205**	**–148,412**

6.6 Earnings per Share

The derivation of the undiluted and diluted earnings per share for the 2005/2006 and 2004/2005 financial years is shown in Table 14:

Tab. 14 | Earnings per share in € and number

	2005/2006	2004/2005
Net profit/loss	**1,191,720**	**544,299**
Basis weighted average shares of common stock outstanding	11,411,417	11,333,908
Basic earnings per share	**0.10**	**0.05**
Weighted average shares of common stock outstanding	11,411,417	11,333,908
add: Stock option grant	3,139	11,662
Dilutive average share of common stock outstanding	11,414,556	11,345,570
Diluted earnings per share	**0.10**	**0.05**

7 Share-based Compensation

7.1 Stock Option Plans

» SinnerSchrader Stock Option Plan 1999

In October 1999, the Annual General Meeting of SinnerSchrader AG approved the SinnerSchrader Stock Option Plan 1999 (“1999 Plan”), which provides for the granting of stock options to allocate a total of 375,000 shares to the members of the Management Board of SinnerSchrader AG (40,000 options), to the management of the affiliated companies (10,000 options), to all employees of SinnerSchrader AG (55,000 options) as well as to all employees of the affiliated companies (270,000 options) by 8 November 2004.

Options granted under the 1999 Plan have an exercise price of 120 % of the average closing price of the SinnerSchrader share on the Frankfurt Stock Exchange during the ten trading days prior to the allocation date. The options of the 1999 Plan can be exercised in equal instalments of one-third each two, three and four years after allocation at the earliest. They have to be exercised within six years after the allocation date. In the 2005/2006 and 2004/2005 financial years, no options from the 1999 Plan were allocated; no options were exercised either. As of 31 August 2006, a total of 127,909 options from the 1999 Plan were still outstanding with an average exercise price of € 14.63.

» SinnerSchrader Stock Option Plan 2000

In December 2000, the Annual General Meeting of Sinner-Schrader AG approved the SinnerSchrader Stock Option Plan 2000 (“2000 Plan”), which provides for the granting of stock options to allocate a total of 375,000 shares to the members of the Management Board of SinnerSchrader AG (40,000 options), to the management of the affiliated companies (40,000 options), to all employees of SinnerSchrader AG (55,000 options) as well as to all employees of the affiliated companies (240,000 options) by 10 January 2006.

Options granted under the 2000 Plan have an exercise price of 120 % of the average closing price of the SinnerSchrader share on the Frankfurt Stock Exchange during the ten trading days prior to the allocation date. The options of the 2000 Plan can be exercised in equal instalments of one-third each two, three and four years after allocation at the earliest. They have to be exercised within six years after the allocation date. In the 2005/2006 and 2004/2005 financial years, 148,200 and 0 options respectively from the 2000 Plan were newly allocated; 0 and 19,018 options respectively were exercised at an exercise price of € 2.76 per share. As of 31 August 2006, a total of 168,629 options from the 2000 Plan were still outstanding with an average exercise price of € 2.27.

Table 15a shows the parameters used for evaluation of the options newly allocated on 1 January 2006 on the basis of the Black-Scholes model:

Tab. 15a | Parameter for estimation of stock options on date of issue

	2005/2006
Expected life of option	2.5–4.5 years
Risk-free interest rate	3.10–3.25 %
Expected dividend yield	0 %
Expected volatility	48 %

The volatility was determined by the closing prices of the last 240 trading days before the date of allocation.

Table 15b summarises the changes in the number of options outstanding from the 1999 Plan and the 2000 Plan in the 2005/2006 and 2004/2005 financial years:

Tab. 15b | Outstanding stock options in € and number

	Number of options	Weighted average exercise price	Weighted average grant date fair value
Outstanding at 31 August 2004	**340,283**	**12.00**	**5.84**
Granted	—	—	—
Exercised	–19,018	2.76	1.42
Cancelled	–27,128	2.07	1.11
Outstanding at 31 August 2005	**294,137**	**13.51**	**6.56**
Granted	148,200	2.08	0.00
Exercised	—	—	—
Cancelled	–88,199	2.11	1.26
Expired	–57,600	32.00	15.69
Outstanding at 31 August 2006	**296,538**	**7.60**	**3.09**

Additional information on all options outstanding from both option programmes on 31 August 2006 is listed in Table 15c:

Tab. 15c | Outstanding stock options according to exercise price in €, number and years

31.08.2006	Options outstanding			Options exercisable	
Range of exercise price	Number	Weighted average remaining contractual life in years	Weighted average exercise price in €	Number	Weighted average exercise price in €
0.00–5.00	226,685	2.43	2.40	154,155	2.60
5.01–10.00	14,970	0.62	6.76	14,970	6.76
10.01–30.00	29,940	0.00	16.46	29,940	16.46
30.01–50.00	16,104	0.00	34.96	16,104	34.96
50.01–90.00	8,839	0.00	62.43	8,839	62.43
Total	**296,538**	**1.89**	**7.60**	**224,008**	**9.42**

7.2 Stock-based Bonuses

As of 1 January 2005, a stock-based bonus was awarded to a member of the Management Board. According to this arrangement, the Board member is entitled to a cash bonus in January 2008 based on the stock price performance of the SinnerSchrader share until 31 December 2007. The bonus will be calculated as the difference between the average closing price of the SinnerSchrader share on the last ten trading days prior to 1 January 2008 and the reference price of € 1.61 per share, multiplied by 200,000.

8 Related Party Transactions

In the 2005/2006 and 2004/2005 financial years, SinnerSchrader generated revenues of € 2,689,764 and € 2,898,682 respectively with companies in which members of the Supervisory Board of SinnerSchrader hold Supervisory Board positions. The total of unbilled services and accounts receivable to these companies amounted to € 205,354 and € 166,218 on 31 August 2006 and 31 August 2005 respectively.

In May 2005, SinnerSchrader entered into a consultancy agreement with a former member of the Management Board who had retired from his position in April 2004. Under the terms of this agreement, SinnerSchrader received advice on the development of its operating services business for € 20,000. This accounted for € 10,000 each in both the 2005/2006 and 2004/2005 financial years. The agreement terminated on 31 December 2005.

9 Major Events after the Balance Sheet Date

There were no major events after the balance sheet date that should be reported.

10 Supplementary Information Required by the German Commercial Code

10.1 Employees

In the 2005/2006 financial year, an average of 135 people were employed by the SinnerSchrader Group. Of these, 2 employees were members of the Management Board and 6 employees were managing directors of subsidiaries. In the previous year, there was an average of 138 employees in the Group.

10.2 Payment of the Auditors

A total of € 58,568 was paid for the audit of the SinnerSchrader AG Annual and Consolidated Financial Statements as of 31 August 2006; € 22,760 of this was paid by the AG and € 35,826 by the subsidiaries. The auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, also received fees in the amount of € 17,127 in the 2005/2006 financial year for other certification and evaluation services and € 215 for other services.

10.3 Management Board

In the 2005/2006 financial year, the following persons were members of the Management Board.

» Matthias Schrader, Businessman, Chairman
» Thomas Dyckhoff, Businessman, Finance Director

On 20 December 2005, the appointment of Mr Schrader was renewed for the period to 31 December 2010. The members of the Management Board performed their duties on a full-time basis. Compensation of the Management Board members in the 2005/2006 financial year amounted to € 299,729 and was made up as follows:

Tab. 16a | Compensation of the Management Board members 2005/2006

	Fixed salary in €	Other benefits in €	Variable compensation in €	Number of stock options
Matthias Schrader	127,920	15,787	—	—
Thomas Dyckhoff	118,333	12,689	25,000	—
Total	**246,253**	**28,476**	**25,000**	**—**

10.4 Supervisory Board

In the financial year, the following persons were members of the Supervisory Board:

» Dr Markus Conrad, Chairman (until 27 January 2006)
» Reinhard Pöllath, Lawyer, Chairman (from 27 January 2006; previously Deputy Chairman)
» Dieter Heyde, Businessman, Deputy Chairman (from 27 January 2006)
» Frank Nörenberg, Lawyer

Compensation of the Supervisory Board members in the 2005/2006 financial year was made up as follows:

Tab. 16b | Compensation of the Supervisory Board members 2005/2006

	Compensation in €	Other benefits in €	Variable compensation in €	Number of stock options
Dr Markus Conrad	3,266	89	1,633	—
Reinhard Pöllath	7,183	218	3,592	—
Dieter Heyde	3,551	129	1,775	—
Frank Nörenberg	4,000	218	2,000	—
Total	**18,000**	**654**	**9,000**	**—**

Another benefit for every member of the Supervisory Board is the proportionate premium for the economic loss indemnity insurance for bodies of legal persons taken out by the Company.

10.5 Directors' Holdings of Shares and Subscription Rights to Shares (Directors' Dealings), Unaudited

The following table shows the number of shares in SinnerSchrader AG and the number of subscription rights to these shares held by directors of SinnerSchrader AG as of 31 August 2006 and their changes in the 2005/2006 financial year:

10.6 Declaration of Compliance on the Acceptance of the Recommendations of the "Government Commission on the German Corporate Governance Code"

On 21 November 2005, the Management Board and Supervisory Board submitted the Declaration of Compliance with the Corporate Governance Code required by Article 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders on the Company's website.

Hamburg, October 2006

Matthias Schrader Thomas Dyckhoff

Directors' holdings of shares and subscription rights to shares in number

Shares	31.08.2005	Additions	Withdrawals	31.08.2006
Management Board member:				
Matthias Schrader	2,342,675	—	—	2,342,675
Thomas Dyckhoff	49,950	—	—	49,950
Management Board, total	2,392,625	—	—	2,392,625
Supervisory Board member:				
Dr Markus Conrad[1)]	127,500	—	127,500	—
Reinhard Pöllath	—	—	—	—
Dieter Heyde	—	—	—	—
Frank Nörenberg	1,000	—	—	1,000
Supervisory Board, total	128,500	—	127,500	1,000
Board members, total	**2,521,125**	**—**	**127,500**	**2,393,625**
Subscription rights	31.08.2005	Additions	Withdrawals	31.08.2006
Management Board member:				
Matthias Schrader	—	—	—	—
Thomas Dyckhoff	25,000	—	—	25,000
Management Board, total	25,000	—	—	25,000
Supervisory Board member:				
Dr Markus Conrad	—	—	—	—
Reinhard Pöllath	—	—	—	—
Dieter Heyde	—	—	—	—
Frank Nörenberg	—	—	—	—
Supervisory Board, total	—	—	—	—
Board members, total	**25,000**	**—**	**—**	**25,000**

[1)] Supervisory Board member Dr Markus Conrad left the Supervisory Board of SinnerSchrader AG as of 27 January 2006. Therefore, as of 31 August 06, his shares and subscription rights are no longer attributed to the shares and subscription rights held by the Board members.

Auditors' Opinion

We have issued the following opinion on the Consolidated Financial Statements and Group Status Report, which was combined with the Status Report of the Company:

We have audited the Consolidated Financial Statements prepared by SinnerSchrader Aktiengesellschaft, Hamburg – consisting of the Consolidated Balance Sheet, the Consolidated Statements of Operations, the Consolidated Statements of Shareholders' Equity, the Consolidated Statements of Cash Flows and the Notes – as well as the Group Status Report, which was combined with the Status Report of the Company, for the financial year from 1 September 2005 to 31 August 2006. It is the responsibility of the Company's management to prepare the Consolidated Financial Statements and the Group Status Report in accordance with International Financial Reporting Standards (IFRS), as required in the EU, and with the commercial law regulations stipulated under Article 315a para. 1 HGB (German Commercial Code). It is our responsibility to express an opinion on the Consolidated Financial Statements and the Group Status Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Article 317 HGB and with the generally accepted German standards for the proper auditing of financial statements as promulgated by the Institut der Wirtschaftsprüfer in Deutschland (Institute of Public Auditors in Germany). These standards require that we plan and perform the audit in such a way that misstatements and contraventions materially affecting the presentation of the asset, financial and income situation in accordance with the principles of proper accounting in the Consolidated Financial Statements and Group Status Report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the Group, as well as the evaluation of possible misstatements, are taken into account when determining the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the Consolidated Financial Statements and the Group Status Report are examined primarily on a test basis within the framework of the audit. The audit involves an evaluation of the Annual Financial Statements of the companies included in the Consolidated Financial Statements, the definition of the basis of consolidation, the accounting and consolidation principles used and the key estimates of the Company's management, as well as an appraisal of the overall presentation of the Consolidated Financial Statements and the Group Status Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any reservations.

In our opinion, based on the results of the audit, the Consolidated Financial Statements comply with IFRS, as required in the EU, and with the commercial law regulations stipulated under Article 315a para. 1 HGB, and they present a true and fair view of the asset, financial and income situation of the Group in accordance with these regulations. The Group Status Report is consistent with the Consolidated Financial Statements, conveys an accurate view of the situation of the Group and accurately presents the opportunities and risks for future development.

Hamburg, 30 October 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Nissen-Schmidt	Schiersmann
Auditor	Auditor

4 »

Annual Financial Statements of SinnerSchrader AG

Balance Sheet of SinnerSchrader AG
as of 31 August 2006 and 31 August 2005

Assets in €	31.08.2006	31.08.2005
Fixed assets		
Intangible assets:		
Concessions, industrial property rights and similar rights and assets, as well as licences in such rights and assets	84,878	78,061
Tangible assets:		
Other equipment, plant and office equipment	286,890	298,898
Leasehold improvements	301,817	252,854
Total tangible assets	588,707	551,752
Financial assets:		
Shares in affiliated companies	14,000,000	11,500,000
Total financial assets	14,000,000	11,500,000
Total fixed assets	**14,673,585**	**12,129,813**
Current assets		
Receivables and other assets:		
Trade receivables	20,461	—
Receivables from affiliated companies	2,037,073	1,608,675
Other assets	138,088	209,814
Total receivables and other assets	2,195,622	1,818,489
Securities:		
Treasury stock	200,933	182,572
Other securities	7,495,702	145
Total securities	7,696,635	182,717
Cash on hand and in banks	818,323	8,385,326
Total current assets	**10,710,580**	**10,386,532**
Prepaid expenses	25,077	31,266
Total assets	**25,409,242**	**22,547,611**

Liabilities and shareholders' equity in €	31.08.2006	31.08.2005
Shareholders' equity		
Subscribed capital (conditional capital: € 750,000; previous year: € 750,000)	11,542,764	11,542,764
Capital reserve	2,603,673	2,603,673
Reserves:		
Reserve for treasury stock	200,933	182,572
Other reserves	9,508,336	6,241,150
Retained earnings/accumulated deficit	793,787	531,939
Total shareholders' equity	**24,649,493**	**21,102,098**
Accruals		
Other accrued liabilities	508,159	806,066
Total accrued liabilities	**508,159**	**806,066**
Liabilities		
Trade payables	129,167	57,382
thereof with a remaining term of up to one year: € 129,167 (previous year: € 57,382)		
Other liabilities	122,423	582,065
thereof with a remaining term of up to one year: € 122,423 (previous year: € 582,065)		
thereof taxes € 119,291 (previous year: € 154,031)		
thereof relating to social security and similar obligations € 9 (previous year: € 18,056)		
Total liabilities	**251,590**	**639,447**
Total liabilities and shareholders' equity	**25,409,242**	**22,547,611**

Statement of Operations of SinnerSchrader AG

for the 2005/2006 and 2004/2005 financial years

in €	2005/2006	2004/2005
Revenues	2,389,574	2,294,843
Other operating income	2,580,643	4,739,985
Material expense:		
Expense for purchased goods	–53	—
Expense for purchased services	–90,307	–50,254
Total material expense	–90,360	–50,254
Personnel expense:		
Wages and salaries	–1,036,278	–973,716
Social security	–189,789	–162,945
Total personnel expense	–1,226,067	–1,136,661
Depreciation of intangible assets, property and equipment	–369,114	–412,313
Other operating expense	–1,565,690	–1,687,821
Income from profit/loss transfer agreement	1,637,213	1,792,061
Other interest and similar income	195,945	107,799
thereof from affiliated companies: € 6,455 (previous year: € 9,452)		
Interest and similar expense	–4,233	–20,552
thereof from affiliated companies: € 2,757 (previous year: € 1,733)		
Income from ordinary activities	**3,547,911**	**5,627,087**
Other taxes	–516	669
Net income	**3,547,395**	**5,627,756**
Profit brought forward from previous year	531,939	—
Withdrawal from reserves:		
– from other reserves	18,361	—
Additions to reserves:		
– to reserves for treasury stock	–18,361	—
– to other reserves	–3,285,547	–5,095,817
Balance sheet profit	**793,787**	**531,939**

Notes to the Annual Financial Statements of SinnerSchrader AG

1 Statutory Foundations

The annual report of SinnerSchrader Aktiengesellschaft ("Sinner-Schrader AG" or "Company") has been compiled in accordance with the regulations of the German Commercial Code ("Handels-gesetzbuch") and the German Stock Corporation Act ("Aktien-gesetz"). The Company is considered to be a large company limited by shares within the meaning of Article 267 of the German Commercial Code.

2 Accounting Principles and Standards of Valuation

The report has been compiled in euros (€).

The intangible assets and the property and equipment are reported at procurement or manufacturing costs, minus regular depreciation. Depreciation is linear, in accordance with the usage period. Low-value items with procurement costs of up to € 410 are fully depreciated in the year of acquisition. Depreci-ation of leasehold improvements is linear over the remaining term of the rental contract.

The financial assets are reported either at acquisition cost or at the value to be ascribed on the balance sheet date, whichever is lower.

If the value of the fixed assets determined according to the principles above is higher than the value to be ascribed to them on the report date, this shall be taken account of by means of non-scheduled depreciation. If the reasons for depreciation implemented in previous financial years no longer pertain, the original value will be reinstated.

Receivables and other assets are reported at their face value. Foreign currency debts are included on the balance sheet either at the original rate or at the rate applicable on the balance sheet date, whichever is lower.

Marketable securities are included on the balance sheet either at acquisition cost or at a value to be ascribed to them, which-ever is lower.

Other accrued expenses cover all recognisable risks and uncer-tain liabilities. Evaluation is at a level that appears necessary according to sound business judgement.

Liabilities are posted in the amount to be repaid. Foreign currency liabilities are included on the balance sheet either at the original rate or at the rate applicable on the balance sheet date, whichever is higher.

3 Explanations of Balance Sheet Items

3.1 Fixed Assets

The development of the Company's fixed assets is shown in the following assets table:

Tab. 1 | Assets table

Acquisition and manufacturing costs in €	01.09.2005	Additions	Disposals	31.08.2006
Intangible assets:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	269,474	41,364	—	310,838
Tangible assets:				
Other equipment, plant and office equipment	713,278	107,447	79,961	740,764
Leasehold improvements	1,084,432	307,088	1,072,525	318,995
Financial assets:				
Shares in affiliated companies	24,838,037	—	—	24,838,037
Investments	167,900	—	—	167,900
Loans to investee companies	51,129	—	—	51,129
Total	**27,124,250**	**455,899**	**1,152,486**	**26,427,663**

Accumulated depreciation in €	01.09.2005	Additions	Disposals/ write-ups	31.08.2006
Intangible assets:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	191,413	34,547	—	225,960
Tangible assets:				
Other equipment, plant and office equipment	414,380	82,146	42,652	453,874
Leasehold improvements	831,578	252,421	1,066,821	17,178
Financial assets:				
Shares in affiliated companies	13,338,037	—	2,500,000	10,838,037
Investments	167,900	—	—	167,900
Loans to investee companies	51,129	—	—	51,129
Total	**14,994,437**	**369,114**	**3,609,473**	**11,754,078**

Net book values in €	31.08.2005			31.08.2006
Intangible assets:				
Concessions, industrial property rights and similar rights and assets, as well as licences for such rights and assets	78,061			84,878
Tangible assets:				
Other equipment, plant and office equipment	298,898			286,890
Leasehold improvements	252,854			301,817
Financial assets:				
Shares in affiliated companies	11,500,000			14,000,000
Investments	—			—
Loans to investee companies	—			—
Total	**12,129,813**			**14,673,585**

3.2 Other Securities
As of 31 August 2006, the other securities item was largely made up of commercial papers from industrial issuers with good credit, as well as conventional shares in money market funds from renowned capital investment companies, which are reported either at acquisition cost or at a value to be ascribed on the balance sheet date, whichever is lower.

3.3 Treasury Stock
On 31 August 2006, the Company held treasury stock with a calculated face value of € 131,347. This represents 1.14 % of the share capital. The treasury stock was acquired on the stock market in the period between August 2002 and September 2003 for an average price of € 1.53 and, with regard to use, is kept for the purposes cited in the relevant resolutions of the Annual General Meetings.

The treasury stock is either entered in the balance sheet at acquisition cost or at the value to be ascribed, whichever is lower. Accordingly, the amount of treasury stock on 31 August 2006 should be posted at the original acquisition cost given a closing price of € 1.53 on this date. The previous year's devaluation to the closing price of 31 August 2005 of € 1.39 was revoked.

A reserve for the treasury stock is formed in the amount of the balance sheet item.

3.4 Accounts Receivable and Other Assets
All accounts receivable and other assets in the amount of € 2,195,622 (previous year: € 1,818,489) have a remaining term of up to one year.

Accounts receivable from affiliated companies in the amount of € 2,037,073 (previous year: € 1,608,675) are balanced against liabilities to affiliated companies in the amount of € 6,767 (previous year: € 332,336). The net position is made up of accounts receivable due to profit and loss transfer agreements (€ 1,637,213; previous year: € 1,792,061), net accounts receivable from goods and services (€ 218,274; previous year: € 39,546), net accounts receivable associated with tax integration (€ 154,349; previous year: € 109,404) as well as accounts receivable from a cash pool (€ 27,237; previous year: € 327,864).

The other assets largely comprise tax reimbursement receivables from the Tax authorities from taxes paid on revenue from investing liquid funds (€ 105,363; previous year: € 172,952).

3.5 Prepaid Expenses
The prepaid expenses in the amount of € 25,077 (previous year: € 31,266) largely consist of payments for investor relations services, maintenance contracts, contributions and insurance policies relating to the year.

3.6 Share Capital
As of 31 August 2006, the Company's share capital amounted to € 11,542,764. It is formed by 11,542,764 individual no-par-value share certificates with a calculated face value of € 1 issued in the name of the owner.

The Annual General Meeting of 28 January 2004 authorised the Management Board to increase the share capital once or repeatedly by up to a total of € 5,770,000 until 15 January 2009 with the approval of the Supervisory Board by issuing individual share certificates issued in the name of the owner in return for a contribution in cash or a contribution in kind, excluding the shareholders' subscription right. The Management Board and Supervisory Board did not make use of the approved capital in the 2005/2006 financial year, meaning that the approved capital still amounted to € 5,770,000 as of 31 August 2006.

The Annual General Meeting decision of 26 October 1999 created conditional capital in the amount of € 375,000 for granting rights to subscribe to 375,000 no-par-value individual share certificates to employees and members of the management of the Company or affiliated companies ("1999 Stock Option Plan"). Options from the 1999 Stock Option Plan could be assigned until 8 November 2004. As of 31 August 2006, 127,909 options from the 1999 Stock Option Plan with an average exercise price of € 14.63 were still in circulation. In the 2005/2006 and 2004/2005 financial years, no options from the 1999 Stock Option Plan were exercised.

The Annual General Meeting decision of 12 December 2000 created conditional capital in the amount of € 375,000 for granting rights to subscribe to 375,000 no-par-value individual share certificates to employees and members of the management of the Company or affiliated companies ("2000 Stock Option Plan"). Options from the 2000 Stock Option Plan could be assigned until 10 January 2006. In the 2005/2006 financial year, 148,200 options from the 2000 Stock Option Plan were issued. As of 31 August 2006, 168,629 options from the 2000 Stock Option Plan with an average exercise price of € 2.27 were still in circulation. In the 2005/2006 financial year, no options from the 2000 Stock Option Plan were exercised. In the previous year, 19,018 options from the 2000 Stock Option Plan were exercised at an average exercise price of € 2.76.

3.7 Capital Reserve
The capital reserve remained unchanged in the 2005/2006 financial year compared to the previous year.

3.8 Reserve for Treasury Stock

In the 2005/2006 financial year, the reserve for treasury stock reached € 200,933 (previous year: 182,572). The increase in the 2005/2006 financial year by € 18,361 is due to the closing price of the SinnerSchrader share of € 1.53 per share as of 31 August 2006, which was higher than in the previous year; this necessitated a correction to the depreciation of the treasury stock to its acquisition cost, which had been undertaken in the previous year.

3.9 Other Revenue Reserves

Tab. 2 | Other reserves of SinnerSchrader AG in €

Other reserves as at 31.08.2005	**6,241,150**
Allocation from dissolution of reserves for treasury stock	–18,361
Allocation to other reserves acc. § 58 (2a) AktG	2,500,000
Allocation to other reserves acc. § 58 (2) AktG in conjunction with the Statutes of the Company	785,547
Other reserves as at 31.08.2006	**9,508,336**
thereof:	
from allocation to other reserves acc. § 58 (2a) AktG	6,000,000
from allocation to other reserves acc. § 58 (2) AktG in conjunction with the Statutes of the Company	3,508,336

Items were allocated to other revenue reserves in the amount of € 2,500,000 according to Article 58 para. 2a of the German Stock Corporation Act, since the net income for the 2005/2006 financial year increased by this amount due to the increase in value of the stake in shares in affiliated companies. By decision of the Management Board and Supervisory Board, 75 % of the remaining net income, or € 785,547, was reported in the other revenue reserves according to Article 58 para. 2 of the German Stock Corporation Act in conjunction with the Statutes of the Company.

3.10 Accrued Expenses

The other accrued expenses in the amount of € 508,159 (previous year: € 808,066) have been formed for outstanding invoices, litigation risks, reporting and auditing expenses as well as personnel expenses, especially for holiday and overtime claims and bonuses.

3.11 Liabilities

All liabilities in the amount of € 251,590 (previous year: € 639,447) have a remaining term of up to one year. The amount is made up of liabilities from accounts receivable, turnover tax liabilities to the German turnover tax authorities as well as income tax and church tax levies that are not yet due.

4 Explanations of Statement of Operations Items

4.1 Revenue

Revenues in the amount of € 2,389,574 come from the management and administrative services provided by the Company for the consolidated affiliated companies and from charging for the costs of the centrally administered infrastructure in the consolidated Group.

4.2 Other Operating Income

The other operating income in the amount of € 2,580,643 largely comprises income from the increase in value according to Article 280 of the German Commercial Code of the shares of the 100 % subsidiary SinnerSchrader Deutschland GmbH (€ 2,500,000). Furthermore, the other operating income includes income from the increase in value of the treasury stock, the sale of other securities, from insurance compensation, from the resolution of accrued expenses and from paying benefits with cash value to employees.

4.3 Income from the Transfer of Profits

In December 2003, the Company and its 100 % subsidiary SinnerSchrader Deutschland GmbH concluded a profit transfer agreement with effect from 1 September 2003, which the Annual General Meeting agreed to on 28 January 2004. Income of € 1,637,213 was earned from the profit transfer agreement in the 2005/2006 financial year.

4.4 Interest Income and Expenses

The interest income comes from investing the Company’s liquid funds. Interest expenditure mainly arose within the context of the central liquidity management that the Company carries out for its German subsidiaries.

4.5 Other Operating Expenses

The other operating expenses in the amount of € 1,565,690 mainly consist of costs for office space, communication costs, advertising costs and legal and consulting costs.

The other operating expenses include expenditure for fees in the amount of € 39,887 for the auditors, of which € 22,760 was for the annual audit, € 16,912 for other certification and evaluation services and € 215 for other services. Furthermore, the Company was invoiced € 35,808 for reporting fees, which were subsequently charged to the subsidiaries.

5 Other Information

5.1 Other Financial Liabilities

Tab. 3 | Obligations from rent and lease contracts in €	
01.09.2006–31.08.2007	711,588
01.09.2007–31.08.2008	751,211
01.09.2008–31.08.2009	751,211
01.09.2009–31.08.2010	751,211
After 01.09.2010	1,017,009
Total	**3,982,231**

The financial liabilities largely concern fixed-term rental contracts for the office space in the Hamburg and Frankfurt am Main locations, which have a minimum remaining term of just under five years each.

5.2 Employees

On average for the 2005/2006 financial year, the Company had 18 employees (previous year: 16).

5.3 Management Board

In the 2005/2006 financial year, the following persons were members of the Management Board:

» Matthias Schrader, Businessman, Chairman
» Thomas Dyckhoff, Businessman, Finance Director

On 20 December 2005, the appointment of Mr Schrader was renewed for the period to 31 December 2010. The members of the Management Board performed their duties on a full-time basis. The remuneration of the Management Board members was made up as follows:

5.4 Supervisory Board

In the financial year, the following persons were members of the Supervisory Board:
Dr Markus Conrad, Chairman (until 27 January 2006)
» Businessman, Hamburg
» Spokesman for the Management Board of Tchibo GmbH, Hamburg
» Member of the Management Board of Börsenverein des Deutschen Buchhandels e. V., Frankfurt am Main
» Member of the Supervisory Board of Blume 2000 New Media AG, Norderstedt

Reinhard Pöllath, Chairman (from 27 January 2006; previously Deputy Chairman)
» Lawyer, Munich
» Chairman of the Supervisory Board of Deutsche Woolworth GmbH & Co. OHG, Frankfurt am Main
» Chairman of the Supervisory Board of Tchibo Holding AG, Hamburg
» Member of the Supervisory Board of Beiersdorf AG, Hamburg
» Member of the Supervisory Board of TA Triumph-Adler AG, Nuremberg (until 20 August 2006)
» Member of the Supervisory Board of Tchibo GmbH, Hamburg
» Member of the Supervisory Board of FERI Finance AG, Bad Homburg

Dieter Heyde, Deputy Chairman (from 27 January 2006)
» Businessman, Bad Nauheim
» Managing Partner of Salt Solutions GmbH, Würzburg

Frank Nörenberg
» Lawyer, Hamburg
» Managing Partner of Nörenberg, Schröder + Partner, Rechtsanwälte – Wirtschaftsprüfer – Steuerberater (Attorneys, Auditors and Tax Consultants), Hamburg
» Deputy Chairman of the Supervisory Board of Graphit Kropfmühl AG, Hautzenberg
» Member of the Supervisory Board of Albis Leasing AG, Hamburg
» Member of the Advisory Council of ODS Optical Disc Service GmbH, Dassow

Tab. 4 | Remuneration of the Management Board members 2005/2006

	Fixed salary in €	Other benefits in €	Variable components in €	Stock options in number
Matthias Schrader	127,920	15,787	—	—
Thomas Dyckhoff	118,333	12,689	25,000	—
Total	**246,253**	**28,476**	**25,000**	**—**

In the 2005/2006 financial year, the total remuneration for the Management Board amounted to € 299,729.

Remuneration of the Supervisory Board members in the 2005/2006 financial year was made up as follows:

Tab. 5 | Remuneration of the Supervisory Board members 2005/2006

	Fixed salary in €	Other benefits in €	Variable components in €	Stock options in number
Dr Markus Conrad	3,266	89	1,633	—
Reinhard Pöllath	7,184	218	3,592	—
Dieter Heyde	3,551	129	1,775	—
Frank Nörenberg	4,000	218	2,000	—
Total	**18,000**	**654**	**9,000**	**—**

Another benefit for every member of the Supervisory Board is the proportionate premium for the economic loss indemnity insurance for bodies of legal persons taken out by the Company.

5.5 Participations

The participations held by SinnerSchrader Aktiengesellschaft are broken down as follows:

Tab. 6a | Investments of SinnerSchrader AG

Company	Share in %	Currency	Nominal capital	Share-holders' capital	Last annual result[1]	Profit/loss transfer agreement	Reporting period
SinnerSchrader Deutschland GmbH, Hamburg	100.00	EUR	100,000	100,000	1,637,213	yes	01.09.05–31.08.06
SinnerSchrader UK Ltd., London, Great Britain[2]	100.00	GBP	100,000	−545,448	−28,241	no	01.09.05–31.08.06
SinnerSchrader Benelux BV, Rotterdam, Netherlands[2]	100.00	EUR	18,000	−177,371	−8,103	no	01.01.05–31.12.05
LetMeShip GmbH, Hamburg[3]	24.94	EUR	53,250	n/a	n/a	no	n/a

[1] Before profit transfer to SinnerSchrader AG

[2] The companies' activities were temporarily discontinued in the previous years; the respective shares were written off in the year the activity was discontinued. Audited annual financial statements of the companies are not available.

[3] The company filed for insolvency, current information regarding shareholders' equity and earnings is not available. The participation was completely written off.

Tab. 6b | Investments of SinnerSchrader Deutschland GmbH

Company	Share in %	Currency	Nominal capital	Share-holders' capital	Last annual result[1]	Profit/loss transfer agreement	Reporting period
SinnerSchrader Neue Informatik GmbH, Hamburg	100.00	EUR	25,000	631,419	591,865	yes	01.09.05–31.08.06
SinnerSchrader Studios GmbH, Hamburg	100.00	EUR	25,000	341,030	84,513	yes	01.09.05–31.08.06
SinnerSchrader Studios Frankfurt GmbH, Frankfurt am Main	100.00	EUR	25,000	125,932	168,375	yes	01.09.05–31.08.06

[1] Before profit transfer to SinnerSchrader Deutschland GmbH

5.6 Declaration of Compliance Under Article 161 of the German Stock Corporation Act

On 21 November 2005, the Management Board and Supervisory Board submitted the Declaration of Compliance with the Corporate Governance Code required by Article 161 of the German Stock Corporation Act and made it permanently accessible to the shareholders on the Company's website.

5.7 Information According to Article 160 Para. 1 No. 8 of the German Stock Corporation Act

The Company has published the following notifications about major participations in an authorised journal of stock exchange announcements as required under Article 25 para. 1 of the Securities Trading Act:

» Mr Holger Blank, Germany, notified us on 19 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby he has a share of voting rights of 49.1223 % under the terms of Article 22 para. 2 of the Securities Trading Act.

» Mr Bernward Beuleke, Germany, notified us on 19 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.2256 %, whereby he has a share of voting rights of 49.0718 % under the terms of Article 22 para. 2 of the Securities Trading Act.

» Mr Dirk Lehmann, Germany, notified us on 19 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1322 %, whereby he has a share of voting rights of 49.0718 % under the terms of Article 22 para. 2 of the Securities Trading Act.

» Ms Marion Sinner, Germany, notified us on 19 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that her share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby she has a share of voting rights of 49.0365 % under the terms of Article 22 para. 2 of the Securities Trading Act.

» Mr Torsten Kautz, Germany, notified us on 19 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby he has a share of voting rights of 49.0950 % under the terms of Article 22 para. 2 of the Securities Trading Act.

» Ms Jessica Schmidt, Germany, notified us on 19 January 2005, amended on 4 February 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that her share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1244 %, whereby she has a share of voting rights of 48.9065 % under the terms of Article 22 para. 2 of the Securities Trading Act.

» Dr Markus Conrad, Germany, notified us on 20 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act and in conjunction with Article 22 of the Securities Trading Act, that he received notification on 17 January 2005 to the effect that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 due to sales in the syndicate and now amounts to 49.1231 %, whereby he has a share of voting rights of 48.0185 % under the terms of Article 22 para. 2 of the Securities Trading Act.

Debby Vermögensverwaltung GmbH, Germany, acting on its own behalf and on behalf of the persons mentioned under letters b to e, notified us on 20 January 2005, pursuant to Article 21 para. 1 of the Securities Trading Act, of the following:

a. Debby Vermögensverwaltung GmbH, Germany, received notification on 20 January 2005 that its share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 due to sales in the syndicate and now amounts to 49.1231 %, whereby it has a share of voting rights of 37.8823 % under the terms of Article 22 para. 2 of the Securities Trading Act.
b. Mr Wolfgang Herz, Germany, received notification on 17 January 2005 that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby he has a share of voting rights of 4.9713 % under the terms of Article 22 para. 1 No. 2 of the Securities Trading Act and a share of voting rights of 44.1518 % under the terms of Article 22 para. 2 of the Securities Trading Act.

c. Ms Agneta Peleback-Herz, Germany, received notification on 17 January 2005 that her share of voting rights in Sinner Schrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby she has a share of voting rights of 0.6491 % under the terms of Article 22 para. 1 No. 2 of the Securities Trading Act and a share of voting rights of 48.474 % under the terms of Article 22 para. 2 of the Securities Trading Act.
d. Mr Michael Herz, Germany, received notification on 17 January 2005 that his share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby he has a share of voting rights of 4.9713 % under the terms of Article 22 para. 1 No. 2 of the Securities Trading Act and a share of voting rights of 44.1518 % under the terms of Article 22 para. 2 of the Securities Trading Act.
e. Ms Cornelia Herz, Germany, received notification on 17 January 2005 that her share of voting rights in SinnerSchrader AG fell below the threshold of 50 % as of 12 January 2005 and now amounts to 49.1231 %, whereby she has a share of voting rights of 0.6491 % under the terms of Article 22 para. 1 No. 2 of the Securities Trading Act and a share of voting rights of 48.474 % under the terms of Article 22 para. 2 of the Securities Trading Act.

Mr Gerd Stahl, Germany, notified us on 4 July 2003, amended on 10 July 2003, pursuant to Article 21 para. 1 of the Securities Trading Act in conjunction with Article 22 of the Securities Trading Act, in accordance with the obligation on his part and as an agent and by proxy for the persons mentioned under letters b to c, that:

a. As of 30 June 2003, Mr Gerd Stahl, Germany, has fallen below the threshold of 50 % of the voting rights in Sinner-Schrader AG. He is now entitled to 49.95 % of the voting rights in SinnerSchrader AG pursuant to Article 21 para. 1 of the Securities Trading Act, of which 47.18 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.
b. As of 30 June 2003, Mr Alexander Spohr, Germany, has fallen below the threshold of 50 % of the voting rights in SinnerSchrader AG. He is now entitled to 49.95 % of the voting rights in SinnerSchrader AG pursuant to Article 21 para. 1 of the Securities Trading Act, of which 47.69 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.
c. As of 30 June 2003, Mr Matthias Fricke, USA, has fallen below the threshold of 50 % of the voting rights in SinnerSchrader AG. He is now entitled to 49.95 % of the voting rights in SinnerSchrader AG pursuant to Article 21 para. 1 of the Securities Trading Act, of which 47.85 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.

Mr Thomas Dyckhoff, Germany, notified us on 7 June 2002, pursuant to Article 41 para. 2, 1st sentence of the Securities Trading Act, in accordance with the obligation on his part and as an agent and by proxy for the persons mentioned under letters b to e, that the correction to the notifications for Messrs Spohr, Fricke and Stahl resulted in the following amendments to the notifications of 8 April 2002 with respect to himself and the persons mentioned under letters b to e:

a. Mr Thomas Dyckhoff, Germany, is entitled to 71.134 % of the voting rights in SinnerSchrader AG on 1 April 2002 pursuant to Article 41 para. 2, 1st sentence of the Securities Trading Act. Of this total, 70.701 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.
b. Mr Oliver Sinner, Germany, is entitled to 71.134 % of the voting rights in SinnerSchrader AG on 1 April 2002 pursuant to Article 41 para. 2, 1st sentence of the Securities Trading Act. Of this total, 50.801 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.
c. Mr Matthias Schrader, Germany, is entitled to 71.134 % of the voting rights in SinnerSchrader AG on 1 April 2002 pursuant to Article 41 para. 2, 1st sentence of the Securities Trading Act. Of this total, 52.614 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.
d. Mr Detlef Wichmann, Germany, is entitled to 71.134 % of the voting rights in SinnerSchrader AG on 1 April 2002 pursuant to Article 41 para. 2, 1st sentence of the Securities Trading Act. Of this total, 68.335 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.
e. Mr Sebastian Dröber, Germany, is entitled to 71.134 % of the voting rights in SinnerSchrader AG on 1 April 2002 pursuant to Article 41 para. 2, 1st sentence of the Securities Trading Act. Of this total, 68.161 % of the voting rights are to be assigned under the terms of Article 22 para. 2 of the Securities Trading Act.

6 Additional Information (Unaudited)

6.1 Directors' Holdings of Shares and Subscription Rights to Shares (Directors' Dealings)

The following table shows the number of shares in SinnerSchrader AG and the number of subscription rights to these shares held by directors of SinnerSchrader AG as of 31 August 2006 and any changes in the 2005/2006 financial year:

Tab. 7 | Shares and options held by the Board members in number

Shares	31.08.2005	Additions	Disposals	31.08.2006
Management Board members:				
Matthias Schrader	2,342,675	—	—	2,342,675
Thomas Dyckhoff	49,950	—	—	49,950
Total shares held by the Management Board members	2,392,625	—	—	2,392,625
Supervisory Board members:				
Dr Markus Conrad[1)]	127,500	—	127,500	—
Reinhard Pöllath	—	—	—	—
Dieter Heyde	—	—	—	—
Frank Nörenberg	1,000	—	—	1,000
Total shares held by the Supervisory Board members	128,500	—	127,500	1,000
Total shares held by the Board members	**2,521,125**	**—**	**127,500**	**2,393,625**
Options	31.08.2005	Additions	Disposals	31.08.2006
Management Board members:				
Matthias Schrader	—	—	—	—
Thomas Dyckhoff	25,000	—	—	25,000
Total shares held by the Management Board members	25,000	—	—	25,000
Supervisory Board members:				
Dr Markus Conrad	—	—	—	—
Reinhard Pöllath	—	—	—	—
Dieter Heyde	—	—	—	—
Frank Nörenberg	—	—	—	—
Total options held by the Supervisory Board members	—	—	—	—
Total options held by the Board members	**25,000**	**—**	**—**	**25,000**

[1)] Dr Markus Conrad left the Supervisory Board of SinnerSchrader AG as of 27 January 2006. Therefore, as of 31 August 2006, his shares and subscription rights are no longer attributed to the shares and subscription rights held by the Board members.

Hamburg, October 2006

Matthias Schrader Thomas Dyckhoff

Auditors' Opinion

The following is the auditors' opinion on the Financial Statement and Status Report, which was combined with the Group Status Report:

We have audited the Annual Financial Statements, which is made up of the Balance Sheet, the Statement of Operations and the Notes, together with the bookkeeping system, and the Status Report, which was combined with the Group Status Report, of SinnerSchrader Aktiengesellschaft for the financial year from 1 September 2005 to 31 August 2006. The keeping of the books and records and the preparation of the Annual Financial Statements and Status Report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the Annual Financial Statements, together with the bookkeeping system, and the Status Report, based on our audit.

We conducted our audit of the Annual Financial Statements in accordance with Article 317 HGB (German Commercial Code) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW: Institute of Public Auditors in Germany). These standards require that we plan and perform the audit so that misstatements and contraventions materially affecting the presentation of the asset, financial and income situation in the Annual Financial Statements in accordance with generally accepted accounting principles as well as in the Status Report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the Company and the evaluations of 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 books and records, the Annual Financial Statements and the Status Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Annual Financial Statements and Status Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the Annual Financial Statements give a true and fair view of the asset, financial and income situation of the Company in accordance with generally accepted accounting principles. On the whole, the Status Report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hamburg, 30 October 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Nissen-Schmidt	Schiersmann
Auditor	Auditor

Glossary

Cash flow The cash flow provides information on the financial strength and earning power of a company. The cash flow is determined on the basis of the inflow and outflow of currency and currency equivalents from ongoing business activities.

CDAX The CDAX comprises all German companies in the Prime Standard and General Standard segments from both the traditional and technology sectors.

Cost-per-order (CPO) transactions This online marketing term refers to the type of billing which occurs between a company being advertised and the media services provider who runs ads or banners on behalf of this company. With this type of payment, each order generated online gives rise to costs for the advertiser.

Directors' Dealings Dealings with a company's securities by members of the supervisory board or management board of that company, their relatives or executives with access to inside information. These individuals are legally required to report such dealings if their value exceeds € 5,000 in one year.

EBITA Earnings before interest, taxes and amortisation of intangible assets from acquisitions – essentially, goodwill.

EBITDA Earnings before interest, taxes, depreciation of tangible assets and amortisation of intangible assets from acquisitions – essentially, goodwill.

Equity ratio The equity ratio indicates the proportion of shareholders' equity to total capital (balance sheet total).

GEX The German Entrepreneurial Index (GEX) comprises the shares of owner-operated German companies which are listed in the Prime Standard of the Frankfurt Stock Exchange and which have been quoted on the stock exchange for a maximum of ten years. The GEX is one of the indices in the DAX family.

Hosting Hosting is a service which involves the provision of computer capacity, programmes and Internet connections, taking both quantitative aspects (such as the capacity of the Internet connection measured in megabits per second) and qualitative aspects (such as the assured maximum downtime per month) into account.

IFRS International Financial Reporting Standards; IFRS is also used to refer to the new standards issued by the International Accounting Standards Board (IASB) and the existing International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC). The use of IFRS has been mandatory since 1 January 2005 for all companies quoted on the stock exchange. With IAS/IFRS, the focus is on the informative function of accounting. The key requirement for annual financial statements is fair presentation, which should not be restricted by aspects of caution or risk management.

Prime Software The companies listed in the Prime Standard are grouped into 18 different sectors and 62 industry groups. SinnerSchrader AG is in the "Tech" sector and the "Software" industry group.

Prime Standard Every company listed on the Frankfurt Stock Exchange in the Official Market or Regulated Market can choose to apply for a listing in the General Standard or Prime Standard segment. Higher standards of transparency are required for admission to the Prime Standard.

Search engine marketing A collective term referring to various measures for drawing qualified visitors to a website through search engine results. These measures include the optimal design of the target website, in particular the inclusion of text ads for relevant search terms (sponsored links), and other forms of paid or unpaid integration in search engines (paid inclusion).

Technology All Share The Technology All Share index is composed of shares from companies in technology sectors ranked below the DAX – i.e. shares, from the TecDAX as well as from other technology companies in the Prime Standard.

Web 2.0 An umbrella term for a number of new interactive technologies and services on the Internet. The term is attributed to Tim O'Reilly and Dale Dougherty from the IT publishing firm O'Reilly Media. Interactivity is a key feature of Web 2.0; users are involved in the creation and diversity of offers on the Internet and thus ultimately generate content themselves.

Events

Financial calender 2006/2007	
1st Quarterly Report 2006/2007 (September 2006–November 2006)	11 January 2007
Annual General Meeting	23 January 2007
2nd Quarterly Report 2006/2007 (Dezember 2006–February 2007)	12 April 2007
3rd Quarterly Report 2006/2007 (March 2007–May 2007)	12 July 2007
Annual Report 2006/2007	November 2007

Our previous reports are available online and for download in the ”Investors‟ section of the www.sinnerschrader.de website.

Conference calender 2006/2007	
Next 07 conference	April 2007

For more information please visit our conference website at www.next07.de.

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Key figures of the SinnerSchrader Group, four quarters 2005/2006, acc. to IFRS

in € 000s, € and number	Q4	Q3	Q2	Q1
Revenues	4,156	3,912	3,826	3,925
Gross profit	1,203	1,041	1,110	1,255
EBITDA	329	251	269	303
EBITA	218	102	114	166
Net income	790	160	118	124
Net income per share	0.07	0.01	0.01	0.01
Cash flows from operating activities	–60	771	–245	–272
Employees, full time equivalents	134	127	127	128
	31.08.2006	31.05.2006	28.02.2006	30.11.2005
Liquid funds and marketable securities	10,005	10,521	9,805	10,249
Employees, end of period	143	133	132	130

Key figures of the SinnerSchrader Group, five years

	IFRS	IFRS	US-GAAP	US-GAAP	US-GAAP
in € 000s, € and number	01.09.2005 31.08.2006	01.09.2004 31.08.2005	01.09.2003 31.08.2004	01.09.2002 31.08.2003	01.09.2001 31.08.2002
Revenues	15,819	14,315	12,325	12,359	14,544
Gross profit	4,609	4,698	3,649	3,000	2,954
EBITDA	1,152	718	–752	–929	–3,608
EBITA	600	177	–1,384	–1,621	–4,284
Net income	1,192	544	–531	–923	–17,901 2)
Net income per share 1)	0.10	0.05	–0.05	–0.08	–1.55 2)
Shares outstanding 1)	11,411	11,334	10,933	11,165	11,533
Cash flows from operating activities	194	2,788	2,291	–1,637	–328
Employees, full time equivalents	129	132	139	169	221
	31.08.2006	31.08.2005	31.08.2004	31.08.2003	31.08.2002
Liquid funds and marketable securities	10,005	10,570 3)	27,038	24,603	27,465
Shareholders' equity	11,531	10,334	8,054 3)	29,375	30,985
Balance sheet total	15,067	13,746 3)	31,252	31,473	35,026
Employees, end of period	143	130	145	166	205

1) Weighted average shares outstanding (diluted)

2) Including cumulative effect of accounting change of € –14.6 million or € –1.26 per share

3) Effect of special distribution to shareholders of € 20.8 million

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