

SinnerSchrader

Q3 04|05

Key figures of the SinnerSchrader Group in € 000s resp. number of employees	Q3 2004/2005	Q3 2003/2004	9 months 2004/2005	9 months 2003/2004
Revenues	3,653	3,178	10,500	9,011
Gross revenues	1,199	1,171	3,446	2,674
EBITDA	156	57	469	- 927
EBITA	21	- 100	67	- 1,414
Net income/loss	29	- 14	233	- 1,054
Net income/loss per share	0.00	0.00	0.02	- 0.10
Cash flows from operating activities	240	- 242	1,542	1,127
Employees – full time equivalents	132	130	132	141
	31.05.2005	28.02.2005	30.11.2004	31.08.2004
Liquid funds and marketable securities, total	9,379	9,172	7,960	27,038
Amount of special distribution	-	-	-	20,769
Liquid funds and marketable securities without amount of special distribution	9,379	9,172	7,960	6,269
Employees – end of period	138	135	142	145

Letter to Shareholders

Letter to Shareholders

Dear Shareholders,

In the third quarter of the 2004/2005 business year (1 March 2005 to 31 May 2005), SinnerSchrader continued its positive business development. With an EBITA for the reporting period of € 21,000, the Group has now been making an operating profit for four quarters in succession. In the reporting period, its gross revenues reached € 3.7 million, which represents an increase of € 50,000 in comparison with the already increased figures of the previous quarter. In comparison with the third quarter of the previous business year, SinnerSchrader achieved growth of 15%, thus proving that the Group's return to profitability and growth is sustainable.

The German New Media Service Ranking 2005 published during the third quarter of 2004/2005 again lists SinnerSchrader as the country's fourth-largest Internet service provider based on the Group's turnover in 2004. This confirms that SinnerSchrader is the largest independent service provider in its field in Germany.

This position on the market, which SinnerSchrader managed to build up over recent years, together with a general revival of business in the sector, has led to welcome new acquisitions and contracts in the course of the current business year. SinnerSchrader managed to follow up the successful launch of Süddeutsche Zeitung's SZ-Mediathek early in the reporting period with new websites for the rental car broker CarDelMar and for the discount brand simyo from mobile phone provider E-Plus. In addition, work on projects for Volkswagen's Mobile Services segment began in full during the reporting period.

Providing continuous first-class service for existing customers, however, is just as crucial for SinnerSchrader's business success as the acquisition of new customers. A prominent example of this from the third quarter of 2004/2005 is the Group's work for comdirect bank, whose website received a complete overhaul during the last six months and was re-launched in early June. The new website has completely satisfied the bank's customers and thus the bank itself.

In the first nine months of the current business year, SinnerSchrader generated a turnover of € 10.5 million, which represents an increase of € 1.5 million, or more than 17%, in comparison with the previous year. Due to the success of the Group's restructuring measures, this increase in turnover had a strong effect on the EBITA, which also rose in the first nine months by € 1.5 million in comparison to the last business year and is now at € 67,000. Net income reached € 243,000, or € 0.02 per share.

Even though we only expect a consolidation of the recent growth dynamics for the fourth quarter, the developments in the third quarter of 2004/2005 confirm our expectation that our overall annual figures will be in the upper reaches of our planning margins.

Hamburg, July 2005

The Management Board

Consolidated Balance Sheets

Consolidated Balance Sheets

as of 31 May 2005 and 31 August 2004

Assets in €	31.05.2005	31.08.2004
CURRENT ASSETS:		
Cash and cash equivalents	2,059,535	1,334,258
Short-term investments/marketable securities	7,319,506	25,704,158
Accounts receivable	2,010,832	1,779,577
Unbilled revenues	697,188	353,428
Other current assets and prepaid expenses	301,027	786,397
Total current assets	12,388,088	29,957,818
NON-CURRENT ASSETS:		
Property and equipment, net	1,081,909	1,293,835
Total non-current assets	1,081,909	1,293,835
Total assets	13,469,997	31,251,653
Liabilities and shareholders' equity in €		
	31.05.2005	31.08.2004
CURRENT LIABILITIES:		
Liability to shareholders	-	20,768,780
Trade accounts payable	715,807	428,171
Advance payments received	669,258	70,094
Accrued expenses	1,471,528	1,081,589
Deferred income and other current liabilities	490,552	762,504
Total current liabilities	3,347,145	23,111,138
NON-CURRENT LIABILITIES:		
	92,001	86,841
Shareholders' equity:		
Common stock	11,542,764	11,542,764
Additional paid-in capital	17,596,005	16,594,840
Treasury stock, 131,347 and 605,600 at 31.05.2005 and 31.08.2004, respectively	- 200,933	- 926,438
Accumulated deficit	- 18,943,465	- 19,176,937
Accumulated other comprehensive income/loss	36,480	19,445
Total shareholders' equity	10,030,851	8,053,674
Total liabilities and shareholders' equity	13,469,997	31,251,653

Consolidated Statements of Operations

Consolidated Statements of Operations

from 1 September 2004 to 31 Mai 2005

in €	01.09.2004 31.05.2005	01.09.2003 31.05.2004
Revenues:		
Project services	7,415,534	6,594,326
Media services	2,146,443	1,623,580
Other	938,296	793,204
Total revenues, gross	10,500,273	9,011,110
Media costs	- 1,432,509	- 1,213,522
Total revenues, net	9,067,764	7,797,588
Cost of revenues	- 5,621,909	- 5,123,453
Gross profit	3,445,855	2,674,135
Selling and marketing expenses	- 842,619	- 946,516
General and administrative expenses	- 2,399,099	- 2,669,095
Research and development expenses	- 100,728	- 64,196
Restructuring and other related costs	- 49,500	- 412,965
Amortisation of deferred compensation	-	- 21,773
Operating income/loss	53,909	- 1,440,410
Other income/expense, net	13,051	5,136
Interest income and expenses, net	140,947	377,953
Income from investments and participations	25,565	-
Income/loss before provision for income tax	233,472	- 1,057,321
Income tax	-	3,199
Net income/loss	233,472	- 1,054,122
Net income/loss per share (basic and diluted)	0.02	- 0.10
Net income/loss per share (diluted)	0.02	- 0.10
Weighted average shares outstanding (basic and diluted)	11,308,072	10,932,692
Weighted average shares outstanding (diluted)	11,323,625	10,932,692

Consolidated Statements of Operations

Consolidated Statements of Operations

from 1 March 2005 to 31 May 2005

in €	01.03.2005 31.05.2005	01.03.2004 31.05.2004
Revenues:		
Project services	2,491,898	2,385,428
Media services	784,021	507,743
Other	377,267	284,828
Total revenues, gross	3,653,186	3,177,999
Media costs	- 533,291	- 403,511
Total revenues, net	3,119,895	2,774,488
Cost of revenues	- 1,920,542	- 1,603,509
Gross profit	1,199,353	1,170,979
Selling and marketing expenses	- 255,022	- 211,168
General and administrative expenses	- 844,644	- 990,221
Research and development expenses	- 41,616	- 12,746
Restructuring and other related costs	- 39,500	- 63,828
Amortisation of deferred compensation	-	-
Operating income/loss	18,571	- 106,984
Other income/expense, net	2,148	7,410
Interest income and expenses, net	8,727	71,766
Income from investments and participations	-	-
Income/loss before provision for income tax	29,446	- 27,808
Income tax	-	13,758
Net income/loss	29,446	- 14,050
Net income/loss per share (basic and diluted)	0.00	0.00
Net income/loss per share (diluted)	0.00	0.00
Weighted average shares outstanding (basic and diluted)	11,411,417	10,934,748
Weighted average shares outstanding (diluted)	11,412,625	10,934,748

Consolidated Statements of Operations

Consolidated Statements of Operations

for the first three quarters of 2004/2005

in €	01.03.2005 31.05.2005	01.12.2004 28.02.2005	01.09.2004 30.11.2004
Revenues:			
Project services	2,491,898	2,462,088	2,461,548
Media services	784,021	858,250	504,172
Other	377,267	284,836	276,193
Total revenues, gross	3,653,186	3,605,174	3,241,913
Media costs	- 533,291	- 549,577	- 349,641
Total revenues, net	3,119,895	3,055,597	2,892,272
Cost of revenues	- 1,920,542	- 1,952,269	- 1,749,098
Gross profit	1,199,353	1,103,328	1,143,174
Selling and marketing expenses	- 255,022	- 248,152	- 339,445
General and administrative expenses	- 844,644	- 820,219	- 734,236
Research and development expenses	- 41,616	- 12,026	- 47,086
Restructuring and other related costs	- 39,500	-	- 10,000
Amortisation of deferred compensation	-	-	-
Operating income/loss	18,571	22,931	12,407
Other income/expense, net	2,148	2,268	8,635
Interest income and expenses, net	8,727	75,686	56,534
Income from investments and participations	-	-	25,565
Income/loss before provision for income tax	29,446	100,885	103,141
Income tax	-	-	-
Net income/loss	29,446	100,885	103,141
Net income/loss per share (basic and diluted)	0.00	0.01	0.01
Net income/loss per share (diluted)	0.00	0.01	0.01
Weighted average shares outstanding (basic and diluted)	11,411,417	11,411,417	11,101,382
Weighted average shares outstanding (diluted)	11,412,625	11,430,772	11,146,833

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Shareholders' Equity

from 1 September 2004 to 31 May 2005

in €	Number of shares outstanding	Nominal value	Additional paid-in capital
Balance at 31.08.2003	10,932,341	11,542,764	37,355,960
Net income/loss	-	-	-
Unrealised gains and losses on available-for-sale securities	-	-	-
Foreign currency translation adjustment	-	-	-
Amortisation of deferred compensation	-	-	-
Purchase of treasury stock	-1,404	-	-
Re-issuance of treasury stock	3,811	-	4,689
Balance at 31.05.2004	10,934,748	11,542,764	37,360,649
Balance at 31.08.2004	10,937,164	11,542,764	16,594,840
Net income/loss	-	-	-
Unrealised gains and losses on available-for-sale securities	-	-	-
Foreign currency translation adjustment	-	-	-
Amortisation of deferred compensation	-	-	-
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

Consolidated Statements of Shareholders' Equity

	Treasury stock	Deferred compensation	Retained earnings/losses	Accumulated other comprehensive income	Total shareholders' equity	Comprehensive income
	- 933,145	- 21,773	- 18,645,785	24,246	29,322,267	-
	-	-	- 1,054,122	-	- 1,054,122	- 1,054,122
	-	-	-	174,572	174,572	174,572
	-	-	-	- 256	- 256	- 256
	-	21,773	-	-	21,773	-
	- 2,819	-	-	-	- 2,819	-
	5,830	-	-	-	10,519	-
	- 930,134	-	- 19,699,907	198,562	28,471,934	- 879,806
	- 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

Consolidated Statements of Cash Flows

Consolidated Statements of Cash Flows

from 1 September 2004 to 31 May 2005

in €	01.09.2004 31.05.2005	01.09.2003 31.05.2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/loss	233,472	- 1,054,122
Adjustments for:		
Depreciation and amortisation	401,925	508,088
Increase/decrease in provisions and accruals	389,942	- 95,748
Gains on the disposal of fixed assets	975	7,180
Other	- 14,847	7,870
Change in net working capital	530,367	1,753,600
Cash flows from operating activities	1,541,834	1,126,868
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments	- 13,753,392	- 38,284,395
Proceeds from sale of short-term investments	32,169,937	34,929,247
Purchase of property and equipment	- 202,288	- 126,462
Proceeds from sale of equipment	11,315	4,788
Cash flows from investing activities	18,225,572	- 3,476,822
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment to shareholders	- 20,768,780	-
Incoming payment for treasury stock	1,726,670	10,518
Payment for treasury stock	-	- 2,819
Cash flows from financing activities	- 19,042,110	7,699
Net effect of currency translation in cash and cash equivalents	- 18	- 160
Net increase/decrease in cash and cash equivalents	725,278	- 2,342,415
Cash and cash equivalents at beginning of period	1,334,257	3,325,665
Cash and cash equivalents at end of period	2,059,535	983,250

General

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 set out for the Prime Standard of Deutsche Börse AG. It should be read in conjunction with the Consolidated Financial Statements of SinnerSchrader Aktiengesellschaft published on 31 August 2004.

The reporting period of the third quarter of the 2004/2005 business year runs from 1 March 2005 to 31 May 2005.

The basis of consolidation as of 31 May 2005 is unchanged compared to 31 August 2004. 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 Limited and SinnerSchrader Benelux BV, which are also wholly owned.

On 31 May 2004, the reference date of the comparable period of the previous year, the businesses of the subsidiaries of SinnerSchrader Deutschland GmbH were not yet excluded and were directly accounted for by SinnerSchrader Deutschland GmbH.

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 2004. They are disclosed and explained in the Group's Consolidated Financial Statements as of 31 August 2004, which are published in the Group's Annual Report for the 2003/2004 business year.

Comments on Business Development and Outlook

Development of Revenues

Revenue according to type of service in € 000s	Q3 2004/2005	Q2 2004/2005	Q3 2003/2004
Project services	2,492	2,462	2,385
Media services	784	858	508
Other	377	285	285
Total revenues, gross	3,653	3,605	3,178
Media costs	- 533	- 549	- 404
Total revenues, net	3,120	3,056	2,774

In the third quarter of the 2004/2005 business year, the SinnerSchrader Group managed to maintain the positive business development it achieved in the first two quarters: the Group generated gross revenues of € 3.7 million, an increase of € 50,000 or 1.3% compared to the already good figures for the previous quarter. This means that an increase in gross revenues of 15% was achieved in comparison with the third quarter of the 2003/2004 business year – a result which again lies above the growth of 5 to 10% projected for the entire 2004/2005 business year.

This positive development in comparison to the previous year was achieved in all areas of service, with especially encouraging growth dynamics in media services (around 54% growth) and operations and analysis services (around 32% growth), which are subsumed here under »Other«.

The positive development in media services demonstrates that companies are increasingly willing to invest in the online marketing of their products, not least because this form of marketing can be controlled according to performance and result criteria. In this sector, marketing through search engines like Google has become increasingly important, and SinnerSchrader has made use of this development in some of its recent quotes and contracts in the field of search engine marketing. By including the search engine marketing business area in its service portfolio, SinnerSchrader was able to partly compensate for the drop in revenues for media services which regularly occurs in the second business quarter after the end of the Christmas season.

Many companies have recently shown an increasing interest in the development of the Internet and in their own online services, and they have again started to invest more in this field. This development, in turn, has led to an increasing interest in statistical and analytical evaluations of the data flow generated on these companies' websites. Along with developments related to the controlling of online media campaigns, the developments mentioned above represent a driving force behind the growth of analysis services.

The further increase in the number of users logging on to the websites and online shops serviced by SinnerSchrader has also resulted in increasingly complex demands made on the systems on which they run. Also, companies still prefer to deal with experts like SinnerSchrader when it comes to operating their web applications. These facts have led to very positive development in the field of operations services. SinnerSchrader started working for six new customers in the reporting period.

The good performance achieved during the third quarter in the fields of operations and analysis services compensated for the seasonal drop in revenues in the field of media services in comparison to the previous quarter. The revenues generated in the Interactive Services segment increased slightly by 1.2% in the reporting period.

Revenues according to segments (external) in € 000s	Q3 2004/2005	Q2 2004/2005	Q3 2003/2004
Interactive Software	1,338	1,539	n/a
Interactive Marketing	1,154	919	n/a
Interactive Services	1,161	1,147	n/a
Total revenues, gross	3,653	3,605	n/a

In comparison with the same quarter of the previous business year, the project service business in the Interactive Software and Interactive Marketing segments grew by around 4.5%. After the increase of around 40% generated in the second quarter in comparison with the second quarter of the 2003/2004 business year, the project services business in the reporting period can be said to have shown signs of consolidation. The 1.2% increase in comparison to the previous quarter further underlines this assessment.

The Interactive Software and Interactive Marketing segments, however, seem to follow opposing trends from quarter to quarter. While the Interactive Software segment was unable to stay on the encouraging level it reached in the second quarter, the Interactive Marketing segment saw an increase in revenues of almost 26%.

After the successful launch of the web shop for Süddeutsche Zeitung's SZ-Mediathek in early March 2005, which had taken up most of the Interactive Software segment's capacities in the second quarter, the segment was not able to acquire new customers with a similar scope of orders to follow up on this project in the third quarter. Therefore, the focus of the segment's work in the third quarter was put on reaching a high level of customer satisfaction with the segment's continual service and maintenance work and with the ongoing projects for existing customers, especially as regards the relaunch of comdirect bank's website. The work on this project was finished towards the end of the third quarter to very positive feedback from the customer, and the revised web portal for comdirect bank went online in early June. The Interactive Software segment also developed and launched the first version of T-Card 2005.

In the third quarter, the Interactive Marketing segment reaped the first rewards of the successful sales measures carried out during the first half of the 2004/2005 business year. The work for VW Mobile Services, which had started in January, began in full in the course of the third quarter, for example. New customers from the telecommunications industry brought welcome business as well. Among these new projects was the www.simyo.de website, which E-Plus will use to sell its new discount brand for mobile telephony. This brand will be the first in its field to be exclusively distributed through the Internet. The website, which was developed jointly by the Interactive Marketing and Interactive Software segments, went online in early June and was very favourably received.

Revenues according to type of service in € 000s

9 months 2004/2005

9 months 2003/2004

	9 months 2004/2005	9 months 2003/2004
Project services	7,416	6,594
Media services	2,146	1,624
Other	938	793
Total revenues, gross	10,500	9,011
Media costs	- 1,432	- 1,213
Total revenues, net	9,068	7,798

During the first three quarters of the 2004/2005 business year, gross total revenues rose by around € 1.5 million, or almost 17%, in comparison to the previous year. Double-digit growth was achieved for all types of services.

Development of Orders and Prices

The development of incoming orders in the third quarter of 2004/2005 further confirms the pick-up in demand for SinnerSchrader's services which has been apparent since the start of the current business year. The total volume of new orders lay 2.5% above the volume achieved in the same quarter of the previous business year. This means that, similar to the first two quarters of the current business year, the level of incoming orders lay significantly above that of the same period in the previous business year, with an increase of 34%.

With regard to the prices that can be achieved, the phase of relative stability is continuing. Currently, the predominant signs indicate that slightly better prices will be achievable if demand continues to develop well.

Development of Earnings

Key earnings figures in € 000s	Q3 2004/2005	Q2 2004/2005	Q3 2003/2004
Gross profit	1,199	1,103	1,171
EBITDA	156	157	57
EBITA	21	25	- 100
Net income/loss	29	101	- 14

With an EBITA of € 21,000, the third quarter of 2004/2005 is the fourth quarter in succession that SinnerSchrader has completed with an operating profit. This proves that the Group has returned to the profit zone for the long term.

The positive development of the Group's turnover during the third quarter did not, however, result in an increased EBITA in comparison with the previous quarter. This is due to two main factors: for the reporting period, SinnerSchrader had to make additional provisions for unforeseen developments in an ongoing labour court case and for possible fines imposed by the Federal Financial Supervisory Authority (BaFin). BaFin is of the opinion that SinnerSchrader's publication of its quarterly balance sheet for the third quarter of the 2002/2003 business year in July 2003 was in violation of the Securities Trading Act. This accusation is based on the fact that the ad hoc press release on the quarterly balance sheet occurred on the morning of the reporting day stipulated in the financial calendar before the stock markets opened, and not the previous evening after the markets had closed and immediately after the respective documents had been prepared and signed. In June 2005, BaFin informed SinnerSchrader of its plans to impose a € 30,000 fine for this transgression. Therefore, the Group made adequate provisions in its financial statements for the reporting period in case the fine is actually imposed.

The welcome increase in gross revenues by almost € 100,000, which also led to a gross margin of 32.8% (an increase of over two percentage points in comparison to the previous quarter), was used up by these additional costs.

The low level of operating profitability in this reporting period and in the previous ones can be attributed primarily to the costs incurred by the extra capacity in office space in SinnerSchrader's Hamburg building. The Group therefore terminated the tenancy agreement for 30 June 2006 after the stipulated five years' tenancy. For exercising its special termination right for the tenancy agreement, the Group will have to make compensation payments to the lessor amounting to around € 300,000. Making provisions for this payment will further reduce the operating profit starting in the third quarter.

Costs according to cost type in € 000s	Q3 2004/2005	Q2 2004/2005	Q3 2003/2004
Costs of material and services	- 219	- 240	- 181
Personnel costs	- 2,039	- 1,932	- 1,889
Depreciation	- 135	- 132	- 157
Other operating costs	- 708	- 729	- 654
Total	- 3,101	- 3,033	- 2,881

The special developments in costs mentioned above, which prohibited an improvement of the EBITA level from the second to the third quarter of the 2004/2005 business year, also impacted the development of costs according to cost type.

On the one hand, the development of the labour court case mentioned above led to a disproportionate rise in personnel costs, though the average number of full-time employees for the reporting period was only about two full-time employees higher than the previous quarter. On the other hand, the termination of the lease agreement and the fine imposed by BaFin prevented the other operating costs from being reduced in the third quarter in comparison to the previous quarter, which was mostly affected by the costs for the Annual General Meeting.

A comparison with the third quarter of the previous business year again clearly shows that costs have risen more slowly than turnover. This means that operative earnings have risen by around € 120,000 in comparison with the previous year.

Key earnings figures in € 000s	9 months 2004/2005	9 months 2003/2004
Gross profit	3,446	2,674
EBITDA	469	- 927
EBITA	67	- 1,414
Net income/loss	233	- 1,054

A comparison with the same nine-month period in the previous business year demonstrates this turnaround in operative business even more clearly. While the first nine months of the previous business year – and especially the first two quarters – were mostly marked by the costs of the Group's restructuring and reorganisation measures, the improvement of all key operative figures in the first nine months of the current business year clearly shows the first fruits of these measures. In total, this development led to a rise of € 1.5 million in the EBITA.

In comparison to the first nine months of the 2003/2004 business year, net income rose by € 1.3 million. This positive tendency, however, was countered by a decrease of over € 0.2 million in the Group's financial result. This was mostly caused by the fall in the liquidity reserve caused by the special dividend payment of € 20.8 million made to shareholders in November 2004.

Research and Development Expenditure

The research and development activities which began in the second quarter of the current business year continued in the third quarter. These activities entailed the further development of software components for the swift realisation of individual distribution websites and the development of an application for controlling online campaigns. The costs for these measures amounted to around € 40,000 in the third quarter. During the first nine months of the 2004/2005 business year, Sinner-Schrader spent over € 100,000 on research and development, an increase in expenditure of around € 40,000 in comparison to the previous business year. These figures express the increased efforts made by the Interactive Software segment in the field of research and development.

Investments

The investment volume of € 53,000 in the third quarter of 2004/2005 was slightly lower than it was in the previous quarters of the current business year. A total of around € 202,000 was invested during the first nine months of 2004/2005. This figure represents an increase in investment volume of around € 75,000, or 60%, in comparison to the previous business year. Apart from making necessary investments for replacing IT hardware and software, SinnerSchrader also invested in the construction of dedicated systems for running customer applications for the first time.

Cash Flow

Components of cash flow in € 000s	9 months 2004/2005	9 months 2003/2004
from operating activities	1,542	1,127
from investing activities (without purchase and proceeds from sale of marketable securities)	- 191	- 122
from the purchase and proceeds from sale of marketable securities	18,417	- 3,355
from financing activities	- 19,042	8

The Cash Flow Statement for the first nine months of 2004/2005 is characterised by the capital repayment to shareholders and the previous sale of our own shares which took place in November 2004, i.e. during the first quarter of the business year. Whereas the capital repayment led to a liquidity outflow of around € 20.8 million from financing activities, the sale of 455,235 of our own shares resulted in a liquidity inflow of around € 1.7 million, which led to a total liquidity outflow from financing activities of just under € 19.1 million. During the previous business year, the cash flow from financing activities was still influenced by the effects of the last repurchase of our own shares, which had taken place in September 2003.

In November 2004, an appropriate number of marketable securities from the Group's working assets were sold to provide the funding for the capital repayment. This was reflected in the cash flow from investment activities in the first nine months of 2004/2005. The balance for the previous year shows that around € 4 million were invested in marketable securities in the Group's working assets.

Over the last nine-month period, operational activities created a positive cash flow of around € 1.5 million. This is due to the positive operational development in combination with a slightly lower need for working capital and to a tax refund of € 0.4 million, which SinnerSchrader received in February 2005. The third quarter contributed another € 0.2 million to the already positive operating cash flow of the first nine months. This contribution was supported by the operating profits adjusted for depreciation and by the accruals and provisions made. In comparison to the previous quarter, the Group's net working capital increased again in the course of general business growth during the third quarter.

Balance Sheet

As was the case on 28 February 2005, the development of the balance sheet data as of 31 May 2005 – as compared to the balance sheet date of the previous year – was characterised by the capital repayment to shareholders in the amount of € 20.8 million in November 2004. The reduction in liquid funds and securities on the current assets side by this amount was contrasted with the expiry of liabilities vis-à-vis shareholders on the liabilities side, which were formed on 31 August 2004 in this amount at the expense of capital reserves.

Based on liquid funds and securities adjusted for the capital repayment and amounting to € 6.3 million on 31 August 2004, the liquidity reserve in the first nine months of 2004/2005 rose by € 3.1 million to € 9.4 million as of 31 May 2005. This was due to the sale of our own shares in the first quarter of 2004/2005 and to the positive operating cash flow.

The development of the Group's current assets from 31 August 2004 to 31 May 2005 was characterised by an increase in customer queries and services not yet invoiced totalling almost € 0.6 million, which was countered by an increase in deposits received from customers in the same amount.

On the liabilities side, the accrued expenses rose by almost € 0.4 million, mainly because of the developments during the third quarter mentioned above, while the combined trade accounts payable and other short-term liabilities remained almost unchanged.

During the nine-month period, equity rose by almost € 2.0 million. Around € 1.7 million of this was generated by the sale of our own shares prior to the special dividend payment. The equity ratio on 31 May 2005 was around 74%.

Employees

On 31 May 2005, SinnerSchrader had 138 employees, three more than at the end of the previous quarter and one less than on the same date of the previous year. The fact that the number of employees increased for the first time in a year is based on the increase in business SinnerSchrader has been experiencing since the start of the current business year. On average, there were 132 employees working full time in the third quarter. This development corresponds to a rise in capacity by two full-time employees in comparison to the second quarter of the current business year and also in comparison to the corresponding period of the previous business year.

Of the total 132 full-time employees, 57 were working in the Interactive Software segment, 42 in the Interactive Marketing segment, and 15 in the Interactive Services segment. 18 full-time employees were employed for the central functions performed by SinnerSchrader AG.

Outlook

Developments in the third quarter of the 2004/2005 business year confirm the expectation at the end of the second quarter that SinnerSchrader's overall annual figures would be in the upper reaches of the planning margins: revenue growth is expected to be at around or even slightly over 10%, and the operating profit will probably be slightly positive. However, the development during the third quarter also made it clear that, because of the very low level of profitability, individual events could easily generate effects which could turn the operating profit into a slight loss. Now that SinnerSchrader has achieved results above the projected figures for the first nine months of 2004/2005, the pace of these positive developments is expected to slow down during the fourth quarter.

Additional Notes

Segment Reporting

In the course of its reorganisation process, 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. This means that SinnerSchrader is no longer active in just one segment, and that it has to provide segment information according to the Statement of Financial Accounting (»SFAS«) No. 131 as prescribed by US GAAP.

Since the reorganisation process entailed fundamental organisational changes and extensive adjustments of the accounting system, it would be prohibitively time-consuming and costly to prepare segment reporting data for the periods prior to the start of the reorganisation process. In accordance with the exemption specified in SFAS No. 131, SinnerSchrader therefore opted not to provide segment information data. Segment information data for the first nine months of the 2003/2004 business year is thus not available.

SinnerSchrader Neue Informatik GmbH is assigned to the Interactive Software segment. The Interactive Marketing segment comprises the Studios Hamburg GmbH and Studios Frankfurt GmbH business units, and the Media, Operations and Analysis units of SinnerSchrader Deutschland GmbH are included in the Interactive Services segment.

Segment information 9 months 2004/2005 in € and number	Interactive Software	Interactive Marketing	Interactive Services	Segments total	Consolidation/ Holding	Group
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
Purchase of 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
Non-current 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

Comments | Notes

The table below shows the reconciliation of the sum of the segmental profits comprising all reported segments with the Group's result before income tax:

Reconciliation of total segment earnings to Group before tax in €	9 months 2004/2005
Segment profit/loss (EBITA) of all reportable segments	1,232,620
Central holding costs not attributable to reportable segments	- 1,164,872
Earnings before tax of foreign subsidiaries	- 788
EBITA of the Group	66,960
Group interest income/expense	166,512
Group earnings before tax	233,472

Restructuring Measures

	Restructuring charges and other related charges in €		Utilised		Balance 31.05.2005
	Balance 01.09.2004	Additional charges	Non-cash	Cash	
Workforce	133,478	49,500	-	92,978	90,000
Facilities	67,376	-	-	67,376	-
Others	-	-	-	-	-
Total	200,854	49,500	-	160,354	90,000

No further restructuring measures were carried out in the third quarter of 2004/2005. However, developments in the labour court case mentioned above (the court's decision is currently being appealed) necessitated an increase in reserves and provisions and thus in the costs for measures already carried out. This was countered by the scheduled use of the reserves posted by 31 August 2004 and the payment of existing liabilities. This means that as of 31 May 2005, the Group's total reserves and liabilities from restructuring measures were reduced to € 90,000.

Treasury Stock

On 31 May 2005, SinnerSchrader AG held 131,347 of its own shares with a calculated face value of € 131,347 representing 1.1 % of the share capital. In the third quarter of the 2004/2005 business year, no shares were purchased or sold, and no shares held by SinnerSchrader AG were issued in the scope of option exercises by employees.

Adjustments of Contingent Liabilities

Upon execution of the special distribution to shareholders agreed on at the Annual General Meeting in January 2004, SinnerSchrader AG was asked by the lessor of its Hamburg offices to provide collateral for liabilities from the tenancy in accordance with Section 225 of the German Stock Corporation Act (Aktiengesetz). This collateral was provided in the form of a bank guarantee in the amount of € 2,532,259.71 which is reduced every month by the amount of the monthly rent payment. On 31 May 2005, the bank guarantee amounted to € 1,812,529.63. For this amount, SinnerSchrader can only dispose of its liquid funds and securities with the express approval of the guaranteeing bank.

Employees' Subscription Rights

With the resolutions at the Annual General Meetings of October 1999 and December 2000, SinnerSchrader AG established the SinnerSchrader Stock Option Plan 1999 and the SinnerSchrader Stock Option Plan 2000, each with statutory capital 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 2004. 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. The table below 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 business year and the end of the third quarter of the 2004/2005 business year, as well as the changes in both figures for the first nine months of 2004/2005:

Outstanding options in number and €	Number of options granted	Weighted average exercise price
Outstanding on 31 August 2004	340,283	12.00
Granted	–	–
Exercised	- 19,018	2.76
Cancelled	- 26,452	2.06
Outstanding on 31 May 2005	294,813	13.49

In order for the option rights granted from the stock option plans to be entered in the balance sheet as a share-based compensation component, SinnerSchrader opted to follow US GAAP rules according to Accounting Principles Board Opinion («APB») No. 25.

According to APB No. 25, the granting of stock option rights gives rise to personnel costs amounting to the difference, if any, between the market 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 have to be accounted for in the last years and in the first three quarters of the 2004/2005 business year.

In accordance with the rules specified by SFAS No. 148 in connection with SFAS No. 123, the table below shows the pro-forma net income and the pro-forma net income per share for the first nine months of the 2004/2005 business year that would have resulted if SinnerSchrader had opted to render the accounts related to its stock option plans based on the market value on the allocation date as prescribed by SFAS No. 123:

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, included in net income as reported	-
deduct: stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	- 19,161
Pro-forma net income	214,311
Reported net income per share, basic and diluted	0.02
Pro-forma net income per share, basic and diluted	0.02

The pro-forma effect for the first nine months of the 2004/2005 business year shown here is not necessarily representative of pro-forma effects in future reporting periods. This is due to the fact that the number of options in future reporting periods may differ to the number in the current reporting period because of new allocations, cancellations due to employees leaving the company, or the expiration of waiting periods.

Directors' Holdings of Shares and Subscription Rights to Shares

The table below shows the number of shares in SinnerSchrader AG held by members of the Management Board and Supervisory Board of SinnerSchrader AG and changes to these figures in the reporting period from 1 September 2004 to 31 May 2005:

Shares and options of the Board members	01.09.2004	Additions	Disposals	31.05.2005
Shares				
MANAGEMENT BOARD MEMBERS:				
Matthias Schrader	2,342,675	-	-	2,342,675
Thomas Dyckhoff	49,950	-	-	49,950
Total shares of the Management Board	2,392,625	-	-	2,392,625
SUPERVISORY BOARD MEMBERS:				
Dr Markus Conrad	127,500	-	-	127,500
Reinhard Pöllath	-	-	-	-
Frank Nörenberg	1,000	-	-	1,000
Total shares of the Supervisory Board	128,500	-	-	128,500
Total shares of the Board members	2,521,125	-	-	2,521,125
Options				
MANAGEMENT BOARD MEMBERS:				
Matthias Schrader	-	-	-	-
Thomas Dyckhoff	25,000	-	-	25,000
Total shares of the Management Board	25,000	-	-	25,000
SUPERVISORY BOARD MEMBERS:				
Dr Markus Conrad	-	-	-	-
Reinhard Pöllath	-	-	-	-
Frank Nörenberg	-	-	-	-
Total shares of the Supervisory Board	-	-	-	-
Total shares of the Board members	25,000	-	-	25,000

Financial Calendar 2004/2005

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