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Joint Status Report
of SinnerSchrader AG

Joint Status Report

1 General

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

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

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

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

2 Group Business and Structure

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

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

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

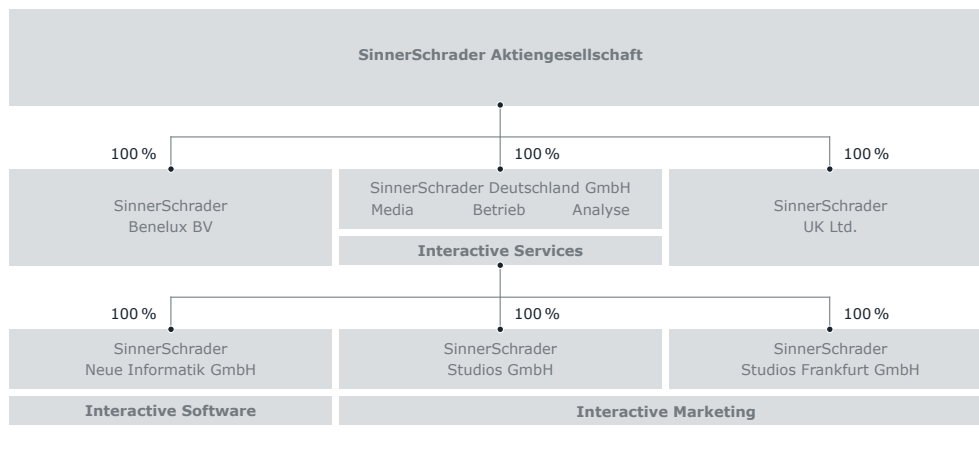
The graphs and the summaries presented on the margins of the pages are not part of the audited Status Report.

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

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

SinnerSchrader offers extensive Internet services from three segments.

Structure of the SinnerSchrader Group



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

3 Market and Competitive Environment

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

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

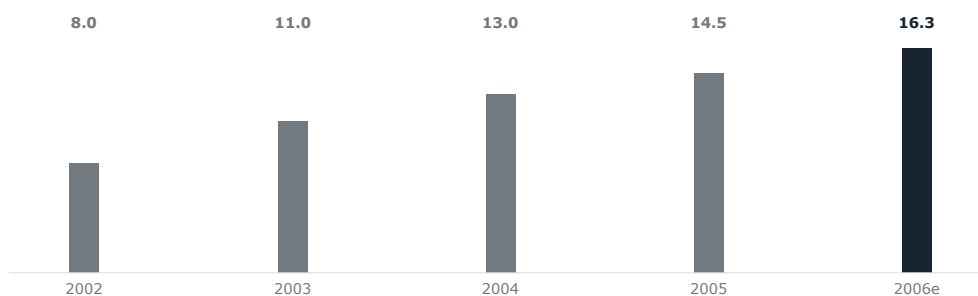
SinnerSchrader benefits from the positive development of the economy and steady increase in the importance of the Internet.

- » According to the Central Association of the German Advertising Industry, expenditure on advertising in Germany will increase by 2 % in 2006 in comparison to a rise of 1.1 % in the previous year.
- » The German market for IT services will probably continue its good development – which started in 2005 with growth of 4.4 % – with a rise of 4.5 % in 2006.

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

- » According to a poll by Forschungsgruppe Wahlen, an institute which conducts election polls for German television, the proportion of Germans over the age of 18 who use the Internet had risen by another two percentage points to 66 % in 2006 in comparison to the third calendar quarter of 2005.
- » The number of broadband ADSL connections, which enable more extensive use of the offers on the Internet due to higher transmission speeds, rose by 30 % to 13.4 million connections in 2006 according to information from the European Information Technology Observatory. In 2005 the figure rose by 54 %.
- » Revenue from e-commerce (purchases and orders of goods and services by end consumers over the Internet) will increase by over 12 % to € 16.3 billion in 2006 according to figures from the Central Association of German Retailers.

E-commerce revenues in Germany in € billion



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

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

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

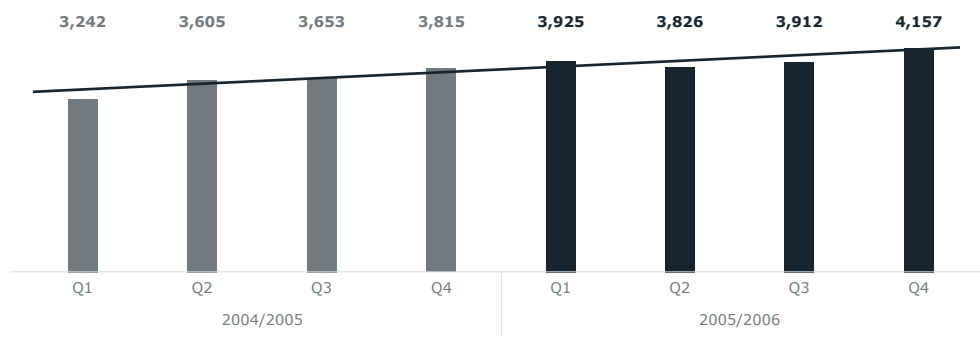
4 Business Development and Group Situation

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

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

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

Development of revenues according to quarters in € 000s



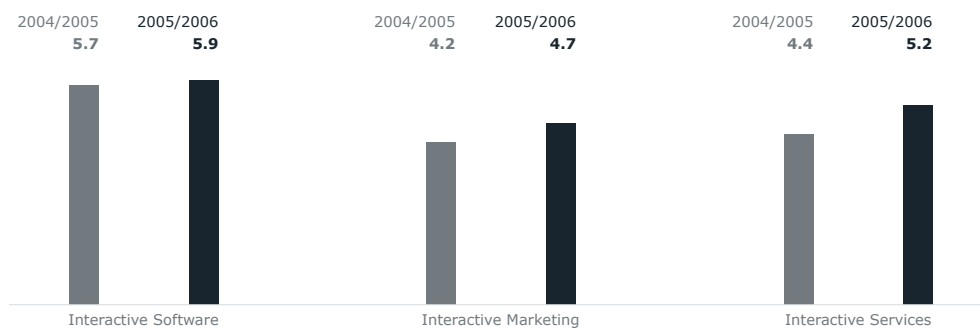
4.1 Revenue

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

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

All segments reported revenue growth in 2005/2006.

Development of revenues¹⁾ according to segments in € million



¹⁾ Revenues from business with external customers

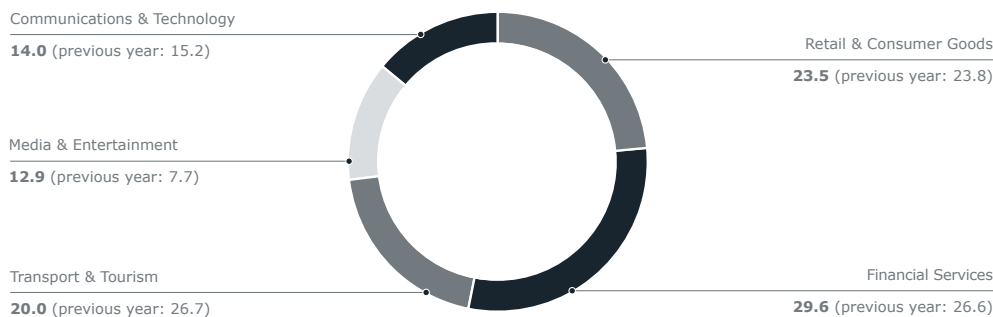
The rise in revenue in the Interactive Marketing segment amounted to 12.7%. The volume of revenue with external customers was € 4.7 million in the 2005/2006 financial year. Consistent consolidation of some core customer relations and the acquisition of two large new high-potential customers in the second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

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

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

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

Revenues according to sectors in %



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

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

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

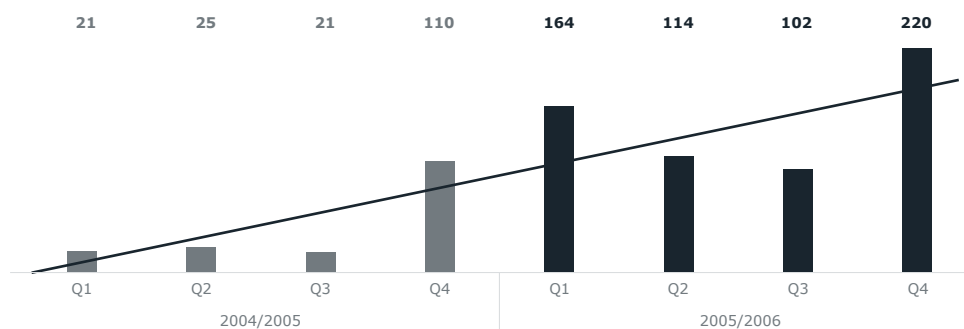
Measured in terms of the proportion of overall revenue, the segments have continued to balance out due to the different growth rates: Interactive Software was responsible for 37 %, Interactive Services for 33 % and Interactive Marketing for 30 % of total revenue. In the previous year, the shares were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

4.2 Operating Result

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

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

EBITA development according to quarters in € 000s



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

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

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

The cost structure thus developed to the detriment of the costs of sales revenue, including media costs. In 2005/2006 this block of costs accounted for 70.8% of revenue; in the previous year it was only 67.2%. By contrast, the other cost blocks dropped significantly in terms of percentage of revenue in comparison to the previous year: marketing expenses

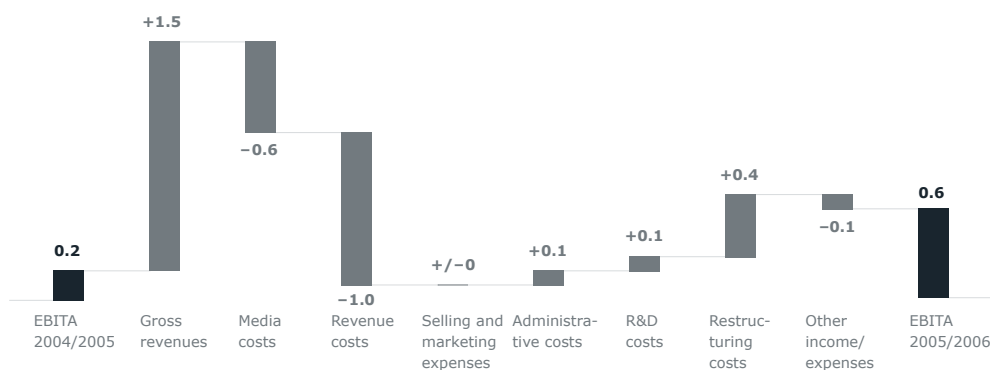
fell from 7.8% to 7.0%, administrative expenses, including restructuring costs, fell from 23.4% to 18.4% and research and development costs fell from 0.9% to 0.4%.

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

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

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

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



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

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

4.3 Annual Result

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

The financial result was stable.

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

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

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

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

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

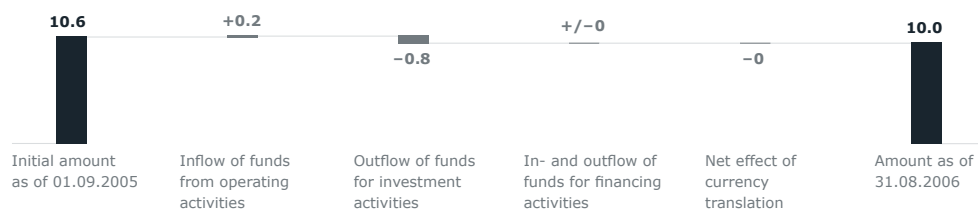
Overall, in the 2005/2006 financial year SinnerSchrader earned net income of almost € 1.2 million, which was thus more than twice as much as in the previous year. With around 11.4 million shares in circulation, this results in earnings per share of € 0.10, in comparison to € 0.05 in the previous year.

4.4 Cash Flow

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

The liquidity reserve decreased slightly due to investments.

Changes to cash and cash equivalents in € million



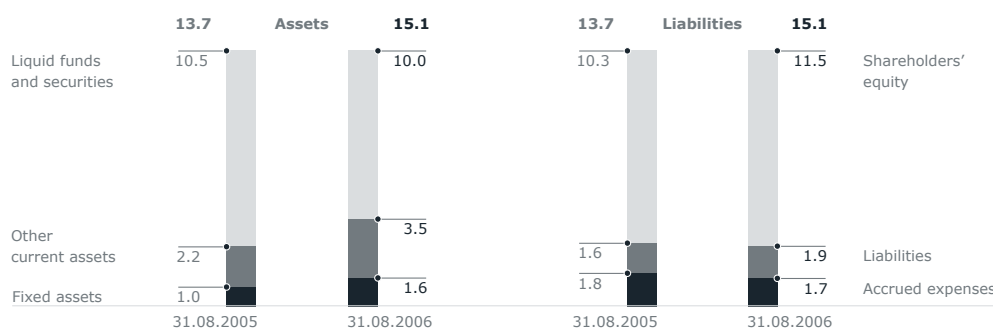
The cash flow from operating activities was comparatively low at around € 0.2 million in the 2005/2006 financial year. A large proportion of the net income of € 1.4 million, adjusted for depreciation and other income and expenditure not affecting liquidity, was tied up in greatly increased net current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

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

4.5 Asset and Financial Situation

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

Balance Sheet as of 31.08.2005 and 31.08.2006 in € million



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

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

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

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

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

4.6 Employees

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

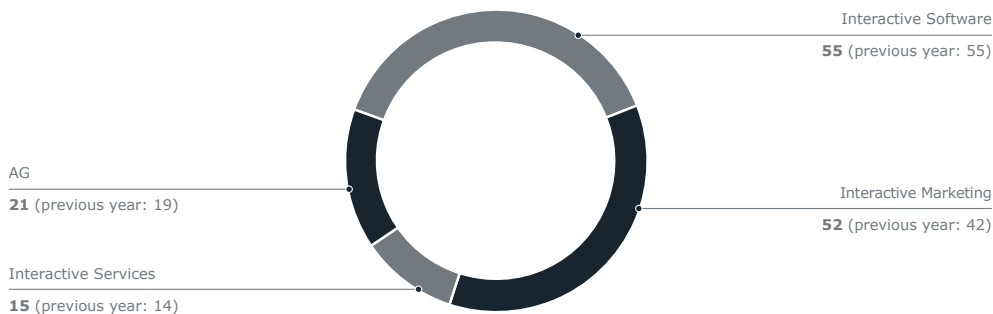
Restrictive capacity management made the cost structure more flexible.

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

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

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

Employee structure as of 31.08.2006



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

5 Development and Situation of SinnerSchrader AG

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

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

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

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

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

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

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

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

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

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

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

The net income was used to strengthen reserves.

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

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

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

The equity ratio of the AG amounts to 97.0 %.

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

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

6 Risks and Opportunities for Future Business Development

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

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

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

Risk management is the responsibility of the Management Board.

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

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

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

The risk situation has hardly changed since last year.

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

» Economic Risks

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

» Competition

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

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

» Operational Risks

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

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

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

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

» Personnel Risks

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

» Technological Risks

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

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

» **Risks from Acquisitions**

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

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

Our brand name and customer base offer key opportunities.

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

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

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

7 Forecast

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

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

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

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

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

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

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

Interactive services remain an attractive growth market.

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

Acquisitions remain an option for growth.

Hamburg, October 2006

The Management Board

Matthias Schrader

Thomas Dyckhoff