SinnerSchrader

# Q3

05

**interactivate your business**

06

Key Figures

| **Key figures of the SinnerSchrader Group**<br>in € 000s, € and number | Q3<br>2005/2006 | Q3<br>2004/2005 | Change | 9 months<br>2005/2006 | 9 months<br>2004/2005 | Change |
|---|---|---|---|---|---|---|
| Revenues | 3,912 | 3,653 | 7 % | 11,662 | 10,500 | 11 % |
| Gross profit | 1,041 | 1,199 | –13 % | 3,406 | 3,446 | –1 % |
| EBITDA | 251 | 156 | 61 % | 821 | 469 | 75 % |
| EBITA | 102 | 21 | over 100 % | 380 | 67 | over 100 % |
| Net income | 160 | 29 | over 100 % | 400 | 233 | 72 % |
| Net income per share | 0.01 | 0.00 | — | 0.04 | 0.02 | 93 % |
| Cash flows from operating activities | 771 | 240 | over 100 % | 233 | 1,542 | –85 % |
| Full-time employees on average | 127 | 132 | –4 % | 127 | 132 | –4 % |
| | 31.05.2006 | 28.02.2006 | Change | 31.05.2006 | 31.08.2005 | Change |
| Liquid funds and securities | 10,521 | 9,805 | 7 % | 10,521 | 10,570 | –0.5 % |
| Employees, end of period | 133 | 132 | 1 % | 133 | 130 | 2 % |

**Dear Shareholders,**

SinnerSchrader launched its second decade with the conference "The Next 10 Years – The Opportunities of Web 2.0" in the third quarter of the current 2005/2006 financial year. Five hundred participants from all sectors of industry discussed developments in the Internet industry, exchanged experience and explored the trends of the future at the conference organised to mark the company's 10th anniversary. There was a very good response to the event, which shows that SinnerSchrader is one of the driving forces in the Internet industry in Germany.

Business development in the third reporting quarter of this financial year also followed an upward trend. Revenue rose by 7 % in comparison to the previous year and reached € 3.9 million. The operating result (EBITA), which was still just under € 21,000 in the same quarter of the previous year, rose to € 102,000.

For the first nine months of the financial year this means revenue of € 11.7 million and an EBITA of € 380,000 compared to € 10.5 million and € 67,000 in the same period of the previous year. This corresponds to revenue growth of 11 % in the nine-month period and a margin rise of 3.0 percentage points from 0.6 % to 3.6 %.

SinnerSchrader has acquired fifteen customers in the first nine months. In the third quarter Strato AG and Plan International, among others, decided on SinnerSchrader Studios as a service provider. The central campaign for the market launch of the newest server generation was realised for Strato. At Plan International Deutschland e. V., one of the biggest aid organisations in the world with over 1.3 million sponsored children, the aim of the cooperation is to establish an online-based charity marketing platform. With its far-reaching dialogue opportunities the Internet is to play a key role in the development of charity marketing.

Furthermore, in the Interactive Marketing segment, work for arena Sport Rechte und Marketing GmbH, which opted for SinnerSchrader Studios as a service provider at the end of the last quarter, is well under way with the emphasis on e-business and brand management.

Our work is also being recognised by independent panels. At the end of June SinnerSchrader Studios received the German Multimedia Award for the HLX "Ladies' Special" campaign.

In the final fourth quarter, however, growth will probably be slowing down. After the good revenue level achieved in the previous year, the media services provided by our Interactive Services segment in particular do not seem to exhibit the familiar growth potential. Due to the high capacity utilisation of online advertising space, the specialisation of Interactive Services on CPO-based marketing of residual space has a much stronger decelerating effect on revenue development in this segment than expected.

For the whole 2005/2006 year we are therefore currently expecting that we will not quite be able to reach the growth target of 10 % to 15 %. But we are still expecting the operating result to be at the top end of the target corridor of € 0.3 million to € 0.5 million.

In just a few weeks, to end the financial year, we will be moving into new office premises in Hamburg, which means we will be able to start the new 2006/2007 financial year without the burden of rent on empty premises.

Hamburg, July 2006

The Management Board

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## Consolidated Balance Sheets

as of 31 May 2006 and 31 August 2005

| **Assets** in € | 31.05.2006 | 31.08.2005 |
|---|---|---|
| Current assets: | | |
| Liquid funds | 3,034,776 | 9,614,529 |
| Marketable securities | 7,486,319 | 955,622 |
| Accounts receivable | 2,076,548 | 1,553,805 |
| Unbilled revenues | 435,074 | 170,404 |
| Other current assets and prepaid expenses | 389,124 | 331,151 |
| Deferred tax assets | 2,912 | 146,962 |
| Total current assets | 13,424,753 | 12,772,473 |
| Non-current assets: | | |
| Property and equipment, net | 826,357 | 973,758 |
| Total non-current assets | 826,357 | 973,758 |
| **Total assets** | **14,251,110** | **13,746,231** |

| **Liabilities and shareholders' equity** in € | 31.05.2006 | 31.08.2005 |
|---|---|---|
| Short-term liabilities: | | |
| Trade accounts payable | 1,112,766 | 801,924 |
| Advance payments received | 324,882 | 313,187 |
| Other accrued expenses | 1,557,021 | 1,465,386 |
| Other short-term liabilities and deferred income | 515,237 | 831,697 |
| Total short-term liabilities | 3,509,906 | 3,412,194 |
| Long-term liabilities | — | — |
| Shareholders' equity: | | |
| Subscribed capital | 11,542,764 | 11,542,764 |
| Capital reserve | 17,596,005 | 17,596,005 |
| Treasury stock, 131,347 and 131,347 shares at 31.05.2006 and 31.08.2005 respectively | –200,933 | –200,933 |
| Deferred compensation | 13,818 | — |
| Accumulated deficit (incl. reserves) | –18,231,807 | –18,631,595 |
| Accumulated other comprehensive income/loss | 21,357 | 27,796 |
| Total shareholders' equity | 10,741,204 | 10,334,037 |
| **Total liabilities and shareholders' equity** | **14,251,110** | **13,746,231** |

## Consolidated Statements of Operations

for the periods between 1 March and 31 May 2006 and 1 September 2005 and 31 May 2006 respectively

| | Q3 2005/2006 | | 9 months 2005/2006 | |
|---|---|---|---|---|
| in € | 01.03.2006<br>31.05.2006 | 01.03.2005<br>31.05.2005 | 01.09.2005<br>31.05.2006 | 01.09.2004<br>31.05.2005 |
| Revenues: | | | | |
| Project services | 2,754,281 | 2,491,898 | 7,797,488 | 7,415,534 |
| Media services | 685,035 | 784,021 | 2,569,382 | 2,146,443 |
| Other | 472,270 | 377,267 | 1,295,515 | 938,296 |
| Total revenues, gross | 3,911,586 | 3,653,186 | 11,662,385 | 10,500,273 |
| Media costs | –574,472 | –533,291 | –1,893,630 | –1,432,509 |
| Total revenues, net | 3,337,114 | 3,119,895 | 9,768,755 | 9,067,764 |
| Costs of revenues | –2,296,547 | –1,920,542 | –6,363,135 | –5,621,909 |
| **Gross profit** | **1,040,567** | **1,199,353** | **3,405,620** | **3,445,855** |
| Sales and marketing expenses | –328,270 | –255,022 | –899,519 | –842,619 |
| General and administrative expenses | –605,786 | –844,644 | –2,196,588 | –2,399,099 |
| Research and development expenses | –7,318 | –41,616 | –41,496 | –100,728 |
| Restructuring costs | — | –39,500 | — | –49,500 |
| **Operating income** | **99,193** | **18,571** | **268,017** | **53,909** |
| Other income/expenses | 2,885 | 2,148 | 111,758 | 13,051 |
| Interest income/expenses | 57,670 | 8,727 | 168,425 | 140,947 |
| Income from participations | — | — | — | 25,565 |
| **Earnings before tax** | **159,748** | **29,446** | **548,200** | **233,472** |
| Income tax | — | — | –148,412 | — |
| **Net income** | **159,748** | **29,446** | **399,788** | **233,472** |
| Earnings per share (undiluted) | 0.01 | 0.00 | 0.04 | 0.02 |
| Earnings per share (diluted) | 0.01 | 0.00 | 0.04 | 0.02 |
| Weighted average shares outstanding (undiluted) | 11,411,417 | 11,411,417 | 11,411,417 | 11,308,072 |
| Weighted average shares outstanding (diluted) | 11,416,955 | 11,412,625 | 11,415,170 | 11,323,625 |

## Consolidated Statements of Operations
for the first three quarters of 2005/2006

| in € | 01.03.2006 31.05.2006 | 01.12.2005 28.02.2006 | 01.09.2005 30.11.2005 |
|---|---|---|---|
| Revenues: | | | |
| Project services | 2,754,281 | 2,411,967 | 2,631,240 |
| Media services | 685,035 | 981,833 | 902,514 |
| Other | 472,270 | 432,095 | 391,150 |
| Total revenues, gross | 3,911,586 | 3,825,895 | 3,924,904 |
| Media costs | –574,472 | –693,812 | –625,346 |
| Total revenues, net | 3,337,114 | 3,132,083 | 3,299,558 |
| Costs of revenues | –2,296,547 | –2,021,750 | –2,044,838 |
| **Gross profit** | **1,040,567** | **1,110,333** | **1,254,720** |
| Sales and marketing expenses | –328,270 | –257,698 | –313,551 |
| General and administrative expenses | –605,786 | –836,826 | –753,976 |
| Research and development expenses | –7,318 | –10,042 | –24,136 |
| Restructuring costs | — | — | — |
| **Operating income** | **99,193** | **5,767** | **163,057** |
| Other income/expenses | 2,885 | 108,032 | 841 |
| Interest income/expenses | 57,670 | 83,764 | 26,991 |
| Income from participations | — | — | — |
| **Earnings before tax** | **159,748** | **197,563** | **190,889** |
| Income tax | — | –80,071 | –68,341 |
| **Net income** | **159,748** | **117,492** | **122,548** |
| Earnings per share (undiluted) | 0.01 | 0.01 | 0.01 |
| Earnings per share (diluted) | 0.01 | 0.01 | 0.01 |
| Weighted average shares outstanding (undiluted) | 11,411,417 | 11,411,417 | 11,411,417 |
| Weighted average shares outstanding (diluted) | 11,416,955 | 11,416,156 | 11,412,733 |

## Consolidated Statements of Shareholders' Equity
from 1 September 2005 to 31 May 2006

| in € | Number of shares outstanding | Subscribed capital | Capital reserve |
|---|---|---|---|
| **Balance at 31.08.2004** | **10,937,164** | **11,542,764** | **16,594,840** |
| Net income | — | — | — |
| Unrealised gains/losses on marketable securities | — | — | — |
| Foreign currency translation adjustment | — | — | — |
| Purchase of treasury stock | — | — | — |
| Re-issuance of treasury stock | 474,253 | — | 1,001,165 |
| **Balance at 31.05.2005** | **11,411,417** | **11,542,764** | **17,596,005** |
| **Balance at 31.08.2005** | **11,411,417** | **11,542,764** | **17,596,005** |
| Net income | — | — | — |
| Unrealised gains/losses on marketable securities | — | — | — |
| Foreign currency translation adjustment | — | — | — |
| Change in deferred compensation | — | — | — |
| Purchase of treasury stock | — | — | — |
| Re-issuance of treasury stock | — | — | — |
| **Balance at 31.05.2006** | **11,411,417** | **11,542,764** | **17,596,005** |

| Treasury stock | Deferred compensation | Net income/loss | Accumulated other comprehensive income/loss | Total shareholders' equity | Comprehensive income/loss |
|---|---|---|---|---|---|
| | | | | | |
| **–926,438** | **—** | **–19,176,937** | **19,445** | **8,053,674** | **—** |
| | | | | | |
| — | — | 233,472 | — | 233,472 | 233,472 |
| — | — | — | 17,118 | 17,118 | 17,118 |
| — | — | — | –83 | –83 | –83 |
| — | — | — | — | — | — |
| 725,505 | — | — | — | 1,726,670 | — |
| | | | | | |
| **–200,933** | **—** | **–18,943,465** | **36,480** | **10,030,851** | **250,507** |
| | | | | | |
| **–200,933** | **—** | **–18,631,595** | **27,796** | **10,334,037** | **—** |
| | | | | | |
| — | — | 399,788 | — | 399,788 | 399,788 |
| — | — | — | –6,439 | –6,439 | –6,439 |
| — | — | — | — | — | — |
| — | 13,818 | — | — | 13,818 | — |
| — | — | — | — | — | — |
| — | — | — | — | — | — |
| | | | | | |
| **–200,933** | **13,818** | **–18,231,807** | **21,357** | **10,741,204** | **393,349** |
| | | | | | |

## Consolidated Statements of Cash Flows

from 1 September 2005 to 31 May 2006

| in € | 01.09.2005<br>31.05.2006 | 01.09.2004<br>31.05.2005 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | 399,788 | 233,472 |
| Adjustments for: | | |
| Depreciation | 440,860 | 401,925 |
| Stock-based compensation | 13,818 | — |
| Increase/decrease in provisions and accruals | 91,636 | 389,942 |
| Gains/losses from the disposal of fixed assets | –1,116 | 975 |
| Other | 127,658 | –14,847 |
| Change in net working capital | –839,310 | 530,367 |
| **Cash flows from operating activities** | **233,334** | **1,541,834** |
| Cash flows from investing activities: | | |
| Purchase of marketable securities | –18,787,262 | –13,753,392 |
| Proceeds from sale of marketable securities | 12,266,518 | 32,169,937 |
| Purchase of fixed assets | –294,385 | –202,288 |
| Proceeds from sale of fixed assets | 2,043 | 11,315 |
| **Cash flows from investing activities** | **–6,813,086** | **18,225,572** |
| Cash flows from financing activities: | | |
| Payment to shareholders | — | –20,768,780 |
| Incoming payment from sale of treasury stock | — | 1,726,670 |
| **Cash flows from financing activities** | **—** | **–19,042,110** |
| Net effect of currency translation on liquid funds | –1 | –18 |
| **Change in liquid funds** | **–6,579,753** | **725,278** |
| Liquid funds at beginning of period | 9,614,529 | 1,334,257 |
| Liquid funds at end of period | 3,034,776 | 2,059,535 |

# Explanations and Additional Notes to the Quarterly Report

## 1 Explanations to the Quarterly Report

**1.1 General Foundations**
The Quarterly Report of the SinnerSchrader Group ("SinnerSchrader", "Group") is prepared in accordance with US accounting principles ("US-GAAP") and takes account of Accounting Principles Board Opinion ("APB") No. 28 as well as the rules for quarterly reporting of the Prime Standard of Deutsche Börse AG. It should be read in conjunction with the Consolidated Financial Statements of SinnerSchrader Aktiengesellschaft as of 31 August 2005.

The reporting period of the third quarter of the 2005/2006 financial year runs from 1 March 2006 to 31 May 2006.

The consolidation group as of 31 May 2006 is unchanged compared to 31 August 2005. It consists of SinnerSchrader Aktiengesellschaft, its wholly owned domestic subsidiary SinnerSchrader Deutschland GmbH, including its wholly owned subsidiaries SinnerSchrader Neue Informatik GmbH, SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH, as well as the two currently non-operational foreign subsidiaries SinnerSchrader UK Ltd and SinnerSchrader Benelux BV, which are also wholly owned.

The accounting, valuation and consolidation principles of the Quarterly Report at hand are unchanged from the Group's Consolidated Financial Statements as of 31 August 2005. They are disclosed and explained in the Group's Consolidated Financial Statements as of 31 August 2005, which are published in the Annual Report 2004/2005.

**1.2 Preparation for Conversion to IFRS**
In accordance with European Union regulation 1606/2002, SinnerSchrader is required to change from accounting according to US-GAAP to the International Financial Reporting Standards ("IFRS") by the time of the Annual Financial Statements for the current 2005/2006 financial year at the latest. SinnerSchrader will complete this changeover by 31 August 2006 and, until then, will continue to report the quarters according to US-GAAP. According to the findings to date resulting from the preparations for the changeover, SinnerSchrader assumes on the basis of the currently valid IFRS rules that the changeover will result only in minor changes to the annual result for the 2005/2006 financial year and the shareholders' equity as of the balance sheet date.

| **Tab. 1a** \| **Gross revenues according to segments (external)** in € 000s | Q3 2005/2006 | Q2 2005/2006 | Change |
|---|---|---|---|
| Interactive Software | 1,624 | 1,422 | 14 % |
| Interactive Marketing | 1,131 | 990 | 14 % |
| Interactive Services | 1,146 | 1,411 | –19 % |
| **Total segment revenues, gross** | **3,901** | **3,823** | **2 %** |

### 1.3 Comments on Business Development

**Development of Revenues**
In the third financial quarter of 2005/2006 SinnerSchrader earned revenue of € 3.9 million, just under € 0.3 million or 7 % more than in the third quarter of the previous year. In the first nine months of the financial year, SinnerSchrader revenue totalled € 11.7 million, which represents organic growth of a good 11 %.

All segments contributed to the growth in the nine-month period, with the greatest contribution to the growth coming from Interactive Services, which accounted for an increase of just under € 0.8 million or 25 %. Revenue in the Interactive Marketing and Interactive Software segments rose by a good € 0.2 million (+8 %) and € 0.1 million (+3 %) respectively.

Following a rather restrained start to the financial year, the Interactive Software segment pushed SinnerSchrader's revenue development forward in the quarter of the report with growth of 21 %. From the stable pool of regular customers it was mainly clients from the banking industry who launched a new phase of further development of their Internet platforms and commissioned SinnerSchrader with new orders to a pleasing extent. Added to this was the revenue from five newly acquired customer relations in the current financial year, who accounted for a total of 15 % of the revenue earned in the third quarter.

The Interactive Marketing segment, including SinnerSchrader Studios in Hamburg and in Frankfurt am Main, could not quite reach the previous year's level following around 14 % growth in the first six months. With the greater dynamism among existing customers typical for this segment, revenue from the new customer involvement did not completely cover the customer relations that were ending. With Volkswagen in particular, there was a marked reduction in the relationship with SinnerSchrader, following their efforts at reducing costs by merging divisions. The relationship with Volkswagen was still being established, and the reduction in business with this client could not be completely compensated in the third quarter. However, business activities with new customers, including arena Sport Rechte und Marketing GmbH and a well-known company from the wholesale and mail order sector, developed to our satisfaction. Added to this is the fact that the increased level of activity in the banking sector had a positive impact on business developments in the Interactive Marketing segment.

In the third quarter Interactive Services were also at around the level of the previous year, following high growth dynamics in the first six months. As expected, the overall positive development in the online advertising market from the start of 2006 initially had a decelerating impact on the residual space marketing operated by SinnerSchrader, among others, in the media business. The resultant effects are balanced out by the continuously strong growth in business with operating services. Interactive Services are also increasingly often approached by customers inquiring about operating services who did not yet have a relationship with SinnerSchrader. No growth impetus has yet come from business with analysis services. Here, Interactive Services are involved in developing from an ASP provider to a consultant for data analysis and management.

| **Tab. 1b** **Gross revenues according to segments (external)** in € 000s | Q3 2005/2006 | Q3 2004/2005 | Change | 9 months 2005/2006 | 9 months 2004/2005 | Change |
|---|---|---|---|---|---|---|
| Interactive Software | 1,624 | 1,338 | 21 % | 4,476 | 4,338 | 3 % |
| Interactive Marketing | 1,131 | 1,154 | –2 % | 3,321 | 3,073 | 8 % |
| Interactive Services | 1,146 | 1,161 | –1 % | 3,852 | 3,089 | 25 % |
| **Total segment revenues, gross** | **3,901** | **3,653** | **7 %** | **11,649** | **10,500** | **11 %** |

Revenue in the quarter of the report was around 2 % higher than in the previous second quarter of 2005/2006. The growth in the Interactive Software and Interactive Marketing segments of around 14 % each and the fall in revenue in Interactive Services by around 19 % were mainly due to seasonal fluctuations. Whereas business with project services tends to be weak around Christmas and New Year, the months of the second SinnerSchrader financial quarter – December, January and February – are strong months for the media services provided by Interactive Services.

In the first nine months of the 2005/2006 financial year, SinnerSchrader earned 61.9 % of its revenue with the five biggest customers in comparison to a proportion of 63.4 % in the comparable period of the previous year.

**Development of Orders and Prices**
Incoming orders in the third quarter of 2005/2006 were around 14 % above the level of the previous year. In the first nine months SinnerSchrader recorded total orders a good 8 % above the value of the previous year. This means that SinnerSchrader's positive business development based on a pleasing general development of demand on the market for interactive services is uninterrupted.

Business with major existing customers, especially those from the financial services sector, is developing well. But SinnerSchrader also had some great success in attracting new customers in the first nine months. SinnerSchrader began cooperation with fifteen new customers, including a major bank, an SME from the mechanical engineering sector, a company in the music industry, a company from the wholesale and mail order sector, the new digital TV channel holding the rights for the transmission of Bundesliga football matches and, finally, a well-known retailer.

The good general development of demand in the markets served by SinnerSchrader in Germany ensures a stable price environment with a slight upward trend in spite of the continuing intense competition among the providers.

**Development of Income**
In the third quarter of 2005/2006 SinnerSchrader earned an operating result (EBITA) of € 102,000, thus exceeding the level of the same quarter in the previous year by a good € 80,000.

The gross profit in the quarter of the report was around € 160,000 below the previous year because, as expected in the planning, the gross margin that could be achieved in media business in the Interactive Services segment had normalised again in comparison to the exceptionally good situation in the previous year. Moreover, the conversion of the business model for the analysis services of Interactive Services and targeted investments in customer projects for a higher profile in the Interactive Marketing segment further reduced the gross margin. This was contrasted with a reduction in administrative and restructuring costs of around € 280,000 in comparison with the previous year. This effect was mainly caused by the disappearance of the provision for rental expenses for the empty property in Hamburg that still had to be made last year The sales and marketing expenses in the quarter of the report

| **Tab. 2a** **Key earnings figures** in € 000s and % | Q3 2005/2006 | Q3 2004/2005 | Change | 9 months 2005/2006 | 9 months 2004/2005 | Change |
|---|---|---|---|---|---|---|
| **Gross profit** | **1,041** | **1,199** | **–13 %** | **3,406** | **3,446** | **–1 %** |
| EBITA | 102 | 21 | 386 % | 380 | 67 | 467 % |
| EBITA in % of revenues | 2.6 % | 0.6 % | 333 % | 3.3 % | 0.6 % | 450 % |
| **Net income/loss** | **160** | **29** | **452 %** | **400** | **233** | **72 %** |

were around € 70,000 above the level of the previous year because of SinnerSchrader's 10th anniversary celebrations in May.

With regard to the development of costs according to cost types, the trend of the previous quarters continued in the quarter of the report. The expansion of the business volume was used to make the cost base even more flexible, which can be seen in the rise of outside costs by just under € 270,000 in comparison to the previous year. The negative effect on the short-term margin development was deliberately accepted. The proportion of outside costs in the revenue increased well above average, from 6.0 % in the previous year to 12.4 % for the current financial year. In return, personnel costs fell overall.

The EBITA margin for the third quarter of 2005/2006 was 2.6 %, which means that it rose by 2.0 percentage points in comparison to the margin of the third quarter of 2004/2005.

In the period of the report net income, in which income from investing the liquidity reserve and taxes on income are included as well as the operating result, rose more than the EBITA, since the financial result of the period of the report was a good € 50,000 higher than in the previous year. It reached € 160,000 or € 0.01 per share.

The developments in the cost and results structure that can be seen in the figures of the third quarter can also be seen for the period of the first nine months. It was mainly due to the changes in the administrative cost base and the disappearance of the restructuring costs that the EBITA rose by around € 210,000 to € 380,000 in comparison to the previous year. The proportion of outside costs related to the nine-month period rose from 6.1 % to 9.4 %.

The EBITA rise was also supported by one-off other income from the dissolution of restructuring reserves. Overall, there was an EBITA margin of 3.3 % for the period of the report, following 0.6 % in the same period of the previous year.

For the first nine months of 2005/2006, the rise in net income in comparison to the third quarter was below the rise in the EBITA. This is due to a latent tax burden in the amount of € 148,000, which had to be posted in the first six months at the level at which the crediting of losses in the statement of 31 August 2005 had been brought forward by corresponding activation of latent taxes. In view of the still-existing amount of loss carry-forwards, however, it is to be expected that the effect will be reversed in the Annual Report.

The total net income was € 400,000, which corresponds to a value of € 0.04 per share.

| **Tab. 2b** \| **Key earnings figures** in € 000s | Q3 2005/2006 | Q2 2005/2006 |
|---|---|---|
| **Gross profit** | **1,041** | **1,110** |
| EBITA | 102 | 114 |
| EBITA in % of revenues | 2.6 % | 3.0 % |
| **Net income/loss** | **160** | **117** |

Comparing the third quarter to the second quarter of the current financial year also reveals the effects described above. In this connection, the EBITA in the development of the quarter is falling slightly, especially because the one-off other income incurred in the second quarter by dissolving reserves no longer arose in the third quarter.

**Research and Development Expenditure**
Due to the continuing limited availability of critical resources, the research and development expenditure was still at a very low level of € 7,000 in the third quarter of 2005/2006. In the first nine months a total of € 41,000 were spent on R&D activities. In the previous year, R&D expenditure was still at just about € 101,000. Activities were concentrated on maintaining the e-commerce platform developed by the company and on concluding the development of a planning system for online campaign management. Furthermore, new programming methods were evaluated in the development of prototypes.

**Investments**
At € 59,000, the investments in software and tangible assets in the period of the report were once again much lower than in the previous quarter, in which SinnerSchrader had made considerable replacement investments in the computer equipment at the workstations at the end of 2005. This means that the investment volume for the quarter was roughly at the same level as the previous year. The focus was on investments associated with the move into a new office at the Frankfurt am Main site and first investments in the new office premises in Hamburg.

In the first three quarters of the financial year, a total of € 294,000 were invested in software and tangible assets, in comparison to investment expenditure of € 202,000 in the previous year. The majority of investment for the fourth quarter of the financial year is earmarked for the new premises in Hamburg; the size of these investments could exceed the volume of previous investments for the first nine months.

| **Tab. 3** \| **Costs by cost type** in € 000s | Q3 2005/2006 | Q3 2004/2005 | 9 months 2005/2006 | 9 months 2004/2005 |
|---|---|---|---|---|
| Costs of material and services | –486 | –219 | –1.093 | –636 |
| Personnel costs | –1,899 | –2,039 | –5,877 | –5,939 |
| Depreciation | –149 | –135 | –441 | –402 |
| Other operating costs | –704 | –708 | –2,090 | –2,036 |
| **Total** | **–3,238** | **–3,101** | **–9,501** | **–9,014** |

**Cash Flows**

SinnerSchrader earned cash flow of around € 0.2 million from operating activities in the first nine months of the 2005/2006 financial year. An amount of € 0.8 million of the funds of just under € 1.0 million earned from the net income before depreciation and latent tax burdens were tied up in increased net current assets, especially in accounts receivable and services not yet invoiced.

The cash flow from operating activities largely covered the balance of purchases and sales of tangible assets and software. In the amount of the balance not covered, just under € 0.1 million, the liquidity reserve of SinnerSchrader fell to € 10.5 million as of 31 May 2006, in comparison to € 10.6 million as of 31 August 2005.

In the first nine months, the company reallocated just about € 6.5 million in marketable securities and commercial papers of companies with a good credit rating as part of liquidity management in the balance of additions to and withdrawals from marketable securities.

**Balance Sheet**

In the nine months since the end of the previous financial year the balance sheet had hardly changed. As of 31 May 2006 the balance sheet was around € 14.3 million. It had thus increased by € 0.6 million in comparison to the level of 31 August 2005. At 75 %, the equity ratio had not changed from 31 May 2006 in comparison to 31 August 2005.

Within the short-term external assets, the increased tying up of funds in accounts receivable and the services not yet invoiced can be seen on the assets side. The liquidity reserve has hardly fallen. In view of the investment expenditure being below the amount of depreciations, the fixed assets had reduced by another € 150,000 in comparison to 31 August 2005. The active latent tax position has been more or less consumed due to the latent tax expenditure to be posted in the Statement of Operations. On the liabilities side, the due date for social security contributions being brought forward to the end of the month at the beginning of the year caused a fall in the level of the other current liabilities, whereas the trade accounts payable and reserves rose.

**Tab. 4** | **Components of cash flows** in € 000s

| | 9 months 2005/2006 | 9 months 2004/2005 |
|---|---|---|
| from operating activities | 233 | 1,542 |
| from investing activities (without purchase and sale of marketable securities) | –292 | –191 |
| from purchase and sale of marketable securities | –6,521 | 18,417 |
| from financing activities | — | –19,042 |

**Employees**

On a full-time basis, there was an average of around 127 full-time employees at SinnerSchrader in the reporting quarter as in the previous quarter, 5 employees fewer than in the third quarter of the previous year.

Of the 127 full-time employees, 52 were employed in the Interactive Software segment in the reporting period (previous quarter: 53). As in the previous quarter, there were 42 employees in the Interactive Marketing segment, while 15 employees worked in Interactive Services (previous quarter: 14). There were 18 full-time employees for the central functions performed by SinnerSchrader AG (previous quarter: 18).

As of 31 May 2006 SinnerSchrader had 133 employees, one employee more than at the end of the previous quarter. In comparison to 31 May of the previous year this represents a fall by five employees.

**1.4 Outlook**

In the first nine months of the current financial year, SinnerSchrader is slightly above the planned EBITA and slightly behind its plans for revenue development for this period, with revenue growth of 11 % to just under € 11.7 million and an operating result (EBITA) of almost € 0.4 million.

As can be seen from the incoming orders, the positive trend is uninterrupted, but will probably be slower than originally planned in the fourth quarter. In view of the capacity utilisation rates for online advertising space rising faster than expected, the development of business with media services in particular is behind schedule; this has largely specialised in residual space marketing via CPO transactions.

With respect to the target corridor for the financial year – growth in revenue of between 10 % and 15 % and an EBITA of between € 0.3 and 0.5 million – we therefore expect to end the financial year at the upper end of this corridor in terms of the EBITA. However, we are anticipating revenue growth to remain below the target corridor for the year as a whole following the slowing down of developments.

## 2 Additional Notes to the Quarterly Report

**2.1 Segment Reporting**
In the course of a reorganisation, SinnerSchrader abandoned its integrated business model of supplying and marketing interactive services as of 1 April 2004 and formed new segments that are individually responsible for supplying and marketing a specific part of the former service portfolio. In accordance with the requirements of the Statement of Financial Accounting Standards ("SFAS") No. 131, SinnerSchrader reports on its business in three operating segments: Interactive Software, Interactive Marketing and Interactive Services.

SinnerSchrader Neue Informatik GmbH is assigned to the Interactive Software segment. The Interactive Marketing segment comprises the companies SinnerSchrader Studios Hamburg GmbH and SinnerSchrader Studios Frankfurt GmbH. The Interactive Services segment brings together the Media, Operations and Analysis operating business units of SinnerSchrader Deutschland GmbH. Tables 5a and 5b show the development of the segments in the first nine months of 2005/2006 and in the same period in the previous year.

The extrapolation of the total of the segment earnings to consolidated earnings before tax is shown in Table 5c.

All revenue was earned by SinnerSchrader companies based in Germany.

**2.2 Restructuring Costs**
In the first nine months of 2005/2006 no new restructuring activities were conducted, nor were there any follow-up costs for old restructuring activities. The level of reserves and liabilities from restructuring activities has fallen by € 90,000 as of 31 May 2006 in comparison to 1 September 2005, as shown in Table 6. All disputes in the labour courts, for which reserves were to be formed by the end of the previous year, were settled in the first half of the current financial year. Reserves in the amount of € 53,000 were used for this; the remaining € 37,000 were dissolved with an effect on income. The remaining reserve concerns the settlement payment due on 30 June 2006 associated with the termination of the tenancy of the current office premises in Hamburg.

**2.3 Treasury Stock**
On 31 May 2006, SinnerSchrader AG still held 131,347 of its own shares with a calculated face value of € 131,347, representing 1.1 % of the common stock. In the third quarter of 2005/2006 there were no share purchases or sales, and none of SinnerSchrader AG's own shares were issued within the scope of option exercises by employees.

| **Tab. 5a** **Segment information** in € and number | Interactive Software | Interactive Marketing | Interactive Services | Segments total | Consolidation/ holding | Group |
|---|---|---|---|---|---|---|
| 01.09.2005–31.05.2006: | | | | | | |
| External revenues | 4,476,183 | 3,321,305 | 3,851,679 | 11,649,167 | 13,218 | 11,662,385 |
| Internal revenues | 607,275 | 296,827 | 229,983 | 1,134,085 | –1,134,085 | — |
| Total revenues, gross | 5,083,458 | 3,618,132 | 4,081,662 | 12,783,252 | –1,120,867 | 11,662,385 |
| Media costs | — | — | –1,893,630 | –1,893,630 | — | –1,893,630 |
| Total revenues, net | 5,083,458 | 3,618,132 | 2,188,032 | 10,889,622 | –1,120,867 | 9,768,755 |
| **Segment profit/loss (EBITA)** | **559,969** | **208,344** | **686,848** | **1,455,161** | **–1,075,386** | **379,775** |
| Depreciation of property and equipment | 48,857 | 28,874 | 38,583 | 116,314 | 324,546 | 440,860 |
| Investment in property and equipment | 70,500 | 56,665 | 102,011 | 229,176 | 65,209 | 294,385 |
| Full-time employees on average | 52.6 | 41.8 | 14.4 | 108.8 | 18.4 | 127.2 |
| 31.05.2006: | | | | | | |
| **Total assets** | **2,717,434** | **1,622,517** | **339,437** | **4,679,388** | **9,571,722** | **14,251,110** |
| Fixed assets | 173,182 | 114,829 | 138,878 | 426,889 | 399,468 | 826,357 |
| Current assets | 2,544,252 | 1,507,688 | 200,559 | 4,252,499 | 9,172,254 | 13,424,753 |
| Number of employees, end of period | 53 | 45 | 15 | 113 | 20 | 133 |

| Tab. 5b **Segment information** in € and number | Interactive Software | Interactive Marketing | Interactive Services | Segments total | Consolidation/ holding | Group |
|---|---|---|---|---|---|---|
| 01.09.2004–31.05.2005: | | | | | | |
| External revenues | 4,337,895 | 3,073,437 | 3,088,941 | 10,500,273 | — | 10,500,273 |
| Internal revenues | 467,439 | 346,888 | 220,538 | 1,034,865 | –1,034,865 | — |
| Total revenues, gross | 4,805,334 | 3,420,325 | 3,309,479 | 11,535,138 | –1,034,865 | 10,500,273 |
| Media costs | — | — | –1,432,509 | –1,432,509 | — | –1,432,509 |
| Total revenues, net | 4,805,334 | 3,420,325 | 1,876,970 | 10,102,629 | –1,034,865 | 9,067,764 |
| **Segment profit/loss (EBITA)** | **402,745** | **342,862** | **487,013** | **1,232,620** | **–1,165,660** | **66,960** |
| Depreciation of property and equipment | 44,935 | 18,598 | 18,041 | 81,574 | 320,351 | 401,925 |
| Investment in property and equipment | 23,314 | 24,165 | 45,846 | 93,325 | 108,963 | 202,288 |
| Full-time employees on average | 58.3 | 41.6 | 14.6 | 114.5 | 17.8 | 132.3 |
| 31.05.2005: | | | | | | |
| **Total assets** | **2,224,224** | **1,494,435** | **726,491** | **4,445,150** | **9,024,847** | **13,469,997** |
| Fixed assets | 161,517 | 89,286 | 72,809 | 323,612 | 758,297 | 1,081,909 |
| Current assets | 2,062,707 | 1,405,149 | 653,682 | 4,121,538 | 8,266,550 | 12,388,088 |
| Number of employees, end of period | 58 | 46 | 15 | 119 | 19 | 138 |

| Tab. 5c **Reconciliation of total segment earnings with Group earnings before tax** in € | 9 months 2005/2006 | 9 months 2004/2005 |
|---|---|---|
| **Segment profit/loss (EBITA) of all reportable segments** | **1,455,161** | **1,232,620** |
| Central holding costs not attributable to reportable segments | –1,074,755 | –1,164,872 |
| Earnings before tax of foreign subsidiaries | –630 | –788 |
| **EBITA of the Group** | **379,775** | **66,960** |
| Financial income of the Group | 168,425 | 166,512 |
| **Earnings before tax of the Group** | **548,200** | **233,472** |

| Tab. 6 **Restructuring costs** in € | Balance at 01.09.2005 | Additional charges | Used | Released | Balance at 31.05.2006 |
|---|---|---|---|---|---|
| Workforce | 90,000 | — | 52,941 | 37,059 | — |
| Facilities | 306,775 | — | — | — | 306,775 |
| Other | — | — | — | — | — |
| **Total** | **396,775** | **—** | **52,941** | **—** | **306,775** |

**2.4 Changes in the Event of Contingent Liabilities**
In the wake of the implementation of the capital repayment to shareholders decided by the Annual General Meeting in January 2004, the landlord of the office space in Hamburg asked SinnerSchrader AG to pay a security for the liabilities resulting from the rental agreement in accordance with Article 225 of the German Stock Corporation Act ("Aktiengesetz"). The security was paid in the form of a bank guarantee for € 2,532,259.71, which has been reduced by the amount of the monthly rental payment each month. As of 31 May 2006, the volume of the guarantee was still € 604,395. Within the scope of this guarantee, SinnerSchrader can dispose of its liquid funds and securities only with the explicit approval of the guaranteeing bank.

**2.5 Stock-Based Compensation**

**Stock Option Plans**
With resolutions of the Annual General Meetings of October 1999 and December 2000, SinnerSchrader AG established the SinnerSchrader Stock Options Plan 1999 and the SinnerSchrader Stock Options Plan 2000, each with conditional capital requirements of € 375,000. Detailed information on these stock option plans can be found in the notes to the Consolidated Financial Statements as of 31 August 2005. Within the framework of these stock option plans, options have been allocated to employees and members of the Management Board of SinnerSchrader AG and its subsidiaries over recent years. In early January 2006 another 148,000 options were allocated to employees and managing directors of SinnerSchrader AG and its subsidiaries at an exercise price of € 2.08.

Table 7 shows the number of option rights granted under both stock option plans and their weighted average exercise price as of the end of the last financial year and the end of the third quarter of 2005/2006, as well as the changes in both figures for the first nine months of 2005/2006.

The parameters shown in Table 8 were used to evaluate the newly assigned options at the time of issue.

Until 31 August 2005, SinnerSchrader entered the option rights granted under the stock option plans as stock-based compensation components in the balance sheet following the US-GAAP rules of Accounting Principles Board Opinion ("APB") No. 25. According to APB No. 25, the granting of stock options gives rise to personnel costs amounting to the difference, if any, between the fair value of the SinnerSchrader share and the option's exercise price on the day of its allocation. Following this accounting rule, no personnel costs from the granting of stock options had to be accounted for in recent years in the Statements of Operations.

SFAS No. 123 (R) "Stock-Based Payment" was issued in December 2004. It stipulates that all stock-based employee compensation shall be recorded on the basis of its fair value on the allocation date for reporting periods that start after 15 June 2005. The corresponding compensation expenses shall be assigned to the period of time in which an employee has to work in return for the allocation.

The modified prospective method is required for the transition to the new rules of SFAS No. 123 (R). According to this, for all options outstanding on the date of the transfer for which the waiting period has not yet expired, the share of the fair value on the date of allocation which is accounted for in the reporting period shall be posted in the Statements of Operations as personnel costs. In return for these costs an offsetting item of a corresponding amount shall be formed in the shareholders' equity.

**Tab. 7** | **Outstanding options** in €

| | Number of options granted | Weighted average exercise price |
|---|---|---|
| **Outstanding on 31.08.2005** | **294,137** | **13.51** |
| Granted | 148,200 | 2.08 |
| Exercised | — | 0.00 |
| Cancelled | –1,131 | 2.60 |
| Expiration | –51,000 | 31.56 |
| **Outstanding on 31.05.2006** | **390,206** | **6.84** |

SinnerSchrader adopted the rules of SFAS No. 123 (R) as of 1 September 2005. In accordance with the modified prospective method described above, for 48,881 options for which the waiting period had not yet expired before 1 September 2005, a proportionate fair value on the respective issue date of a total of € 2,201 had to be posted in the Statement of Operations as personnel costs. For the period from 1 September 2005 to 31 May 2006 the amount to be posted in the Statement of Operations as personnel costs for employee options was € 13,818. The corresponding offsetting item, "Deferred compensation", was formed in the shareholders' equity. If Sinner-Schrader had continued to apply the balance sheet rules according to APB No. 25, the operating income, the earnings before tax and the net income of the first nine months of 2005/2006 would have been € 13,818 higher. The earnings per share would still have been € 0.04.

For the nine-month period of the previous year, which was still reported according to the previous rules, in accordance with the rules of SFAS No. 123 (R) in conjunction with SFAS No. 148, Table 9 shows the pro-forma net income and the pro-forma net income per share that would have resulted if SinnerSchrader had decided to take the fair value on the allocation date as the accounting basis for its stock option plans as prescribed by SFAS No. 123.

**Stock-Based Compensation for a Member of the Management Board**

In the 2004/2005 financial year, stock-based compensation was allocated to one member of the Management Board, according to which this member will be entitled to a bonus payment in cash in January 2008, depending on the price development of the SinnerSchrader share by 31 December 2007. The bonus entitlement is calculated from the difference between the average closing price of the SinnerSchrader share on the ten trading days before 1 January 2008 and the reference price of € 1.61 per share, multiplied by 200,000. The compensation component was allocated as of 1 January 2005.

The average Xetra closing price of the SinnerSchrader share on the ten trading days before the reporting date was € 1.78. The bonus payment was calculated with this value. Proportionate for the eligibility period from 1 January 2005 to 31 May 2006, 17/36 of the calculated bonus payment were reserved. The proportionate bonus reserve in the amount of € 16,150 was formed against the administrative costs and is identified in the reserves.

| **Tab. 8** │ **Parameters for evaluating options at the time of issue** | 9 months 2005/2006 |
|---|---|
| Expected life of the option | 6 years |
| Risk-free interest rate | 3.06–3.29 % |
| Expected dividend yield | 0 % |
| Expected volatility | 48 % |

| **Tab. 9** │ **Pro-forma net income according to SFAS No. 123** in € | 9 months 2004/2005 |
|---|---|
| Net income as reported | 233,472 |
| add back: stock-based compensation expenses included in net income as reported | — |
| deduct: stock-based compensation expenses determined according to SFAS No. 123 on basis of fair value at time of allocation | –19,161 |
| **Pro-forma net income** | **214,311** |
| Reported net income per share, undiluted and diluted | 0.02 |
| **Pro-forma net income per share, undiluted and diluted** | **0.02** |

## 2.6 Directors’ Holdings of Shares and Subscription Rights to Shares

Table 10 shows the number of shares of SinnerSchrader AG held by members of the Management Board and Supervisory Board of SinnerSchrader AG and any changes from 1 September 2005 to 31 May 2006.

| Tab. 10 — **Shares and subscription rights held by the Board members** in number | 01.09.2005 | Additions | Disposals | 31.05.2006 |
|---|---|---|---|---|
| **Shares** | | | | |
| Management Board members: | | | | |
| Matthias Schrader | 2,342,675 | — | — | 2,342,675 |
| Thomas Dyckhoff | 49,950 | — | — | 49,950 |
| Total shares held by the Management Board | 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 | 128,500 | — | 127,500 | 1,000 |
| **Total shares held by the Board members** | **2,521,125** | **—** | **127,500** | **2,393,625** |
| **Subscription rights** | | | | |
| Management Board members: | | | | |
| Matthias Schrader | — | — | — | — |
| Thomas Dyckhoff | 25,000 | — | — | 25,000 |
| Total subscription rights held by the Management Board | 25,000 | — | — | 25,000 |
| Supervisory Board members: | | | | |
| Dr Markus Conrad[1)] | — | — | — | — |
| Reinhard Pöllath | — | — | — | — |
| Dieter Heyde | — | — | — | — |
| Frank Nörenberg | — | — | — | — |
| Total subscription rights held by the Supervisory Board | — | — | — | — |
| **Total subscription rights 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 May 2006, his shares and subscription rights are no longer attributed to the shares and subscription rights held by the Board members.

**Financial calendar 2005/2006**

| | |
|---|---|
| Annual Report 2005/2006 | November 2006 |

**Editorial information**



| | |
|---|---|
| Published by: | SinnerSchrader Aktiengesellschaft, Hamburg |
| Concept and design: | HEUREKA! – profitable communication, Essen |
| Printed by: | G&G Dortmunder Medienproduktion GmbH, Dortmund |

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