SinnerSchrader

Q3

Quarterly Report 2003/2004

The Business Year 2003/2004 of the SinnerSchrader Aktiengesellschaft

Key Figures of the SinnerSchrader Group

		Q3		9 months	
		01.03.2004 31.05.2004	01.03.2003 31.05.2003	01.09.2003 31.05.2004	01.09.2002 31.05.2003
Revenues	in € 000s	3,178	3,077	9,011	9,713
EBITDA	in € 000s	57	-264	-927	-258
EBITA	in € 000s	-100	-406	-1,414	-705
Net loss	in € 000s	-14	-224	-1,054	-155
Net loss per share	in €	-0.00	-0.02	-0.10	-0.01
Cash flows from operating activities	in € 000s	-242	102	1,127	-638
Full time equivalents employees – average		130	168	141	171
		31.05.2004	31.08.2003	31.05.2004	31.08.2003
Liquid funds and marketable securities	in € 000s	25,778	24,603	25,778	24,603
Employees – end of period		139	166	139	166

Dear Shareholders,

The third financial quarter 2003/2004 (March to May 2004) was dominated by the successful completion of the reorganisation of SinnerSchrader: at the beginning of April, the sectoral solution centres were replaced by units that put service offerings to the fore. This enabled us to separate predominantly technical services for the development of interactive software from the marketing services for brand management in digital channels. The third mainstay in the SinnerSchrader service offering comprises media planning, operation and data analysis for interactive systems.

Externally, the reorganisation enables us to present clearly differentiated service profiles, while internally it helps us in consolidating and bolstering our expertise. We now maintain market operations in the above mentioned fields under the brands SinnerSchrader Neue Informatik, SinnerSchrader Studios and Sinner-Schrader Media, Betrieb und Analyse. At the same time, we have fostered entrepreneurial thinking at the operational management level by spinning the businesses off into independent companies.

The new structure has been welcomed by our long-standing customers. The fact that Coca-Cola has become a Studios customer demonstrates the benefit of addressing the market clearly. The wide range of services provided for our new customer, Deutsche Telekom CardServices, proves that the various units of SinnerSchrader are continuing to collaborate as effectively as ever for the good of the customer.

Progress has also been good in terms of financials. After a weak second quarter, gross revenues were again above the € 3 million threshold at € 3.2 million, which is about 3% more than the previous year. With an EBITA of € -0.1 million, we only just fell short of breaking even and achieved an improvement of about € 0.7 million quarter-on-quarter and about € 0.3 million year-on-year. At € -14,000, earnings for the period were almost balanced out. The weak first half year dragged the nine-month earnings into the red.However, at € 25.8 million, our liquidity reserve on 31 May 2004 was some € 1.2 million above the figure at the beginning of the financial year.

After completion of the reorganisation and the positive business development, we are much more optimistic about the second half of the financial year than we were three months ago and are confident that SinnerSchrader is on the right course.

Hamburg, July 2004
The Management Board

Consolidated Balance Sheets
as of 31 May 2004

	31.05.2004 in €	31.08.2003 in €
ASSETS		
Current assets:		
Cash and cash equivalents	983,250	3,325,443
Short-term investments/marketable securities	24,794,489	21,277,312
Accounts receivable	1,643,470	2,374,101
Unbilled revenues	718,761	268,252
Prepaid expenses and other current assets	1,087,606	2,429,292
Total current assets	**29,227,576**	**29,674,400**
Non current assets:		
Property and equipment, net	1,426,500	1,798,320
Total non current assets	**1,426,500**	**1,798,320**
Total assets	**30,654,076**	**31,472,720**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	625,223	395,731
Advance payments received	32,864	24,649
Accrued expenses	913,089	1,008,837
Income tax payable	48,201	52,559
Deferred income and other current liabilities	477,640	588,269
Total current liabilities	**2,097,017**	**2,070,045**
Non-current liabilities	**85,125**	**80,408**
Shareholders' equity:		
Common stock	11,542,764	11,542,764
Additional paid-in capital	37,360,649	37,355,960
Treasury stock, 608,016 and 610,423 as of 31.05.2004 and 31.08.2003, respectively	-930,134	-933,145
Retained earnings/accumulated deficit	-19,699,907	-18,645,785
Accumulated other comprehensive income/loss	198,562	24,246
Deferred compensation	–	-21,773
Total shareholders' equity	**28,471,934**	**29,322,267**
Total liabilities and shareholders' equity	**30,654,076**	**31,472,720**

Consolidated Statements of Operations I

from 1 September 2003 to 31 May 2004

	01.09.2003 31.05.2004 in €	01.09.2002 31.05.2003 in €
Revenues:		
Project Services	6,594,326	8,136,267
Media Services	1,623,580	1,048,527
Other	793,204	528,179
Total revenues, gross	**9,011,110**	**9,712,973**
Media costs	-1,213,522	-822,161
Total revenues, net	**7,797,588**	**8,890,812**
Cost of revenues	-5,123,453	-6,051,291
Gross profit/loss	**2,674,135**	**2,839,521**
Selling and marketing expenses	-946,516	-1,103,998
General and administrative expenses	-2,669,095	-2,454,886
Research and development expenses	-64,196	-50,021
Restructuring and other related costs	-412,965	-119,749
Amortisation and impairment of intangible assets	–	–
Amortisation of goodwill	–	–
Amortisation of deferred compensation	-21,773	-73,460
Operating income/loss	**-1,440,410**	**-962,593**
Other income/expense	5,136	183,764
Interest income and expenses	377,953	583,839
Income from investments and participations	–	–
Result before provision for income tax	**-1,057,321**	**-194,990**
Provision for income tax	3,199	40,255
Net income/loss before cumulative effect of changes in accounting principles	-1,054,122	-154,735
Cumulative effect of changes in accounting principles	–	–
Net income/loss	**-1,054,122**	**-154,735**
Net income/loss per share (basic)	-0.10	-0.01
Net income/loss per share (diluted)	-0.10	-0.01
Weighted average shares outstanding (basic)	10,932,692	11,234,414
Weighted average shares outstanding (diluted)	10,932,692	11,234,414

Consolidated Statements of Operations II
from 1 March to 31 May 2004

	01.03.2004 31.05.2004 in €	01.03.2003 31.05.2003 in €
Revenues:		
Project Services	2,385,428	2,600,716
Media Services	507,743	277,782
Other	284,828	198,224
Total revenues, gross	**3,177,999**	**3,076,722**
Media costs	-403,511	-205,045
Total revenues, net	**2,774,488**	**2,871,677**
Cost of revenues	-1,603,509	-2,080,997
Gross profit/loss	**1,170,979**	**790,680**
Selling and marketing expenses	-211,168	-370,843
General and administrative expenses	-990,221	-742,536
Research and development expenses	-12,746	-6,834
Restructuring and other related costs	-63,828	-68,364
Amortisation and impairment of intangible assets	–	–
Amortisation of goodwill	–	–
Amortisation of deferred compensation	–	-11,436
Operating income/loss	**-106,984**	**-409,333**
Other income/expense	7,410	-7,938
Interest income and expenses	71,766	193,670
Income from investments and participations	–	–
Result before provision for income tax	**-27,808**	**-223,601**
Provision for income tax	13,758	–
Net income/loss before cumulative effect of changes in accounting principles	-14,050	-223,601
Cumulative effect of changes in accounting principles	–	–
Net income/loss	**-14,050**	**-223,601**
Net income/loss per share (basic)	-0.00	-0.02
Net income/loss per share (diluted)	-0.00	-0.02
Weighted average shares outstanding (basic)	10,934,748	11,070,447
Weighted average shares outstanding (diluted)	10,934,748	11,070,447

Consolidated Statements of Operations III

for the first three quarters 2003/2004

	01.03.2004 31.05.2004 in €	01.12.2003 29.02.2004 in €	01.09.2003 30.11.2003 in €
Revenues:			
Project Services	2,385,428	1,763,271	2,445,627
Media Services	507,743	470,285	645,552
Other	284,828	237,835	270,541
Total revenues, gross	**3,177,999**	**2,471,391**	**3,361,720**
Media costs	-403,511	-322,706	-487,305
Total revenues, net	**2,774,488**	**2,148,685**	**2,874,415**
Cost of revenues	-1,603,509	-1,572,795	-1,947,149
Gross profit/loss	**1,170,979**	**575,890**	**927,266**
Selling and marketing expenses	-211,168	-339,450	-395,898
General and administrative expenses	-990,221	-955,762	-723,112
Research and development expenses	-12,746	-44,394	-7,056
Restructuring and other related costs	-63,828	-113,011	-236,126
Amortisation and impairment of intangible assets	–	–	–
Amortisation of goodwill	–	–	–
Amortisation of deferred compensation	–	-5,443	-16,330
Operating income/loss	**-106,984**	**-882,170**	**-451,256**
Other income/expense	7,410	-2,274	–
Interest income and expenses	71,766	180,970	125,217
Income from investments and participations	–	–	–
Result before provision for income tax	**-27,808**	**-703,474**	**-326,039**
Provision for income tax	13,758	-10,559	–
Net income/loss before cumulative effect of changes in accounting principles	-14,050	-714,033	-326,039
Cumulative effect of changes in accounting principles	–	–	–
Net income/loss	**-14,050**	**-714,033**	**-326,039**
Net income/loss per share (basic)	-0.00	-0.07	-0.03
Net income/loss per share (diluted)	-0.00	-0.07	-0.03
Weighted average shares outstanding (basic)	10,934,748	10,931,914	10,931,415
Weighted average shares outstanding (diluted)	10,934,748	10,931,914	10,931,415

Consolidated Statements of Shareholders' Equity

from 1 September 2003 to 31 May 2004

	Number of shares outstanding	Nominal value in €	Additional paid-in capital in €	Treasury stock in €	Deferred compensation in €	Retained earnings in €	Accumulated other comprehensive income in €	Total shareholders' equity in €	Comprehensive income in €
Balance as of 31.08.2003	**10,932,341**	**11,542,764**	**37,355,960**	**-933,145**	**-21,773**	**-18,645,785**	**24,246**	**29,322,267**	**-955,513**
Net income/loss	–	–	–	–	–	-1,054,122	–	-1,054,122	-1,054,122
Unrealised gains on available-for-sale securities, net of tax	–	–	–	–	–	–	174,572	174,572	174,572
Foreign currency translation adjustment, net of tax	–	–	–	–	–	–	-256	-256	-256
Amortisation of deferred compensation	–	–	–	–	21,773	–	–	21,773	–
Purchase of treasury stock	-1,404	–	–	-2,819	–	–	–	-2,819	–
Sale of treasury stock	3,811	–	4,689	5,830	–	–	–	10,519	–
Balance as of 31.05.2004	**10,934,748**	**11,542,764**	**37,360,649**	**-930,134**	**–**	**-19,699,907**	**198,562**	**28,471,934**	**-879,806**

Consolidated Statements of Cash Flows

from 1 September 2003 to 31 May 2004

	01.09.2003 31.05.2004 in €	01.09.2002 31.05.2003 in €
Cash flows from operating activities:		
Net profit/loss	-1,054,122	-154,735
Cumulative effect of changes in accounting principles	–	–
Net income/loss before cumulative effect of changes in accounting principles	-1,054,122	-154,735
Adjustments for:	–	–
Depreciation and amortisation	508,088	520,863
Increase/decrease in provisions and accruals	-95,748	-1,231,005
Losses/gains on the disposal of fixed assets	7,180	40,402
Foreign exchange gains/losses	–	–
Other	7,870	18,616
Change in net working capital	1,753,600	167,721
Cash flows from operating activities	**1,126,868**	**-638,138**
Cash flows from investing activities:		
Purchase of short term investments	-38,284,395	-43,384,739
Proceeds from sale of short term investments	34,929,247	45,081,782
Purchase of property and equipment	-126,462	-274,072
Proceeds from sale of equipment	4,788	8,205
Cash flows from investing activities	**-3,476,822**	**1,431,176**
Cash flows from financing activities:		
Purchase of treasury stock	-2,819	-717,577
Proceeds from sale of treasury stock	10,518	–
Cash flows from financing activities	**7,699**	**-717,577**
Net effect of currency translation in cash and cash equivalents	-160	-2,974
Net increase/decrease in cash and cash equivalents	**-2,342,415**	**72,487**
Cash and cash equivalents at beginning of period	3,325,665	1,451,285
Cash and cash equivalents at end of period	983,250	1,523,773
Supplemental disclosures of non-cash financing activities:		
Common stock issued for acquisition of Netmatic	–	69,628

Management Discussion and Notes to the Quarterly Report

» I. General

The quarterly report of the SinnerSchrader Group (»SinnerSchrader«, »Group«) is prepared in accordance with US accounting principles (»US-GAAP«) and takes account of the instructions of Accounting Principle Board Opinion (»APB«) No. 28 and the rules for the Prime Standard of the Deutsche Börse AG. It should be read in conjunction with the consolidated financial statements of SinnerSchrader Aktiengesellschaft as of 31 August 2003.

The SinnerSchrader Group („SinnerSchrader» or „Group») is made up mainly of SinnerSchrader Aktiengesellschaft („SinnerSchrader AG» or „AG») and its wholly owned subsidiary SinnerSchrader Deutschland GmbH (»SinnerSchrader DTL«), both located in Hamburg. As part of a reorganisation, certain operational assets were transferred from SinnerSchrader DTL to three new companies: SinnerSchrader Neue Informatik GmbH (»Neue Informatik«), SinnerSchrader Studios GmbH (»Studios Hamburg«) and SinnerSchrader Studios Frankfurt GmbH (»Studios Frankfurt«). The spin-off was completed with economic effect as of 1 April 2004. Studios Frankfurt was listed in the Register of Companies on 25 May 2004 and Neue Informatik and Studios Hamburg were listed on 23 June 2004. The new companies are 100 % subsidiaries of SinnerSchrader DTL and are fully consolidated in the Group.

SinnerSchrader UK Limited, London, and SinnerSchrader Benelux BV, Rotterdam, 100 % subsidiaries of SinnerSchrader AG, also belong to the Group. Neither company was operational during the reporting year; however, they are both included in the consolidated statement of accounts.

Netmatic Inc., which formerly belonged to the consolidated Group, was closed in September 2002. The company was taken out of the consolidated accounts as of 30 November 2002 and is therefore no longer part of the consolidated Group in 2002/2003.

» II. Management Discussion

Reorganisation

As laid out in the 2002/2003 financial report, one of the key objectives of the 2003/2004 financial year was to restructure SinnerSchrader to reflect the new market conditions for Internet-based services, as a precondition to returning to growth. We completed the internal restructuring on 1 April 2004 and, one month later, launched it on the market, together with the new SinnerSchrader website. Since the full-service approach that used to underlie our organisational structure no longer sufficiently met the changing requirements of our customers, we built the new structure around the different characteristics of our services. This entailed separating the technical services for developing interactive software and systems from the marketing services for brand management and market communication in digital channels such as the Internet. Both groups of services had been integrated as Project Services and developed and marketed by the sector service centres. The new structure places the responsibility for these services on separate organisational units.

In the old structure, the other complementary interactive services in online media business, operations and data analysis for Internet applications had been performed by separate units but marketed via the solution centre platform. In the new structure, these services will also be offered directly to the market independent from the Project Services.

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Since the market launch in early May, we have been offering our services under the SinnerSchrader umbrella brand, as SinnerSchrader Neue Informatik for our software and system services as SinnerSchrader Studios for our marketing services and as SinnerSchrader Media, SinnerSchrader Betrieb and SinnerSchrader Analyse for our other services.

To foster entrepreneurial thinking in operational management for the two large Project Services divisions, we spun off the operational assets of software and system development into SinnerSchrader Neue Informatik GmbH and the marketing business into SinnerSchrader Studios GmbH and SinnerSchrader Studios Frankfurt GmbH. These companies are now run under independent management. The other services shall continue to be performed and marketed by SinnerSchrader Deutschland GmbH.

We expect the following from the new structure:

» *Greater clarity:* separating service bundles – particularly interactive marketing and software and system-development services – lends the individual units a clearer market profile and creates clearly defined customer expectations.

» *Greater efficiency:* aligning the processes and cultures in new business units and defining service portfolios more closely enhances the efficiency and quality of the services and of our competitive stance.

» *Greater entrepreneurship:* acting as independent companies and allowing management teams to participate in their unit's results fosters entrepreneurial mindsets and entrepreneurial behaviours within the organisation.

» *Greater options:* with the »multi-specialist« structure, additional business segments/companies can be easily attached to the holding company without having to integrate the existing units completely.

This puts us in an excellent position to attain further growth for SinnerSchrader.

After the successful completion of the reorganisation and the transfer of operations to the new, independent units, Detlef Wichmann, member of the Management Board of SinnerSchrader AG and COO, left SinnerSchrader in April 2004.

Development of Revenues

	Q3 2003/2004 in € 000s	Q2 2003/2004 in € 000s	Q3 2002/2003 in € 000s
Project Services	2,385	1,763	2,601
Media Services	508	470	278
Other	285	238	198
Total revenues, gross	**3,178**	**2,471**	**3,077**
Media costs	-404	-323	-205
Total revenues, net	**2,774**	**2,148**	**2,872**

Third-quarter sales were surprisingly good, despite the pressures of the reorganisation. With a clear quarter-on-quarter increase in revenues (+29 %) and slight year-on-year growth (+3 %), we experienced a good start to the second half of 2003/2004. In the third quarter 2003/2004, we achieved gross revenues of just under € 3.2 million overall. Accounting for about 75 %, the Project Services volume was much better again. Media services and other services, at approximately € 0.5 million and just under € 0.3 million respectively, showed once again good growth rates quarter-on-quarter and year-on-year.

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Revenues with external clients Q3 2003/2004	Interactive Software in € 000s	Interactive Marketing in € 000s	Interactive Services in € 000s
Project Services	1,522	863	–
Media Services	–	–	508
Other	–	–	285
Total revenues, gross	**1,522**	**863**	**793**
Media costs	–	–	-404
Total revenues, net	**1,522**	**863**	**389**

In the third quarter, software and software development covered by Neue Informatik in the new structure, accounted for almost half of gross external revenues and about two-thirds of Project Services revenues. One of the most extensive projects included the relaunch of our new customer DeTeCardService, as well as the technical support and further development of the website for our financial services customers com-direct bank and Deutsche Bank. A little more than a quarter of the gross external revenues or a third of the Project Services volume was generated by the interactive marketing operations of Studios Hamburg and Studios Frankfurt, whose highest-turnover customers in the third quarter were Hapag-Lloyd Express, Deutsche Bank and Tchibo. In the third quarter, Studios Hamburg secured a new account at Coca-Cola.

In the third quarter, we generated almost 25 % of gross external revenues in services with our media, operations and data analysis business. Both the operations team and the analysis team succeeded in landing new business with DeTeCardService in the third quarter.

	01.09.2003 31.05.2004 in € 000s	01.09.2002 31.05.2003 in € 000s
Project Services	6,594	8,136
Media Services	1,624	1,049
Other	793	528
Total revenues, gross	**9,011**	**9,713**
Media costs	-1,213	-822
Total revenues, net	**7,798**	**8,891**

The pleasing results for the third quarter 2003/2004 indicate a change in trend towards revenue growth on a year-on-year basis. However, due to the decline in the first half of the financial year, this year's nine-month period is still down on prior-year levels. The decrease in turnover in the first nine months 2003/2004 totalled € 0.7 million gross or just under € 1.1 million net. The decrease in turnover of € 1.5 million or almost 20 % for Project Services could not be fully offset by the increase in media and other services of almost € 0.6 million and € 0.2 million, respectively.

Project Successes

The project business in the third quarter was characterised by contracts from new customers, ongoing business with long-standing customers and an award for *Thomsonfly*. A large consumer brand – *Coca-Cola* – was added to our customer base, as was *A-Rosa*, a new brand from the tourism market. Two key accounts from the financial sector, new projects for *Tchibo* and the mail-order company *Conley's* also boosted revenues.

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» We realised an online promotional campaign for *Coca-Cola light Lemon*. The campaign at coke-light.de was aimed at positioning the innovative product in a hedonistic lifestyle world. It focused on three interactive games. High-quality design and elegantly programmed flash technology communicate to visitors a contemporary product and brand experience.

» *A-Rosa Reisen*, a subsidiary of Arkona AG in Rostock, hired us to implement an online booking system for a-rosa.de. The online booking system will map various combinations for a resort holiday with A-Rosa. The website targets customers and travel agencies. This is the second contract for Sinner-Schrader. In December 2003, we developed a branding website for the relaunch of the brand.

» We created a new website for *Tchibo Holding* that complies with guidelines for barrier free websites. The aim was not just to offer better service for the disabled, but also to develop a website that could be effectively presented on all Internet-compatible terminals. The website section for investors was also enhanced considerably.

» This spring, the mail-order company *Conley's*, one of SinnerSchrader's first customers, started a new online shop. We have been working with Conley's since 1996. The new solution is easy to operate and provides better performance for customers. The redesign successfully transfers Conley's innovative catalogue to the Internet.

» Just a few weeks after it had set up business, the new low-cost airline, *Thomsonfly*, received its first award for its website. At the Travel & Tourism Web Awards 2004, the British company that is part of the TUI Group scooped up the award, despite tough competition from United Airlines, Ryanair and Flyzoom. According to the five-member jury, the thomsonfly.com website, launched by SinnerSchrader in December 2003, is extremely well developed, easy to use and simple to navigate.

Development of Orders and Prices

After a weak second quarter 2003/2004, orders received in the third quarter again revealed signs of a business recovery. However, in the third quarter, it was not quite possible to achieve the level of the previous year. In the first nine months, the year-on-year shortfall was just under € 1.4 million; almost 85% of this was incurred in the second quarter.

Just as the German economy has not yet begun to recover, so have prices not yet recovered visibly. However, we do believe that the development of prices has stabilised.

Development of Costs and Earnings

	Q3 2003/2004 in € 000s	Q2 2003/2004 in € 000s	Q3 2002/2003 in € 000s
Gross profit	1,171	576	791
EBITDA	57	-721	-264
EBITA	-100	-879	-406
Net income/loss	-14	-714	-224

A gross profit margin of just less than 37%, the first positive operating earnings before interest, taxes, depreciation and amortisation (EBITDA) in five quarters and almost balanced net earnings for the period show that, in the third quarter 2003/2004, SinnerSchrader put earnings and costs in a better relation to one another. We only just missed our target of achieving a positive EBITA in the third quarter, partly due to expenditure incurred in reorganisation.

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Due to the slight downturn in operating costs of € 0.1 million, the increase in sales had an undiminished positive impact on EBITA quarter-to-quarter. Thanks to a considerable improvement in capacity utilisation, the gross margin increased from 23 % in the second quarter to 37 % in the quarter under review. One main area where we cut costs was in selling and marketing expenses, mainly by dissolving the central sales team and transferring responsibility for new customer sales to the new units. The R&D costs and the costs for restructuring measures also fell. However, administrative costs again rose slightly. The reorganisation costs and the higher vacancy costs, brought about by lower personnel numbers in our office in Hamburg and reported under administrative costs, made a key contribution to the increase.

A clear increase in gross margin and a decrease in selling and marketing expenses have also improved costs year-on-year.

	Q3 2003/2004 in € 000s	Q2 2003/2004 in € 000s	Q3 2002/2003 in € 000s
Cost of material and services	-181	-196	-164
Personnel costs	-1,889	-1,882	-2,336
Depreciation	-157	-158	-142
Other operating costs	-654	-789	-629
Total	**-2,881**	**-3,025**	**-3,271**

The breakdown by type of cost illustrates that, after the completion of the personnel measures in the second quarter, no more cuts were made in personnel costs in the third quarter over prior-quarter levels. With costs of material and services as well as depreciation and amortisation fairly stable, other operating costs declined by about € 0.1 million – mainly because of seasonally high investor relations costs in the second quarter (annual report, annual shareholders' meeting) that were not incurred in the third quarter. The biggest change year-to-year is in personnel cost savings following the personnel programmes that reduced personnel capacity from 169 in the third quarter of the last business year to 130 this business year.

	01.09.2003 31.05.2004 in € 000s	01.09.2002 31.05.2003 in € 000s
Gross profit	2,674	2,840
EBITDA	-927	-258
EBITA	-1,414	-705
Net income/loss	-1,054	-155

Since the first half of 2003/2004 was still weak in terms of revenues, earnings in the first nine months fell year-on-year despite the considerable cost reductions.

By reducing personnel from an average of 171 full-time equivalents in the same period last year to 141 in the first nine months of the current business year, we reduced the cost of revenues by € 0.9 million. So with a net drop in sales of € 1.1 million, gross earnings fell by just under € 0.2 million. These cost improvements occurred alongside greater expenditure for personnel measures (€ -0.3 million) reported under restructuring costs. However, there was a year-to-year increase in administrative costs of € 0.2 million, brought about by the reorganisation expenditure and the greater vacancy costs as staff level fell. Savings achieved in selling and marketing expenses were mostly offset by the absence of other income.

Research and Development Expenditure

In the third quarter, research and development activities continued at a comparatively low level and amounted to almost € 13,000. In the first nine months 2003/2004, research and development expenditure was just under € 65,000. In addition to maintaining our component library on an ongoing basis, we focused on developing a rule-based authorisation and personalisation component.

For the overall year 2003/2004, we continue to assume that expenditure will remain at or below € 0.1 million. In the medium term, expenditure for research and development will again increase.

Net Earnings for the Period

Due to the improvement in operations, both quarter-on-quarter and year-on-year, net earnings for the period also improved considerably in the third quarter. At € -14,000, it was only just below the break-even point. It should be noted that the financial results in the third quarter of just under € 0.1 million were below average. Approximately € 0.2 million of gains in money market funds, which accrued to 31 May 2004, have not yet been realised.

All told, net earnings for the first nine months amounted to € -1.1 million or € -0.10 per share, representing very little change over the first half-year.

Investments

In the third quarter of the current business year, approximately € 50,000 was invested, mainly in the procurement of IT hardware and software. The focus of investments was to enhance the quality-assurance tools.

The investment volume in the first three quarters of 2003/2004 was low overall. In total, approximately € 0.1 million was invested in IT hardware, software and office equipment in the first nine months. As we will continue to invest modestly during the rest of the business year, we expect investments to total € 0.2 million for all of the business year 2003/2004, or approximately € 0.1 million less than the previous year.

Cash Flow

In the first nine months of 2003/2004, there was a positive operating cash flow of approximately € 1.1 million. Cash flow was boosted by a further reduction of accounts receivable and, most importantly, by tax refunds in the amount of € 1.8 million. Due to these two effects, funds tied up in net working capital decreased during the first nine months by almost € 1.8 million.

Cash used for investment activities – not counting the buying and selling of securities – was only € 0.1 million.

In financial activities, approximately € 3,000 went towards the repurchase of SinnerSchrader shares, which was completed in September 2003. This was offset by proceeds of approximately € 10,000 from the sale of our own shares in connection with the exercising of employee options in the second quarter.

Balance Sheet

On 31 May 2004, the balance sheet showed cash and cash equivalents and securities amounting to € 25.8 million, € 1.2 million more than at the end of the previous business year. The funds remain invested in fixed-term deposits, commercial paper, interest-bearing securities, money-market and similar funds and high-grade money-market-like funds with an average duration of no longer than three months.

On the assets side, the increase in liquidity was matched to another reduction in accounts receivable as well as the tax refund receivables shown under other current assets. Total assets dropped by approximately € 0.8 million in the first nine months of 2003/2004 compared to 31 August 2003.

On the liabilities side, current liabilities were relatively unchanged compared to 31 August 2003. An increase in trade accounts payables was offset by a decline in other accrued expenses and current liabilities and deferred income. Shareholders' equity declined by approximately € 0.9 million, approximately € 0.2 million less than the losses for the period of € 1.1 million due to the unrealised gains from money market funds.

Employees

At the end of the third quarter, SinnerSchrader had 139 employees, which was three more than at the end of the first half-year and 27 fewer than at the end of the previous business year. The third-quarter increase occurred in agency operations, where SinnerSchrader absorbed a team from a competitor.

There were almost 130 full-time employees, or 8 fewer than the prior-quarter average and 39 fewer than in the third quarter of the previous year.

As of 31 May 2004, there were 62 employees in the interactive software segment at Neue Informatik. 41 employees were employed in the interaction marketing business and another 14 in other services. 22 employees worked on the holding level, primarily at SinnerSchrader AG.

Special Distribution

On 28 January 2004, the annual shareholders' meeting of SinnerSchrader AG resolved with 99.6 % of the share capital present to reduce additional paid-in capital, amounting to € 23.8 million, by approximately € 20.8 million and to distribute these funds to the shareholders of SinnerSchrader AG as a special distribution for all shares outstanding. Based on the number of shares outstanding – 10,934,748 – this worked out to a payout amount of € 1.89 per share.

The resolutions of the annual shareholders' meeting were entered in the Register of Companies on 13 April 2004. On 5 May 2004, the last relevant publication of the resolutions was officially made through the Register of Companies. Thus, the required creditor protection period of six months in accordance with Article 225 Para. 2 of the Companies Act (Aktiengesetz) began on 5 May 2004. Once it expires, the capital will be available for distribution to the shareholders. The deadline ends on 5 November 2004; the distribution is expected to take place on the next banking day, 8 November 2004. The special distribution will go to shareholders who hold SinnerSchrader shares in their securities account at the close of the last trading day before the distribution, i.e. on 5 November 2004.

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The following table summarises the steps taken in the special distribution:

28 January 2004	Resolution by the annual shareholders' meeting
13 April 2004	Entry in the Register of Companies
5 May 2004	Last relevant announcement (official) and start of the 6-month waiting period in accordance with the Companies Act
5 November 2004	End of the waiting period and reference date (after the stock market closes)
8 November 2004	Date of distribution

Per share, the calculated distribution currently amounts to € 1.89. This is calculated using the capital decrease of € 20,768,780.30 and the number of shares outstanding of 10,934,748. The Company's own shares are not entitled to a payout. Since own shares were issued in the stock option programme in January and February 2004, the payout amount per share has declined by € 0.01 since the announcement of the special distribution in December 2003. Up to the distribution date, the number of shares outstanding and consequently the payout amount per share may change due to further disposals from the portfolio of treasury stock. This includes cases in which employees exercise their options under the stock option programme. If almost all of the own shares were sold, the payout amount would be € 1.80.

Outlook

When we presented our half-year report, we had experienced a slow start to 2004, had seen the order intake falling behind schedule and were expecting to take charges from the reorganisation. Hence, our outlook for the second half of the business year was sceptical and resulted in considerable reductions in our planning for the overall year.

The third quarter proved that our scepticism was premature and also underscored the extremely limited »visibility« – i.e., the ability to predict the future course of business in our sector.

Revenues and orders received exceeded the most recent forecast by a wide margin in the third quarter. Prices are clearly stabilising, lending more credence to the impression that business is on the rise again.

With the reorganisation behind it, SinnerSchrader has taken up a clearer, more dynamic position. The new bundling of services into SinnerSchrader Neue Informatik, SinnerSchrader Studios, SinnerSchrader Media, SinnerSchrader Betrieb and SinnerSchrader Analyse, and the optimisation of business processes within the new segments with respect to their individual service offerings showed initial successes in the third quarter. For example, we now have one of the best-known brands in the world – Coca-Cola Deutschland – on the client roster for the Studios, and succeeded in demonstrating to Deutsche Telekom CardService that we offer top-notch services in our individual areas of expertise. Key accounts such as Deutsche Bank, comdirect bank and Hapag-Lloyd Express have also reaffirmed their faith in the benefits offered by our extensive service portfolio.

We believe that the new, market-orientated structure and the cost base, much improved thanks to the cost-cutting measures of the past two years, form an excellent basis for us to return to positive business developments.

In the second half of the current business year, we are now forecasting an improvement in revenues and earnings over the first six months of 2003/2004. We are expecting to only barely miss our original target for the business year 2003/2004: to improve net operating income on a slight decline in revenues.

III. Additional Notes

1. Segment Reporting

In the reorganisation, SinnerSchrader abandoned its integrated business model of supplying and marketing interactive services and, as of 1 April 2004, formed new units that are individually responsible for supplying and marketing a specific part of the previous portfolio of services. Since this means that SinnerSchrader is no longer active in just one segment, it has to report by segment in accordance with the Statement of Financial Accounting Standards (»SFAS«) No. 131 as prescribed by US-GAAP.

Because the reorganisation entailed fundamental organisational changes and extensive changes in the structure adjustments, it would be prohibitively time-consuming and costly to prepare segment reporting data for the periods prior to reorganisation. Therefore, SinnerSchrader chose not to prepare the data as permitted by the exemption specified in SFAS No. 131, and thus no segment information is available for the first nine months of the 2003/2004 business year.

For informational purposes, the following table shows revenues and employee information for the third quarter of 2003/2004 and for the reference date of 31 May 2004 for future reporting segments.

Q3 2003/2004	Interactive Software in €	Interactive Marketing in €	Interactive Services in €	Holding Company in €	Consolidation in €	Group in €
External revenues	1,522,770	862,849	792,379	–	–	3,177,998
Intragroup revenues	107,001	58,126	40,448	–	-205,575	–
Gross revenues	**1,629,771**	**920,975**	**832,827**	**–**	**-205,575**	**3,177,998**
Media expenses			-403,511			-403,511
Net revenues	**1,629,771**	**920,975**	**429,316**	**–**	**-205,575**	**2,774,487**
Employees – end of period	62	41	14	22	–	139

SinnerSchrader Neue Informatik has been assigned to the Interactive Software segment. The Interactive Marketing segment is made up of Studios Hamburg and Studios Frankfurt, whereas SinnerSchrader Media, SinnerSchrader Betrieb and SinnerSchrader Analyse are combined in the Interactive Services segment.

In assigning revenues to the countries from which the sales took place, all the revenues for the third quarter and the first nine months of 2003/2004 are classified as domestic revenues.

2. Restructuring Charges and Other Related Charges

			Utilised		
2003/2004	Balance 01.09.2003 in €	Additional charges in €	Non-cash in €	Cash in €	Balance 31.05.2004 in €
Workforce	10,500	412,965	–	385,746	37,719
Facilities	132,960	–	–	57,244	75,716
Other	–	–	–	–	–
Total	**143,460**	**412,965**	**–**	**442,990**	**113,435**

Restructuring, begun in 2001 to match capacity to the declining sales, was continued in the first nine months of 2003/2004. Roughly € 0.4 million in additional restructuring costs for staff reductions resulted from action taken in the first nine months. Of this total, roughly € 0.1 million was earmarked on 31 May >>

2004 to cover the follow-up costs of the staff reductions. The restructuring provisions for vacant rental properties were used during the first nine months as warranted by the rental circumstances.

As of 31 May 2004, remaining restructuring provisions stood at roughly € 0.1 million, lower than the remainder at the end of the previous year.

3. Treasury Stock

On 31 May 2004, SinnerSchrader held 608,016 own shares with a calculated face value of € 608,016. SinnerSchrader acquired all of these shares via the stock market. They represent 5.3 % of the share capital. In the first quarter of 2003/2004, 1,404 shares were purchased at an average price of € 2.01. In the second quarter of 2003/2004, 3,811 shares were issued to service options exercised under the employee stock option programme. There was no change in holdings of own shares in the third quarter of 2003/2004.

4. Subscription Rights of Employees

Through resolutions of the Annual General Meetings in October 1999 and December 2000, SinnerSchrader AG established the SinnerSchrader Stock Option Plan 1999 and the SinnerSchrader Stock Option Plan 2000, each with the statutory capital requirement of € 375,000. Detailed information on these stock option plans is laid out in the consolidated balance sheets dated 31 August 2003. Within the framework of these stock option plans, options have been granted over recent years to employees and Board members of SinnerSchrader AG and its subsidiaries. The following table shows the number of option rights allocated 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 first half-year of 2003/2004, as well as the change in both figures over the first six months of 2003/2004. For the first time ever, SinnerSchrader employees made use of their right to exercise stock options in the second quarter of the current business year.

	Number of options granted	Weighted average exercise price in €
Outstanding on 31 August 2003	362,687	11.51
Granted	–	–
Exercised	-3,811	2.76
Cancelled	-15,423	6.07
Outstanding on 31 May 2004	343,453	11.85

For balance sheet purposes, SinnerSchrader has chosen to account for the stock option rights granted as a stock-based following the US-GAAP rules APB No. 25.

Under APB No. 25 granting of stock option rights gives rise to personnel costs amounting to the difference, if any, between the market value of SinnerSchrader's capital stock and the exercise price of the option on the day of grant. Following this rule, no personnel costs arose from the granting of stock option rights needed to be taken into account over recent years or in the first half-year of 2003/2004.

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In accordance with SFAS No. 148 in connection with SFAS No. 123, the following table presents pro-forma net income (loss) and net income (loss) per share information for the first half-year 2003/2004 that would have resulted if SinnerSchrader had chosen to account for its stock option plans based on the fair value of the options at grant date as prescribed by SFAS No. 123:

	01.09.2003 31.05.2004 in €
Net loss as reported	-1,054,122
add back: Stock-based compensation, included in net loss as reported	–
deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-110,304
Pro forma	**-1,164,426**
Basic diluted net loss per share: as reported	-0.11
Pro forma	**-0.11**

Because additional option grants are possible, the pro-forma impact on the first half-year 2003/2004 is not necessarily representative of the pro-forma effects which may be expected in future periods.

5. Directors' Holdings of Shares and Subscription Rights to Shares

The following table shows the number of shares in SinnerSchrader AG held by Board members of Sinner-Schrader AG and the changes during the reported period from 1 September to 31 May 2004.

Shares	01.09.2003	Additions	Disposals	31.05.2004
Management Board Members:				
Matthias Schrader	2,342,675	–	–	2,342,675
Detlef Wichmann 1)	115,000	–	115,000	–
Thomas Dyckhoff	49,950	–	–	49,950
Total shares of the Management Board	2,507,625	–	115,000	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	2,636,125	–	115,000	2,521,125

Shares	01.09.2003	Additions	Disposals	31.05.2004
Management Board Members:				
Matthias Schrader	–	–	–	–
Detlef Wichmann 1)	25,000	–	25,000	–
Thomas Dyckhoff	25,000	–	–	25,000
Total	50,000	–	25,000	25,000

1) Board member Detlef Wichmann, COO of SinnerSchrader AG, retired from the Board of SinnerSchrader AG on 8 April 2004. His share holdings and stock options are therefore no longer classified as directors' holdings as from that date.

On 31 May 2004 the members of the Supervisory Board did not hold any options on shares in Sinner-Schrader AG. In the period under review no additions or disposals of such options occurred.

Financial Calendar 2003/2004

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