ANNUAL REPORT 2005

CONTENTS

Contents 2

An overview of TDS Group Performance 4

Introduction from the Executive Board 5

Corporate governance 6

Supervisory Board report 7

Supervisory Board and Executive Board members' mandates on similar bodies 9

Management report 12

- **General business environment** 12
- **TDS Group business development in 2005** 13
- **Risk report** 17
- **Outlook** 19

Consolidated Financial Statements 20

1 Consolidated income statement for the period January 1 to December 31, 2005 20
2 Consolidated balance sheet at December 31, 2005 21
3 Statement of cash flows for fiscal 2005 23
4 Reconciliation of shareholders' equity 24

Notes to the consolidated financial statements of TDS Informationstechnologie AG 25

1 Summary of significant accounting policies and practices 25
2 Principles of accounting, valuation and consolidation 25
3 Changes to corporate structure and to consolidation 30
4 Segment reporting 32
Notes to the consolidated income statement 34
5 Revenues 34
6 Cost of sales 35
7 Depreciation and amortization 35
8 Other operating income and expenses 35
9 Payroll and related costs 36
10 Financial income/expense 36
11 Income taxes 36
12 Income from discontinued operations 38
13 Earnings per share 39
Notes on the consolidated balance sheet 40
14 Intangible assets 40
15 Goodwill 41
16 Property, plant and equipment 42
17 Investment property 43
18 Leased assets 43
19 Financial assets 44
20 Other non-current assets 45
21 Deferred tax assets 45
22 Inventories 46
23 Trade receivables 46

24 Current tax assets 46
25 Other current assets....46
26 Cash and cash equivalents....47
27 Shareholders' equity 47
28 Convertible bonds....48
29 Provisions for pensions 48
30 Other provisions....50
31 Term of liabilities....51
32 Amounts due to banks....53
33 Obligations under finance leases 55
34 Other liabilities 55
35 Current tax liabilities 55
36 Share-based payment 55
37 Derivative financial instruments 58
38 Related parties 58
39 Contingent liabilities 59
40 Other financial obligations 60
41 Legal proceedings....60
42 Declaration of Compliance with the German Corporate Governance Code ...60
43 Disclosures in accordance with Section 25 (1) of the German Securities Trading Act (WpHG) 60
44 Events after the balance-sheet date 60
45 Other information....60
46 Transition of accounting principles from US GAAP to IFRS 61
47 Further relevant information concerning the Executive and Supervisory Board 66
48 Publication date for the financial statements 68

Schedule of consolidated assets.... 70

TDS Informationstechnologie AG subsidiaries and holdings at december 31, 2005.... 72

DISCUSSION OF MATERIAL DIFFERENCES BETWEEN THE ACCOUNTING PRINCIPLES APPLIED IN THESE CONSOLIDATED FINANCIAL STATEMENTS AND THOSE DESCRIBED IN THE GERMAN COMMERCIAL CODE (HGB) 73

Differences in accounting methods 73
Supplementary notes to the consolidated financial statements....74
Principles of consolidation....74

Disclosures from previous fiscal years according to Section 25 of the German Securities Trading Act (WpHG) 76

Independent auditors' report.... 79

Financial Calendar 80

2006 Financial calendar....80

About this publication.... 80

AN OVERVIEW OF TDS GROUP PERFORMANCE

Key Group Figures according to IFRS	2005 € thousands	2004 € thousands	Change in € thousands	Change in percent
Total revenues	**93,378**	**92,184**	1,194	1.30
Revenues by regions				
Revenues in Germany	83,800	82,328	1,472	1.79
Revenues in other countries	9,578	9,856	-278	-2.82
Revenues by division				
Revenues for IT Outsourcing	46,461	48,017	-1,556	-3.24
Revenues for HR Services & Solutions	29,420	23,289	6,131	26.33
Revenues for IT Consulting	17,497	20,878	-3,381	-16.19
Gross profit	**26,457**	**23,522**	2,935	12.48
in % of revenues (gross return on sales)	28.3	25.5		
EBITDA	**12,300**	5,424	6,876	126.77
in % of revenues (EBITDA margin)	13.2	5.9		
EBIT	**3,056**	**-5,558**	8,614	154.98
in % of revenues (EBIT margin)	3.3	-6.0		
Net income	**940**	**-11.537**	12,477	108.15
Net income per share (€) (basic)[1)]	0.03	-0.41	0.44	107.32
Net income per share (€) (diluted)[2)]	0.03	-0.41	0.44	107.32
Total assets	**73,733**	**78,544**	-4,811	-6.13
Shareholders' equity	26,190	24,931	1,259	5.88
Equity-to-total-assets ratio (in %)	35.5	31.7		
Share capital	29,179	28,981	198	0.68
Liabilities	35,358	40,316	-4,958	-12.30
Number of employees at December 31, 2005	743	754	-11	-1.46

[1)] Weighted average of all outstanding shares for earnings per share (basic) at December 31, 2005: 29,010,928 (28,239,574 in 2004)

[2)] Weighted average of all outstanding shares for earnings per share (diluted) at December 31,2005: 29,045,345 (28,239,574 in 2004)

INTRODUCTION FROM THE EXECUTIVE BOARD

Dear Reader,

Fiscal 2005 was marked by increasing profitability at TDS. Following our strategic reorganization in 2004, and a reduction in the scope of consolidation, our activities in 2005 focused on improving productivity across the TDS Group. With earnings before interest and tax (EBIT) of more than €3 million, we have made good headway.

Against the background of the cautiously optimistic sentiment in the IT market, TDS leveraged its operational strengths to expand its portfolio in IT outsourcing and HR services. Major new customers and a brimming order book give us good reason to be positive with regard to the future. TDS' market positioning is based on its core competency: outsourcing. Customers are increasingly transferring greater responsibility for complex IT infrastructures to external service providers, in some cases entrusting them with management of complete business processes. Against this background, the services and competencies of the three TDS segments – IT Outsourcing, HR Services & Solutions and IT Consulting – complement one another, catering for the entire value chain. A recent study by industry experts at Pierre Audoin Consultants confirmed our strong competitive position: TDS is one of Germany's leading outsourcers for the mid-market.

In fiscal 2006, we are looking to further increase profitability and to continue enhancing our service offering. This entails expanding our portfolio of integrated, end-to-end IT solutions, further expanding activities in SAP hosting and IT outsourcing, and consolidating our position as the No. 1 for payroll-accounting and HR administration processes.

Our goal for 2006 is: EBIT in the region of €6 million, and approx. €96 million in revenues.

This document contains all the key facts and figures – we hope that you find it informative and interesting.

Michel Eberhardt and Dr. Heiner Diefenbach

CORPORATE GOVERNANCE

Good corporate governance a high priority
The Executive Board and Supervisory Board of TDS AG wholeheartedly support the aim of the German Corporate Governance Code, namely to promote a form of company management that safeguards the interests of shareholders, employees and customers. TDS business policy is designed to achieve sustainable improvements in shareholder value.

Section 161 of the German Stock Corporation Act (AktG), introduced within the scope of the Transparency and Disclosure Act (TransPuG), obligates executive and supervisory boards to issue an annual declaration of compliance with the Code. The declaration made by the Executive Board and Supervisory Board of TDS refers to the German Corporate Governance Code as published on June 2, 2005. Declarations for fiscal 2005 and the two preceding years have been made available to shareholders and other stakeholders on the TDS Website.

The preamble of the German Corporate Governance Code expressly provides for the option of deviation from its recommendations. This is designed to increase flexibility and self-regulation within the German corporate environment. In 2005, TDS complied with all recommendations of the Code, with one exception, and with the majority of the Code's suggestions. In the future, TDS will comply with all recommendations of the Code, with one exception. This includes all amendments of the Code as published on June 2, 2005 over the version published on May 21, 2003. The deductible for Directors' and Officers' (D&O) insurance (3.8) will remain the only exception.

Declaration of Compliance with the German Corporate Governance Code
In their statement pursuant to Section 161 of the German Stock Corporation Act (AktG), made on December 14, 2005, the Executive Board and Supervisory Board of TDS declared that the Company complied with the recommendations of the German Corporate Governance Code as revised on May 21, 2003, with the following exception (as declared on December 19, 2005):

3.8: Deductible for Directors' & Officers' (D&O) insurance

Furthermore, the Executive Board and Supervisory Board declared that the Company complied with the recommendations of the Code as published on June 2, 2005, with the following exception:

Deductible for Directors' & Officers' (D&O) insurance (3.8)
The Code recommends that D&O insurance policies include a deductible. However, TDS cover for its Executive Board and Supervisory Board does not. General consensus on an appropriate deductible has not been reached, and no recognizable standard practice has yet been clearly established. TDS will reexamine the issue as soon as this changes.

As recommended by the Corporate Governance Code, details of Supervisory Board compensation, director's dealings, shares held by Executive and Supervisory Board members, and share-option programs are disclosed under "Further relevant information concerning the Executive and Supervisory Board" in the notes to the consolidated financial statements.

March 2006

The Executive Board   The Supervisory Board

SUPERVISORY BOARD REPORT

Dear shareholders,

In fiscal 2005, the Supervisory Board fulfilled its obligations and tasks defined by law, and by the Articles of Incorporation. Within the scope of its oversight role, the Supervisory Board worked closely with the Executive Board to monitor Company management and strategy.

The Executive Board duly submitted comprehensive, regular reports to the Supervisory Board on all relevant issues relating to corporate planning, the current business situation, and the position of the Company, including risks and risk management. All transactions of material importance to the Company were addressed by Executive Board reports, and discussed in detail and reviewed critically by the Supervisory Board. Where required by law, and by the Articles of Incorporation, the Supervisory Board reviewed and passed resolutions on Executive Board reports and proposals. In addition, the Executive Board kept the Chairman of the Supervisory Board regularly informed of the current business situation, and of important developments. For transactions and actions requiring its approval, the Supervisory Board carefully examined proposed resolutions — some prepared by its committees — before reaching a decision.

Four ordinary Supervisory Board meetings were held in fiscal 2005: on March 17, June 9, October 6, and November 30, 2005. The Supervisory Board also met for an extraordinary meeting on June 21, 2005.

Focus of Supervisory Board work in fiscal 2005
At its meetings, the Supervisory Board regularly discussed revenues and earnings development at the Company and at its divisions. Issues of general corporate planning and strategy, the financial position of the Company, and the cost-saving program, were also examined.

The Executive Board kept the Supervisory Board informed of projects, and reported with the help of analyses and other detailed documents.

After in-depth discussion and review of submitted documents, the Supervisory Board approved the 2004 financial statements of TDS AG and consolidated statements at its meeting on March 17, 2005. The auditors also attending the meeting and reported on their key findings, with reference to their own documents. Furthermore, discussions were held on the current business situation and the TDS Group`s expectations for fiscal 2005. The Supervisory Board discussed the issues of extending ongoing reporting, and sales activities, with the Executive Board.

At the meeting on June 9, 2005, the Executive Board reported on the current business situation and the status of the cost-savings program. The Supervisory Board approved the acquisition of HR service provider PSC GmbH, Butzbach, Germany, following a report by the Executive Board.

The extraordinary meeting on June 21, 2005, focused on TDS' sales strategy. The Executive Board presented the strategy with the help of detailed documents, including reports on market analysis, key competitive differentiators, and sales efficiency.

At the ordinary meeting of the Supervisory Board on October 6, the Executive Board reported on the current business situation, and provided an outlook of figures for year-end 2005. Development at the individual divisions and the progress of the costs-savings program were discussed in depth. The meeting also considered the changeover of accounting principles from US GAAP to IFRS and related questions of valuation.

On November 30, the Executive Board informed the Supervisory Board of the current financial position of the Company and relevant planning for fiscal 2006, with the help of detailed documents. In addition, the Supervisory Board and the Executive Board discussed compliance with the German Corporate Governance Code, as published on June 2, 2005, and the effectiveness of the work of the Supervisory Board. Further details of corporate governance at TDS (corporate governance report) and the Declaration of Compliance submitted in December 2005 and made available to our shareholders at www.tds.de, are given on page 6 of this annual report.

Committee work
In fiscal 2005, the Supervisory Board established an HR Committee, which met on October 6, 2005, and a Finance/Audit Committee, which held a total of four meetings in fiscal 2005: on April 21, August 8, November 21 and December 20, 2005.

Changes to the Executive Board and the Supervisory Board
On January 1, 2005, Dr. Heiner Diefenbach was appointed Chief Financial Officer (CFO) of TDS. Dr. Diefenbach succeeds Thomas Brunner, who left the Company at his own request following the end of his three-year employment contract on February 28, 2005. The Supervisory Board would like to thank Thomas Brunner for his dedication and hard work.

At December 31, 2005, Executive Board member Ralf Klemisch also left the Company at his own request. We would like to thank Ralf Klemisch for his services, in particular for his major contribution to restructuring and positioning the IT Consulting division.

Dr. Martin Schütte, a bank director (retired) from Lochham, Germany was appointed as a member of the Supervisory Board by court ruling on November 12, 2004, and was subsequently elected by the annual shareholders' meeting of June 9, 2005 to succeed Supervisory Board member Mr. Kern for his remaining term of office.

Annual financial statements for TDS AG and consolidated financial statements

The financial statements of TDS Informationstechnologie AG and the consolidated financial statements of the TDS Group, presented by the Executive Board on December 31, 2005, and the management reports, were examined by KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft, Berlin and Frankfurt am Main, appointed as independent auditors by the annual shareholders' meeting on June 9, 2005. KPMG certified the above documents without qualification.

Prior to being proposed as independent auditors to the annual shareholders' meeting by the Supervisory Board, KPMG submitted a statement to the Chairman of the Supervisory Board confirming that their independent status was not compromised in any way.

The financial statements of TDS Informationstechnologie AG and the consolidated financial statements of the TDS Group, presented by the Executive Board on December 31, 2005, as well as the management reports, the proposal by the Executive Board with regard to appropriation of retained earnings and the audit reports were duly submitted to the Finance/Audit Committee and the Supervisory Board prior to the respective meeting, where they were carefully reviewed and discussed. The independent auditors also attended the meeting, at which they presented their key findings and were available to answer questions and provide additional information.

The Supervisory Board did not find any cause for objection, and approved the findings of the independent auditors. On March 21, 2006, the Supervisory Board confirmed and approved the 2005 financial statements and consolidated financial statements, including the management reports. The Supervisory Board also approved the Executive Board's proposal regarding appropriation of earnings.

For the first time, consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and are supplemented by a summary management report and additional notes pursuant to Section 292 a of the German Commercial Code (HGB). Accordingly, TDS is exempted from the obligation to submit consolidated financial statements in accordance with HGB.

Disclosure of relationships with related companies (dependency) and risk management

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft also examined the Executive Board disclosure of relationships with related companies (dependency), which is mandatory under German law (Section 312 of the German Stock Corporation Act – AktG). The independent auditors certified them without qualification as follows:

> "Having examined and assessed the Executive Board disclosure of relationships with related companies (dependency) in accordance with German law, we can confirm that
>
> the report includes no material misstatements,
>
> the products and services provided by the Company for the transactions listed in the report were not excessive,
>
> and measures detailed in the report do not give grounds for an opinion that differs significantly from that of the Executive Board."

After examining the dependency disclosure, including the Executive Board’s concluding remarks, the Supervisory Board did not find any cause for objection, and unreservedly approved the findings of the independent auditors.

The independent auditors examined the risk management system in place at TDS, and confirmed that it is suitable for risk-management tasks in accordance with German law.

The members of the Supervisory Board wish to thank all TDS employees, employee representatives and the Executive Board for successful and close cooperation during the past year.

Neckarsulm, March 21, 2006

The Supervisory Board

Dr. Klaus Esser
Chairman

SUPERVISORY BOARD AND EXECUTIVE BOARD MEMBERS' MANDATES ON SIMILAR BODIES

Members of the Supervisory Board
The Supervisory Board of TDS Informationstechnologie AG comprises the following members:

Dr. Klaus Esser (Chairman)
Partner, General Atlantic, Düsseldorf, Germany
Chairman of the HR Committee
Member of the Finance/Audit Committee

Dr. Esser is a member of the following bodies:

Chairman of the Supervisory Board, GWI AG, Bonn, Germany (until January 14, 2005)

Chairman of the Supervisory Board, Navigon AG, Hamburg, Germany (since October 7, 2005)

Chairman of the Supervisory Board, IXOS Software AG, Grasbronn, Germany

Member of the Supervisory Board, CompuGroup Holding AG, Coblenz, Germany

Bernhard Dorn (Deputy Chairman)
Management consultant, Leonberg, Germany
Deputy Chairman
Chairman of the Finance/Audit Committee

Mr. Dorn is a member of the following bodies:

Deputy Chairman of the Supervisory Board, ATOSS Software AG, Munich, Germany

Deputy Chairman of the Supervisory Board, United Internet AG, Montabaur, Germany

Deputy Chairman of the Supervisory Board, ce Consumer Electronic AG, Munich, Germany (until March 2005)

Member of the Supervisory Board, twenty4help AG, Dortmund, Germany

Member of the Supervisory Board, AXA Service AG, Cologne, Germany

Member of the Supervisory Board, 1&1 Internet AG, Montabaur, Germany

Member of the Supervisory Board, Inverto AG, Cologne, Germany (since February 11, 2005)

Karl Heinz Achinger
Management consultant, Seefeld, Germany
Member of the HR Committee

Mr. Achinger is a member of the following bodies:

Chairman of the Supervisory Board, Magix AG, Munich, Germany

Chairman of the Supervisory Board, Tiscon AG, Neu-Ulm, Germany (until June 29, 2005)

Member of the Supervisory Board, Software AG, Darmstadt, Germany

Member of the Supervisory Board, RWE Systems AG, Dortmund, Germany

Member of the Supervisory Board, teleson AG, Munich, Germany

Member of the Supervisory Board, EuroProductServices AG, Munich, Germany (since August 12, 2005)

Andreas Barth
Management consultant, Grünwald, Germany
Member of the HR Committee

Mr. Barth is a member of the following bodies:

Chairman of the Advisory Board, BOG Informationstechnologie & Services GmbH & Co. KG, Munster, Germany, (until December 31, 2005)

Non-executive director, Colt Telecom plc., London, UK

Dr. Martin Schütte
Retired Member of the Executive Board, HVB AG, Lochham, Germany

Dr. Schütte is a member of the following bodies:

Chairman of the Advisory Board, Apsec Applied Security GmbH, Stockstadt, Germany (until June 30, 2005)

Member of the Supervisory Board, Interhyp AG, Munich, Germany (until August 30, 2005)

Member of the Supervisory Board, Online Congress AG, Munich, Germany

Member of the Supervisory Board, STRATOS Business Solutions AG, Pforzheim, Germany

Member of the Supervisory Board, BFD Aktiengesellschaft, Iserlohn, Germany (until July 7, 2005)

Member of the Administrative Board, 1. SICAV (fund operated by H.C.M. Capital Management AG in Munich), Luxembourg, Luxembourg

Günter Steffen
Management consultant and fund manager, Heilbronn, Germany
Member of the HR Committee
Member of the Finance/Audit Committee

Mr. Steffen is a member of the following bodies:

Chairman of the Supervisory Board, Funk Oase Communications AG, Ellhofen, Germany

Chairman of the Advisory Board, IHK-Zentrum für Weiterbildung GmbH, Heilbronn, Germany (until December 31, 2005)

Member of the Advisory Board, Baden-Württembergische Bank AG, Stuttgart, Germany

Managing Director, ROSEA Trendpark Objektverwaltung Beteiligungs-GmbH, Neckarsulm, Germany (until August 31, 2005)

President of the Heilbronn-Franken Chamber of Commerce and Industry, Heilbronn, Germany

Managing Director, GS-Holding GmbH, Neckarsulm, Germany

Managing Director, SG-Consult Beteiligungs-GmbH & Co. KG, Heilbronn, Germany (until December 31, 2005)

Managing Director, HM Systemberatung und Finanzkonzepte GmbH, Neckargmünd, Germany (since November 24, 2005)

Members of the Executive Board
The Executive Board of TDS Informationstechnologie AG comprises the following members:

Michael Eberhardt (Chief Executive Officer, CEO)
Degree in mechanical engineering

Mr. Eberhardt is a member of the following bodies:

> Chairman of the Supervisory Board, BFD Aktiengesellschaft, Iserlohn, Germany (until July 7, 2005)
>
> Member of the Administrative Board, TDS MultiVision AG, St. Gallen, Switzerland
>
> Managing Director, TDS IS GmbH, Neckarsulm, Germany
>
> Managing Director, TDS Systemhaus GmbH, Neckarsulm, Germany (since January 21, 2005)

Thomas Brunner (Member of the Executive Board until February 28, 2005)
Degree in business studies combined with engineering

Mr. Brunner is a member of the following body:

> Managing Director, TDS Systemhaus GmbH, Neckarsulm, Germany (until January 21, 2005)

Ralf Klemisch (Member of the Executive Board until December 31, 2005)
Training in applied business studies

> none

Dr. Heiner Diefenbach (since January 1, 2005; Chief Financial Officer, CFO)
Degree in business studies combined with engineering

Dr. Diefenbach is a member of the following bodies:

> Member of the Advisory Board, CORIVUS Management Consulting GmbH, Neustadt, Germany
>
> Chairman of the Supervisory Board, Hexagon AG, Wiesbaden, Germany
>
> Managing Director, TDS Systemhaus GmbH, Neckarsulm, Germany (since January 21, 2005)
>
> Managing Director, ROSEA Trendpark Objektverwaltung Beteiligungs-GmbH, Neckarsulm, Germany (since September 1, 2005)

MANAGEMENT REPORT

The consolidated financial statements of TDS Informationstechnologie Aktiengesellschaft, headquartered in Neckarsulm, Germany, are compiled in accordance with International Financial Reporting Standards effective at the balance-sheet date. Reference figures for 2004 have been adjusted accordingly.

General business environment

The figures and statements made in the consolidated financial statements of TDS Informationstechnologie AG (TDS AG) and its subsidiaries (hereinafter "TDS", "the Group" or the "TDS Group") comply with International Financial Reporting Standards (IFRS).

Shares in TDS AG are listed on the Frankfurt stock exchange and all other German bourses. All currency amounts are stated in euros (€).

Organizational and legal structure of the TDS Group and its subsidiaries, management and governance

Segments and main operational sites

Main operational sites
TDS AG headquarters are in Neckarsulm, Germany, along with three central data centers from where it provides the majority of computing/hosting services for its customers.

In fiscal 2005, TDS maintained offices in Hanover, Iserlohn, Hamburg, Düsseldorf and Munich. TDS Deutschland AG & Co. OHG, Neckarsulm, Germany, in which the Company has a 100-percent holding (of which 5 percent indirectly), has further sites in Munich, Hamburg, Eschborn, Bielefeld, Berlin and Düsseldorf. TDS Systemhaus GmbH, Neckarsulm, Germany, and TDS IS GmbH, Neckarsulm, Germany, both wholly owned by the Company, have no additional sites. Furthermore, TDS AG holds 100 percent of shares in TDS HR Services & Solutions GmbH (TDS HR) in Neckarsulm, Germany. TDS HR has offices in Iserlohn, Munich, Wiesbaden, Bielefeld, Berlin, Düsseldorf, Würzburg, Fürth, Cologne, Butzbach, Magdeburg, Stenn/Zwickau, Bonn and Hamburg. ROSEA Trendpark Objektverwaltung Beteiligungs-GmbH, Neckarsulm, Germany and ROSEA Trendpark Objektverwaltungsgesellschaft GmbH & Co. KG, Neckarsulm, Germany, in which TDS both has stakes, have no further sites.

TDS Group segments
TDS has named its segments after the services it provides: IT Outsourcing, HR Services & Solutions and IT Consulting. Activities are concentrated in Germany, Austria and Switzerland.

Key products, services and business processes

Product portfolio
TDS Informationstechnologie AG and its subsidiaries offer IT outsourcing, HR services & solutions and IT consulting to mid-size enterprises and major corporations. The Company's IT Outsourcing division hosts both selected applications and entire customer IT landscapes at its state-of-the-art data centers. The HR Services & Solutions division provides end-to-end payroll-accounting solutions and many other employee-management services. It also develops and markets software for HR, the not-for-profit sector, and for financial accounting. These are geared to the specific needs of charity and church organizations, and local-government agencies. TDS has a comprehensive service offering (including consulting) for Enterprise Content Management (ECM), with end-to-end solutions for data capture, content management, processing, delivery, storage, and archiving. As a long-standing SAP partner, TDS specializes in the selection, implementation and operation of SAP solutions. Its comprehensive SAP consulting portfolio ranges from planning and implementation, to maintenance and ongoing enhancement of SAP systems, to made-to-measure solutions for industry-specific needs and specific challenges.

Key markets, competitive position, macroeconomic factors

German economy improving
German economic growth in fiscal 2005 was sluggish, but picked up slightly during the second half of the year. However, according to the German Federal Statistical Office, expansion was less marked than in 2004, with GDP increasing 0.9 percent (compared with + 1.6 percent). The research organization Institut für Weltwirtschaft (IfW) believes the slight upturn in Germany was attributable to stronger growth in other countries, to the euro's weakness against the dollar, and to oil prices. Moreover, low interest rates and greater scope for accelerated depreciation of plant and equipment created favorable conditions for capital expenditure.

German IT industry expands
In its fall 2005 study, industry association BITKOM forecast 2.6 growth for the German ICT market – the same rate as in 2004. Demand for IT services, in particular, was high. Service providers benefited from increased spending on updating IT infrastructures. BITKOM also identified outsourcing as a major driver of positive business development in this segment. According to the *IT Market Germany 2005* study from Pierre Audoin Consultants (PAC), IT expenditure in Germany was lower than in other countries, including the UK, France and the US. In its report *Informationstechnologiemarkt 2006*, management consultants Hans-Peter Büttgenbach attributed the lion's share of revenues for IT services to three key areas: outsourcing (35 percent), maintenance and support (25 percent), and systems integration (22 percent). According to the 2005 study, industry-specific skills were a vital competitive differentiator in the markets for management-consulting services and applications. This expertise is considered an asset that can only be gained through practical hands-on experience, and not through transfer of theoretical knowledge. According to PAC, manufacturing is the predominant user group, and the first to adopt new concepts, such as business process outsourcing (BPO) and application management. The financial-services industry and the public sector also provided stimulus. Prices for IT services continued to fall in 2005, according to Büttgenbach. Their study suggests that prices in 2005 had slipped to 75 percent of those charged in 2002, creating a buyers' market, characterized by increasing service standardization.

IT Outsourcing
The PAC study states that traditional outsourcing (end-to-end outsourcing and data-center management) is now an established, mature market. This led to lower prices for new contracts and contract extensions in comparison to 2004. The type and quality of services are also changing. Customers are increasing looking for selective outsourcing (best-of-breed) solutions for desktops, strategic applications and business processes. Above all, service providers had to fulfil steeper requirements with regard to flexibility, rapid delivery, standardization and compliance. The situation with regard to BPO is very different. While demand for BPO services in the UK and the US is very high, German companies are still, according to an industry study published by BITKOM in September 2005, slow to embrace BPO.

In 2005, TDS held its own in the IT outsourcing market. According to PAC, TDS is one of the leading service providers for the mid-market.

HR Services & Solutions
According to Büttgenbach, the number of BPO players is on the rise. Many outsourcing providers seek to offer their customers added value through BPO. The focus is on back-office functions, including financials, procurement and human resources – allowing customers to concentrate on their core tasks. Streamlining these processes opens up huge opportunities for added value. According to the study, HR accounts for somewhat over a quarter of BPO market volume. However, prices are expected to come under pressure. According to the German magazine Computerwoche, administrative (payroll accounting) and planning functions (HR planning and development) have increasingly converged in recent years. Many providers have also added HR elements to their payroll-accounting offerings, creating broader, more attractive solutions.

In terms of transactions, TDS is one of the leaders in the payroll services' market.

IT Consulting
According to PAC's study, consulting accounts for a significant part of the IT services market (one third). BITKOM estimates that 2005 growth in this segment was significantly higher than in 2004, at 4.0 percent in comparison to 0.5 percent. Software vendors are increasingly targeting mid-market enterprises, triggering an increase in demand for ERP consulting services. Experts at PAC draw attention to structural changes: In addition to the need for operational support, there is rising demand for strategic consulting. At the same time, most companies' priority is to gain advice on rationalizing and cutting costs. PAC's November study underlines German customers' comparative reluctance to buy IT consulting services from foreign companies. TDS' focus in this space is on services for SAP and document-management systems.

Key legal issues
Pursuant to Section 312, Subsection 3 of the German Stock Corporation Act (AktG), governing the disclosure of relationships with related companies, the Executive Board hereby declares the following: Based on the prevailing conditions known at the time, the Company received adequate compensation for all transactions with related companies, and was not in any way disadvantaged by any action taken or not taken.

TDS Group business development in 2005

Details of business development are given below. For additional information, please refer to the segment reporting section (Note 4).

Earnings
For 2005, TDS posted earnings before interest (financial income) and taxes (EBIT) of €3,056 thousand – a significant improvement over fiscal 2004 (minus €5,558 thousand). In 2004, EBIT was considerably impacted by an adjustment of goodwill for TDS MV, in the amount of €5,134 thousand. Consolidated EBIT margin as a share of revenues totaled 3.3 percent. Consolidated net income after interest and taxes

amounted to €940 thousand (minus €11,537 thousand in 2004), corresponding to a consolidated net income margin of one percent of revenues.

In fiscal 2005, earnings per share (basic and diluted) were €0.03.

Consolidated revenues increased slightly by 1.3 percent, to €93,378 thousand (€92.184 in 2004). On July 1, 2005, TDS acquired PSC Personal Service Center GmbH, Butzbach, Germany, which contributed revenues of €530 thousand and earnings of €66 thousand to the consolidated income statement. It should also be noted that G.O.D. GmbH was consolidated over the entire fiscal year for the first time in 2005. In 2004, the subsidiary was consolidated as of May 1. Its inclusion had a positive impact on consolidated net income. TDS also strengthened existing customer relationships and won new customers. In 2005, order intake amounted to €79,856 thousand (€96,701 thousand in 2004). The decrease was mainly attributable to IT Outsourcing. At year-end 2005, order backlog was €157,418 thousand (€170,785 thousand in 2004).

In absolute figures, the costs of sales fell to €66,921 thousand in 2005, a decrease of €1,741 thousand. As a share of revenues, these costs fell from 74.5 percent in 2004 to 71.7 percent in 2005. Gross margin rose from 25.5 percent to 28.3 percent.

In 2005, TDS reduced selling and marketing costs (€9,614 thousand) by 1.1 percentage points to 10.3 percent of revenues (11.4 percent in 2004). Changes were also made to the way the office rental costs are distributed in comparison to 2004. This resulted in a pro-forma reduction of selling costs and direct costs. In addition, fewer staff members were employed in sales than in 2004. Marketing costs remained virtually unchanged over 2004.

General and administrative expenses rose slightly by 4.9 percent in comparison to 2004, amounting to €14,222 thousand (€13,554 thousand in 2004). This is equivalent to an administrative overhead of 15.2 percent of revenues (14.7 percent in 2004). As a result of the cost-cutting program initiated during the first half of 2005, TDS was able to reduce administrative spending at all levels. The key reason for the increase in general and administrative expenses is the changes made to how office rental costs are distributed in comparison to 2004. In addition, the costs associated with terminating a long-term property lease negatively impacted administrative expenses in 2005.

Within the scope of transition to IFRS, goodwill for the Swiss consulting unit was written down by the amount of €5,134 thousand for 2004.

Other operating income and expenses rose from €159 thousand to €435 thousand in fiscal 2005. This was primarily attributable to commission revenues.

In fiscal 2005, financial income totaled minus €2,421 thousand (minus €2,157 thousand in 2004). Pre-tax earnings were €635 thousand (minus €7,715 thousand in 2004). Tax credit from losses carried forward of €305 thousand (€9 thousand in 2004) led to total consolidated net income of €940 thousand (minus €11,537 thousand in 2004).

Asset and financial situation

Capital structure and resources

On December 31, 2005, balance-sheet assets totaled €73,733 thousand, a decrease of 6.1 percent over 2004 (€78,544 thousand).

Both non-current and current assets fell. Non-current liabilities of €3,611 thousand were repaid, whereas there were only slight changes in shareholders' equity (€1,259 thousand) and current liabilities (minus €2,459 thousand). The equity-to-total-assets ratio climbed from 31.7 percent to 35.5 percent.

In 2005, non-current assets decreased from €59,669 thousand to €56,886 thousand, or 4.7 percent. This was largely due to lower capital expenditure as a result of fewer new contracts, and high depreciation on capital expenditure made in previous years. Goodwill rose by €179 thousand to €24,583 thousand. No adjustments were needed as a result of annual impairment testing.

In comparison to 2004, current assets dropped by 10.7 percent, from €18,875 thousand to €16,847 thousand. More intensive, more thorough receivables management resulted in a reduction of trade receivables from €15,349 thousand to €12,877. Cash and cash equivalents rose sharply by 93.5 percent to €2,129 thousand. Improved cash-flow management (receivables management, increase of leasing activities) contributed to higher cash and cash equivalents. Other assets fell mainly as a result of the decline in prepaid expenses with a term of less than a year by €632 thousand to €1,559 thousand.

TDS shareholders' equity increased by 5.0 percent to €26,190 thousand in comparison to 2004. Share capital and additional paid-in capital rose slightly. Share capital increased by €198 thousand from €28,981 thousand to €29,179 thousand as a result of options exercised from authorized-but-contingent capital. Additional paid-in capital rose by €247 thousand to €35,501 thousand.

Non-current liabilities fell by 14.7 percent from €24,636 thousand in 2004 to €21,025 thousand. Provisions for pensions increased 17.5 percent from €3,671 thousand to €4,314 thousand. This item primarily comprised provisions for pensions of employees who joined HR Services & Solutions in 2005 and previous years within the scope of HR business process outsourcing projects, pursuant to Section 613a of the German Civil Code (BGB). Non-current amounts due to banks of €12,244 thousand remained virtually unchanged over 2004 (€12,081 thousand). Non-current obligations under finance leases were 10.1 percent lower than in 2004, at €3,007 thousand. Other non-current liabilities fell sharply from €3,233 thousand to €195 thousand. This is a result of reallocation of loans for the acquisition of G.O.D. GmbH from non-current to current liabilities.

Current liabilities fell slightly from €28,977 thousand to €26,518 thousand. Other current provisions dropped by 9.7 percent, current amounts due to banks dropped by 51.2 percent to €3,388 thousand, and trade payables dropped by 41.6 percent to €3,483 thousand. Liabilities from the acquisition of G.O.D., due in January 2006, were reallocated from non-current to other current liabilities, resulting in an increase in the latter of 63.6 percent to €8,306 thousand. Customer down payments rose from €1,300 thousand in 2004 to €2,405 thousand in 2005.

In total, provisions dropped by 8.4 percent to €12,185 thousand. Amounts due to banks were further reduced by 17.8 percent to €15,632 thousand.

As in 2004, the Group's financial structure is sound, forming a solid foundation for business operations. The slight increase in shareholders' equity, and the 11.3 percent decrease in liabilities resulted in a higher equity-to-total-assets ratio of 35.5 percent, underlining the strength of operating activities.

Principles and objectives of financial management and liquidity

At TDS, optimizing financing arrangements and minimizing financial risks are key management tasks. In addition to long-term financial planning, the Company has established a system of liquidity planning covering a period of twelve months. Financial and liquidity planning and available credit lines ensure that TDS always has sufficient cash reserves. TDS's credit rating improved in 2005, as a result of greater equity, and the scheduled reduction of amounts due to banks.

Cash and cash equivalents almost doubled over 2004, climbing from €1,100 thousand to €2,129 thousand. Cash flow was characterized by an increase in cash flows from operating activities of €4,999 thousand to €10,538 thousand over 2004. Of this amount, €3,511 thousand was used to repay amounts due to banks (€1,506 thousand in 2004), €3,786 thousand was invested in property, plant and equipment (€6,356 thousand in 2004), and approximately €2,754 thousand was used to repay obligations under leases (€1,834 thousand in 2004). The remaining €1,029 thousand was used to repay outstanding liabilities from the acquisition of G.O.D. GmbH (due in January 2006).

On the balance-sheet date, TDS held three derivative financial instruments (interest-rate caps and swaps). The interest-rate derivatives were purchased to hedge amounts due to banks against interest-rate increases.

At year-end 2005, cash and cash equivalents amounted to €2,129 thousand. In addition, there were sufficient lines of credit on current accounts to cover day-to-day liquidity needs. There was sufficient liquidity at all times during 2005.

The exercise of share options led to an inflow of shareholders' equity of €328 thousand (€154 thousand in 2004). Cash flows from financing activities amounted to minus €6,024 thousand (minus €3,104 thousand in 2004).

Summary of the Group's assets, financial position, and earnings

Key performance indicators for finances and earnings improved markedly in fiscal 2005.

Segments

Figures for segments include intercompany revenues.

IT Outsourcing

Long-term customer relationships and the corresponding steady stream of revenues make IT Outsourcing an important and stable division.

In 2005, this segment posted revenues of €50,296 thousand, 50.7 percent of total consolidated revenues (52.3 percent in 2004). In 2004, segment revenues amounted to €51,014 thousand. This is largely a result of price reductions in connection with contract extensions for existing customers. Despite this slight decline, TDS strengthened customer relationships and won a large number of new customers.

In 2005, IT Outsourcing reported earnings before interest and taxes (EBIT) of €6,208 thousand (€6,632 thousand in 2004). This corresponds to an EBIT margin of 12.3 percent, a slight decline over 2004 (13.0 percent), due to ongoing price pressures and fierce competition. The change in the way office rental costs is distributed and the termination of a long-term property lease were also contributory factors.

HR Services & Solutions

HR Services & Solutions enables customers to outsource entire business processes. The division also develops and markets software for HR, the not-for-profit sector, and financial accounting. These customer relationships are of a long-term nature, based on confidence in TDS's resources and expertise, for example in payroll accounting. The division generates revenues from services, license updates, and from support and maintenance.

The acquisition of PSC Personal Service Center (PSC) on June 30, 2005, contributed to positive earnings in fiscal 2005.

TDS generated revenues of €30,069 thousand in 2005 with value-added outsourcing - including PSC's BPO offering and G.O.D. software – an increase of 26.6 percent over 2004 (€23,749 thousand). The division's share of total consolidated revenues was 30.3 percent (24.3 percent in 2004).

EBIT for HR Services & Solutions improved from minus €2 thousand to minus €1.5 thousand in 2005. Employees joining the TDS payroll as a result of HR outsourcing contracts impacted earnings. In the mid-term, however as capacity utilization per employee increases, this will contribute positively to earnings. Moreover, TDS has implemented cost-cutting measures for this segment. The program introduced in 2004 was continued in 2005. Sites were consolidated, operational sites relocated/closed down, and general and administrative expenses reduced. Furthermore, the entire document-output/logistics process was outsourced on October 1, 2005, including all assets and employees. At year-end 2005, the division established an additional office in Zwickau to provide local support to mid-sized customers in eastern Germany and to create a competitive organizational structure. The corresponding non-recurring costs impacted segment earnings in 2005.

IT Consulting
TDS focuses on selected aspects of IT consulting, such as industry-specific SAP solutions, ECM and archiving.

In 2005, revenues for IT Consulting declined by 17.5 percent from €22,798 thousand to €18,812 thousand. This was an expected and accepted result of strategic restructuring, allowing the division to focus on industry-specific expertise. In 2005, the share of total consolidated revenues was 19.2 percent (23.4 percent in 2004). This was partly as result of a decrease in sales of licenses within the scope of TDS's partnership with SAP.

However, strategic restructuring also had a positive impact on earnings. TDS reduced losses in this segment from €8,929 thousand in 2004 to €1,640 thousand in 2005. The improvement in profitability was mainly attributable to a write-down of goodwill for TDS's Swiss consulting unit (€5,134 thousand in 2004) in 2004.

Germany remains core market
TDS activities focus on Germany, Austria and Switzerland. However, the Company is also active in the United Kingdom. Germany remains the core market, contributing 89.7 percent of revenues (89.3 percent in 2004).

Overall in 2005, TDS maintained its competitive position. Positive earnings form a sound basis for the expansion of activities in outsourcing, consulting and HR services. Although the cost-cutting program commenced during 2005 has exerted negative one-time effects on earnings, it will contribute to greater profitability in 2006, in particular at HR Services & Solutions.

Value-driven management
TDS takes a value-driven approach to management. Sustainable increases in shareholder value will be achieved by focusing on attractive segments of the IT market. An integrated financial-control system plays a key role, enabling effective management and coordination of Company divisions. Management is based on following parameters: revenues, operating profitability, costs, order intake, and earnings before interest and taxes (EBIT). In addition, management decisions are also based on qualitative goals, such as the development of new solutions, winning new reference customers and certification.

Capital expenditure
The lion's share of capital expenditure during fiscal 2005 was on non-current assets, including licenses and software within the scope of IT outsourcing contracts for new customers. Capital expenditure in the amount of €1,836 thousand was posted under property, plant and equipment for hardware for customer projects. The Company purchased property, plant and equipment and software licenses worth €2,522 thousand through finance leases. TDS received no grants or subsidies during fiscal 2005.

Research and development (R&D)
TDS is an IT service provider, and as such has no dedicated R&D department. However, the Company regularly reviews its service portfolio, and takes steps to accommodate changing market and customer requirements, in line with overall Company strategy.

In addition, the IT Consulting segment carries out development work to ensure the successful evolution of the Company's software products.

Integration of PSC GmbH into the organizational structure
On July 1, 2005 TDS acquired 100 percent of shares in PSC Personal Service Center GmbH, Butzbach, Germany. In fiscal 2004, PSC, which has a workforce of 23, posted revenues of more than one million euros and positive EBIT. The company offers end-to-end payroll accounting for charity and church organizations. HR Services & Solutions and PSC have been cooperating closely with regard to software and data-center services, which will facilitate integration. As a result, TDS has already benefited from synergy, for example in customer management and service.

Headcount
On the balance-sheet date, TDS employed a workforce of 743 (754 in 2004). Development of staff numbers was stable across all divisions in fiscal 2005. On December 31, 2005, 254 employees worked in IT Outsourcing, 14 fewer than in 2004. Within the scope of acquisition of PSC GmbH, 23 employees joined HR Services & Solutions. On the balance-sheet date, 344 people were employed in this segment (345 in 2004). The number of employees at IT Consulting increased from 141 to 145. TDS hired highly skilled consultants with proven expertise in SAP industry-specific solutions and Enterprise Content Management (ECM). On the balance-sheet date, TDS employed 18 trainees (20 in 2004). The remuneration system at TDS comprises both fixed and variable salary payments, and individual performance-related bonuses.

Other performance indicators
Staff turnover, expressed in terms of the number of employees leaving the Company in relation to the headcount at the beginning of the year plus new appointments, fell slightly over 2004 (10.9 percent). In fiscal 2005, staff turnover was 9.9 percent.

TDS continued to invest in employee development during fiscal 2005. External training programs totaling €534 thousand (€600 thousand in 2004) were used to enhance the skills of the workforce. TDS also organized many in-house training sessions.

TDS has a large number of certifications and awards. Its data centers in Neckarsulm are certified to ISO 9001:2000 and ISO/TS 16949, and validated in accordance with EU-cGMP (Good Manufacturing Practice) and the VDA 6.2 standard.

Events after the balance-sheet date
On November 24, 2005, the Company decided to sell PersLG and to acquire a 49 percent stake in OP&V GmbH, Iserlohn, Germany (OP&V). OP&V focuses on small companies (up to 300 employees) in the manufacturing, retail and service industries. On December 23, 2005, TDS signed a merger and capital contribution agreement with OP&V. The Company made a non-cash capital contribution by transferring PersLG to OP&V on December 31, 2005. The transaction was effective on January 1, 2006.

There were no other events after the balance-sheet date impacting the Company's assets, financial position, or earnings.

Risk report

Committed to increasing shareholder value
TDS' policy is to systematically and continuously increase shareholder value. The Company takes appropriate and manageable risks where this enables opportunities arising from TDS's core competencies to be exploited, and where there is potential for corresponding value added. However, aggregate exposure must not exceed aggregate potential cover. Moreover, the Company does not engage in any speculative business activities. As an integral part of value-driven management, risk management reports are submitted directly to the Executive Board.

Exposure is subject to ongoing scrutiny, with regular identification, evaluation and monitoring of the uncertainties inherent to all business activities and processes. Systematic risk management supports the effective discovery and minimization of risks, as well as the exploitation of opportunities.

Effective risk management
TDS has implemented a group-wide risk management system that enables early detection and evaluation of risks, and permits their control and minimization by means of adequate tools. It includes a wide range of control mechanisms, e.g. for the identification, monitoring and control of internal company processes and business risks. By defining Group-wide standards and requirements, the Executive Board has created the framework for systematic and effective risk management. The risk-management system supports the effective discovery, assessment, management and minimization of exposure, as well as the exploitation of opportunities. Close cooperation between the Supervisory Board and the Executive Board is an integral part of this system.

The operational managers of individual divisions are responsible for early detection, control and communication of exposure. The next highest level of management is responsible for monitoring these activities. There is regular reporting on exposure, including the first occurrence, the status and material changes to significant risks. This also entails regular reporting on current exposure to the Executive Board by heads of the divisions (segments). Moreover, where it is a matter of urgency, significant new risks are communicated directly and immediately to the Executive Board outside the scope of normal regular reporting.

Implementation of the risk-management system and controls is verified by the external auditors. The insights gained through this independent review are employed to refine procedures for early detection and control.

Operational risk
In 2005, Germany’s ICT market expanded at more than twice the rate of the general economy, repeating the pattern of 2004. IT services, in particular, benefited from increased spending on the modernization of

IT infrastructures. As in the previous year, the positive world economic climate contributed to higher capital expenditure. In Germany, however, the persistently weak domestic economy, rising energy costs and underlying insecurities relating to ongoing global political conflicts and economic and political issues affected companies' willingness to invest. Against this background, there is a possibility that demand for IT services could fall to a low level, or that investment projects be cancelled or postponed.

If projected growth for the IT market does not materialize, competition will intensify in the industry as a whole, and in particular in IT consulting and outsourcing. Mergers, and the arrival of new competitors, could negatively impact profitability, and prevent TDS from reaching targets for IT Consulting, HR Services & Solutions, and IT Outsourcing. TDS's customer base is sufficiently diversified in all three segments, so TDS is not overly dependent on specific price or industry developments.

Competitive pressures remain high in the IT consulting market. Despite focusing on specific industries and applications, it is difficult to secure high daily rates for consultants for new contracts or new customers. This may erode revenues and earnings. Capacity utilization is very dependent on contract volume, but the ability to accurately forecast development of this parameter over the long term is limited. As a result, TDS must ensure it maintains sufficient consulting resources.

HR is a growth market, attracting players with a variety of core competencies, such as management consultants, telcos, and hardware vendors. This may lead to fiercer competition. Possibly, the Company will not succeed in persuading customers of the value and benefits of TDS services. This may impact revenues and earnings. TDS generates a significant proportion of sales with its large, established customer base. Should existing customers decide not to renew contracts, to shorten contract terms, or to reduce the scope of supply, or decide not to conclude new licensing agreements or other contracts for other products or services, this may reduce operating profits.

Overall, the HR segment is primarily exposed to market change. Risks are limited and reasonably calculable in nature, as BPO, ASP and maintenance services are delivered in 90 percent of cases via long-term contracts, ensuring the long-term viability of the segment. At present, there are no identifiable material risks that would threaten the future of the segment.

At both IT Outsourcing and HR Services & Solutions, customer insolvency may led to unscheduled write-downs. The residual book value of hardware and software procured for customer projects would remain with TDS. There is also a certain dependency on large customers, who account for approximately 40 percent of total revenues in this segment.

IT outsourcing and HR services are handled at state-of-the-art TDS data centers in Neckarsulm, Germany, and St. Gallen, Switzerland. The facilities meet all the latest security standards, and the Neckarsulm center has ISO 9001:2000 and ISO/TS 16949 certification, EU Good Manufacturing Process validation, and has been audited to the VDA 6.2 standard. Nevertheless, it is not possible to entirely rule out unexpected errors or defects that could cause additional costs, a shortfall in expected revenues, or damage to the Company's image. Equally, the possibility of customers filing claims for damages cannot be fully excluded.

Human resources are TDS's most important asset. TDS employees have both IT and interpersonal skills. The Company's success is based on employees having the right knowledge and expertise. To maintain the right pool of staff, TDS will continue to actively position itself as an attractive company to work for. Furthermore, a dedicated program for recognizing and nurturing leadership potential and specialist skills is designed to bolster the long-term loyalty of senior executives.

Levels of receivables may conceal risks relating to their realization in individual regions or subsidiaries. TDS counters this risk with strict receivables management and rapid risk classification.

TDS's credit rating improved further in 2005, as a result of the increase in equity, and the continued reduction of bank debt. However, the Company remains dependent on bank loans – in particular to ensure mid-term liquidity.

Loans are made available by a bank pool. Loan agreements are linked to predefined criteria monitored by the lead bank (ratio of liabilities to cash flow, equity-to-assets ratio), all of which TDS fulfilled at year-end. At December 31, 2005, amounts due to banks were €15,632 thousand. Of these, €3,388 thousand mature on March 31, 2006. The lead bank announced in the first quarter of 2006 that the loan facility is to be extended until March 31, 2007. This has still to be confirmed by the other banks in the pool. The Company assumes that they will give their approval. The Company is not aware of any circumstances that would stand in the way of an extension. TDS makes appropriate ongoing efforts to limit financial risks and to optimize financing arrangements.

There is an inherent risk to acquisitions that the company purchased may not live up to expectations. For example, difficulties may arise with the integration of employees or of operations. There is also a danger that relationships with customers obtained through the acquisition cannot be continued or expanded as planned. Extensive integration programs have been put in place to minimize these risks.

In conclusion, TDS is confident that the risks identified here neither individually nor in their totality are of a type that threatens the viability of the Company. The market and financing risks described are limited and reasonably calculable. At present, there are no identifiable material risks that would threaten the future of the Company.

Outlook

At the beginning of the new fiscal year, there are clear signs of a more positive economic climate in Germany. Forecasts suggest there will be an upturn, at least in 2006. However, risks remain with regard to the development of energy prices, and with regard to global and national economic and political uncertainties.

IfW believes the German economy will recover in 2006. Especially during the first six months, the buoyancy of the international business environment will have a positive influence. But on the domestic front, too, impetus will come from increased investment in plant and equipment, lower borrowing costs, and improved scope for the accelerated depreciation of capital expenditure. IfW believes the German economy will expand by approximately 1.5 percent. However, expectations for 2007 are less optimistic. The organization believes that the economy will slow considerably, as growth falls in the industrial nations. Moreover, higher interest rates will reduce capital expenditure in Germany, and the euro zone will be effected by the loss of favorable, export-friendly exchange rates. IfW assumes the German BIP will grow by some 1.0 percent in 2007. Against the backdrop of this improved overall macroeconomic outlook, TDS expects to witness greater demand for IT projects, and, consequently, for IT outsourcing.

ICT industry association BITKOM is optimistic for 2006, and believes that the sector will expand by 2.4 percent. This will be mainly driven by software vendors and IT service providers.

All following forecasts are based on the assumptions made by the Executive Board. However, should developments be contrary to these expectations, this may undermine the validity of the guidance given.

Outsourcing
According to BITKOM, outsourcers will be amongst the main beneficiaries in 2006. TDS stands to gain from higher corporate spending on the modernization of IT infrastructures. TDS will therefore extend its outsourcing capabilities, with a gradual broadening of its portfolio. The focus will be on expanding the offering for SAP systems (selective outsourcing). TDS will evolve in line with changing customer needs, positioning itself for the growing opportunities available in this segment. The key goal will remain to secure and maintain profit margins. Moreover, IfW assumes BIP growth of approximately 1.0 percent in 2007. Against this positive outlook, TDS expects increased demand for IT projects and, consequently, for outsourcing. In the current fiscal year, TDS intends to stabilize revenues and segment earnings at 2005 levels. In 2007, we expect to increase revenues and earnings in line with market trends.

HR Services
In 2006, the impact will not only be felt of the cost-cutting program, but also of the process-optimization initiative launched in late 2005, leading to a significant reduction in spending. Boosted by increasing sales, TDS therefore expects the HR Services segment to make a positive contribution to earnings before tax and interest. In addition to conventional payroll and HR administration services, TDS HR will extend its portfolio to encompass more value-added, strategic HR consulting services. TDS already offers such services, e.g. advice not only on HR management but also on the development of remuneration systems and on digital staff records. However, the focus in 2006 will remain on the core business of ASP and BPO. TDS is an established leader in the HR services space, and will build upon this position. By concentrating on specific industries and expanding its licensing business, the Company intends to raise revenues and profitability in 2006 and 2007.

IT Consulting
At the IT Consulting division, TDS expects to achieve EBIT break-even in 2006, against the backdrop of slightly higher revenues. Demand for specialist consulting expertise and end-to-end IT solutions remains stable. Consulting continues to play an important supporting and complementary role within the TDS business model for complex outsourcing projects. Cooperation with the IT Outsourcing and HR Services & Solutions divisions opens up opportunities for growth and better capacity utilization within IT Consulting.

To secure existing competitive advantage in the long term, TDS introduced a comprehensive cost-cutting package in the first half of 2005. This primarily comprised a lower headcount in administrative functions, reduced use of external resources, and process optimization through the outsourcing of services, and cost optimization for core TDS Group services. This entails reducing employee numbers in central corporate functions, and making less use of third-party resources in these functions. The majority of non-recurring costs associated with this cost-cutting program were posted in fiscal 2005. TDS assumes that the savings will have a positive impact on profitability in 2006, and expects consolidated EBIT of at least €6 million, and revenues in the region of €96 million. TDS also believes that it will be able to further increase revenues and earnings in 2007.

CONSOLIDATED FINANCIAL STATEMENTS

1 Consolidated income statement for the period January 1 to December 31, 2005

	Notes	2005	2004
		€ thou-sands	€ thou-sands
Revenues	5	93,378	92,184
Cost of sales	6	-66,921	-68,662
Gross profit		**26,457**	**23,522**
Selling and marketing costs		-9,614	-10,551
General and administrative expenses		-14,222	-13,554
Amortization of goodwill	7	0	-5,134
Other operating income and expenses	8	435	159
Earnings before financial income (interest) and taxes (EBIT)		**3,056**	**-5,558**
Financial income (interest)	10	-2,421	-2,157
Earnings before taxes (EBT)		**635**	**-7,715**
Income taxes	11	305	9
Income from continuing operations		**940**	**-7,706**
Income from discontinued operations	12	0	-3,831
Consolidated net income		**940**	**-11,537**
Earnings per share (basic)	13	**0.03**	**-0.41**
Earnings per share (diluted)	13	**0.03**	**-0.41**

The accompanying notes are an integral part of the consolidated financial statements.

2 Consolidated balance sheet at December 31, 2005

Assets	Notes	**Dec 31, 2005** € thousands	**Dec 31, 2004** € thousands
Non-current assets			
Intangible assets	14	35,222	35,919
Property, plant and equipment	16	11,810	14,115
Investment property	17	620	636
Financial assets	19	1,985	2,012
Other assets	20	738	841
Deferred tax assets	21	6,511	6,146
		56,886	**59,669**
Current assets			
Inventories	22	16	60
Trade receivables	23	12,877	15,349
Current tax assets	24	266	175
Other assets	25	1,559	2,191
Cash and cash equivalents	26	2,129	1,100
		16,847	**18,875**
Total assets		**73,733**	**78,544**

The accompanying notes are an integral part of the consolidated financial statements.

Shareholders’ equity and liabilities	Notes	Dec 31, 2005 € thousands	Dec 31, 2004 € thousands
Shareholders' equity			
Share capital	27	29,179	28,981
Additional paid-in capital	27	35,501	35,254
Accumulated comprehensive income	27	62	101
Retained earnings	27	-38,417	-39,357
Treasury shares	27	-135	-48
		26,190	**24,931**
Non-current liabilities			
Provisions for pensions	29	4,314	3,671
Other provisions	30	1,265	2,308
Amounts due to banks	32	12,244	12,081
Obligations under finance leases	33	3,007	3,343
Other liabilities	34	195	3,233
		21,025	**24,636**
Current liabilities			
Other provisions	30	6,606	7,318
Amounts due to banks	32	3,388	6,945
Obligations under finance leases	33	2,328	2,224
Customer downpayments	31	2,405	1,300
Trade payables	31	3,483	5,964
Current tax liabilities	35	2	149
Other liabilities	34	8,306	5,077
		26,518	**28,977**
Total shareholders’ equity and liabilities		**73,733**	**78,544**

The accompanying notes are an integral part of the consolidated financial statements.

3 Statement of cash flows for fiscal 2005

	2005		2004	
	€ thousands	€ thousands	€ thousands	€ thousands
Consolidated net income		940		-11,537
Non-cash items				
Depreciation of non-current assets	9,244		16,901	
Cost of share-option plans	117		19	
Changes in				
Provisions for pensions	643		1,052	
Other provisions	-1,780		-521	
Profit from disposal of non-current assets	-95		1,858	
Net change in deferred taxes	-365	7,764	-1,295	18,014
Changes in operating assets and liabilities				
Inventories	44		266	
Receivables, other assets and prepaid expenses	3,152		799	
Liabilities and deferred income	-1,362	1,834	-2,003	-938
Cash flows from operating activities		**10,538**		**5,539**
Purchase of intangible assets, property, plant and equipment	-3,786		-6,356	
Proceeds from disposal of non-current assets	276		1,077	
Proceeds from acquisition of consolidated subsidiaries net of cash and cash equivalents acquired (payments in 2004)	32		-9,761	
Proceeds from sale of consolidated subsidiaries net of cash and cash equivalents acquired	0		407	
Other changes in financial assets	27		298	
Cash flows from investing activities		**-3,451**		**-14,335**
Proceeds from borrowings	0		1,451	
Repayments of amounts due to banks	-3,511		-1,506	
Obligations under finance leases	-2,754		-1,834	
Proceeds from share issues	328		5,202	
Redemption of bonds	0		-161	
Purchase of TDS shares	-87		-48	
Cash flows from financing activities		**-6,024**		**3,104**
Currency translation effects		-34		-2
Change in cash and cash equivalents		1,029		-5,694
Cash and cash equivalents at the beginning of the period		1,100		6,794
Cash and cash equivalents at the end of the period		**2,129**		**1,100**

The accompanying notes are an integral part of the consolidated financial statements.

4 Reconciliation of shareholders' equity

	Share capital		Additional paid-in capital	Accumulated comprehensive income	Retained earnings	Treasury shares		Shareholders' equity
	Shares	€ thousands	€ thousands	€ thousands	€ thousands	No. of shares	€ thousands	€ thousands
January 1, 2004	26,958,116	26,958	32,056	96	-27,820	0	0	31,290
Net loss					-11,537			-11,537
Currency translation				5				5
Comprehensive loss				*5*	*-11,537*			*-11,532*
Capital increases	1,930,000	1,930	3,118					5,048
Exercise of share options	92,500	93	61					154
Cost of share-option plans			19					19
Purchase of TDS shares						20,000	-48	-48
December 31, 2004	28,980,616	28,981	35,254	101	-39,357	20,000	-48	24,931
Net income					940			940
Currency translation				-39				-39
Comprehensive income				*-39*	*940*		*0*	*901*
Exercise of share options	198,000	198	130					328
Cost of share-option plans			117					117
Purchase of TDS shares						36,214	-87	-87
Dec 31, 2005	**29,178,616**	**29,179**	**35,501**	**62**	**-38,417**	**56,214**	**-135**	**26,190**

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF TDS INFORMATIONSTECHNOLOGIE AG

1 Summary of significant accounting policies and practices

Principles of reporting
Pursuant to Section 315a of the German Commercial Code (HGB), the consolidated financial statements of TDS Informationstechnologie Aktiengesellschaft, Neckarsulm, Germany (hereinafter “TDS AG” or “the Company”) at December 31, 2005 are compiled in accordance with the applicable standards of the International Accounting Standards Board (IASB), London, UK. All effective requirements of International Financial Reporting Standards (IFRS), formerly the International Accounting Standards (IAS), and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), for fiscal 2005 have been employed. Figures for 2004 were determined on the basis of the same standards.

Up until and including fiscal 2004, consolidated financial statements were compiled by the Company in accordance with United States Generally Accepted Accounting Principles (US GAAP). Transition from US GAAP to IFRS was performed in compliance with the requirements of IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. As a general principle, IFRS 1 requires the standards effective at the reporting date to be applied retrospectively, in other words as if the new standard had always applied. In certain cases, TDS elects to use exemptions permitted by Section 13 of IFRS 1. The impact of transition on the balance sheet, the income statement, and the statement of cash flows is described in note 46. It includes reconciliation of shareholders' equity and net income for the reporting period from US GAAP to IFRS.

The consolidated financial statements are prepared in accordance with IFRS.

The consolidated financial statements of TDS at December 31, 2005 will be disclosed in the Heilbronn Commercial Register and the Federal Gazette.

Business operations
TDS Informationstechnologie Aktiengesellschaft and its subsidiaries (“the Company” or “TDS”) operate in Germany, Austria and Switzerland, with a presence in The Netherlands until late 2004. The Company offers IT outsourcing, IT consulting, and HR services and solutions. The IT Outsourcing division provides application hosting at its state-of-the-art data centers, and assumes responsibility for entire customer IT infrastructures. The HR Services & Solutions division provides end-to-end payroll-accounting solutions and many other employee-management services. The IT Consulting division offers one-stop advice and assistance for SAP and Enterprise Content Management (ECM).

2 Principles of accounting, valuation and consolidation

The following principles of accounting, valuation and consolidation have been applied consistently in accordance with IFRS for all periods and for the IFRS opening balance sheet at January 1, 2004. The same principles were also applied consistently by all companies included in the consolidated financial statements.

The consolidated financial statements are presented in euros (€). All amounts herein are given in thousands of euros.

Principles of consolidation
For business combinations, TDS makes use of the options provided in IFRS 1, and includes consolidated net income from consolidated financial statements for December 31, 2003 in the IFRS opening balance sheet at January 1, 2004. Annual financial statements of subsidiaries are drawn up according to the same date as the consolidated balance sheet (December 31).

The consolidated financial statements include all significant subsidiaries in which TDS holds more than 50 percent of voting rights. All additional holdings in which TDS holds up to 50 percent of voting rights are included at cost due to their less significant role with regard to the Group's assets, finances and income (Cf. note 19, Financial assets).

If the fair value of an investment in a company included at cost in the financial statements falls below the book value, the book value is written down accordingly. The write-down is recognized on the income statement, and forms the new basis for calculating the cost of acquisition. At December 31, 2005, no investments (holdings) were accounted for using the equity method, as in 2004.

Pursuant to IFRS 3 *Business Combinations*, capital is consolidated using the purchase method. According to this method, the cost of acquired shares is offset against the parent company's holding in shareholders' equity at the time of purchase. The difference in the cost of acquisition and equity holding is allocated to the subsidiary's assets and liabilities at their fair values, regardless of the stake held by the parent company. Any difference between acquisition price and fair value of equity is recognized as goodwill.

All significant receivables and liabilities, revenues, expenses and income between companies included in the consolidated financial statements are netted and intercompany profits eliminated, unless they are realized by third parties. Unrealized gains from transactions with related companies are eliminated in proportion with the Group's holding. Unrealized losses are eliminated in the same manner as unrealized gains, provided that they have not been impaired. In accordance with IAS 12 *Income Taxes*, deferred tax is formed for *the elimination of* intercompany transactions.

Foreign-currency translation

The balance sheets of foreign subsidiaries where the functional currency is not the euro are translated using the functional currency method (IAS 21 *The Effects of Changes in Foreign Exchange Rates*). For all foreign subsidiaries, this is the local currency, as it is the currency of the primary economic environment in which they operate. As a general rule, income and expenses are translated into euros using average exchange rates, and assets, liabilities and respective shareholders' equity are translated using official exchange rates at the balance-sheet date. Differences arising from the translation of shareholders' equity are netted and included as a separate component of shareholders' equity, and not recognized in profit or loss. On the date of deconsolidation, the accumulated exchange difference is eliminated and reported in the income statement.

For the income statement, profit/loss is translated using average exchange rates during the year.

In the individual financial statements of consolidated companies, receivables, cash and cash equivalents and liabilities in foreign currencies are translated using exchange rates applicable at the balance-sheet date. All gains and losses arising from currency exchange effected before the balance-sheet date are recognized in profit or loss. Gains from exchange differences that are not realized until the balance-sheet date are not recognized in the income statement.

Exchange differences arising in connection with the consolidation of debt are recognized in profit or loss and reported under other operating income and expenses in the income statement.

In the schedule of consolidated assets, the value is translated at the beginning and the end of each fiscal year using the rate applicable at the respective dates. All other items are translated at average exchange rates. For the cost of acquisition and manufacture, and for accumulated depreciation, differences are listed in a separate column as currency translation adjustments.

The exchange rates of major currencies applied for foreign-currency translation developed as follows (in relation to the euro):

	2005 Balance-sheet rate	**2005** Average rate for income statement	2004 Balance-sheet rate	2004 Average rate for income statement
US dollars	1.18340	1.24506	1.36400	1,24336
Swiss francs	1.55550	1.54828	1.54370	1,54415
Pounds sterling	0.68706	0.68396	0.70710	0,67868

Revenue recognition

Revenues are recognized upon delivery of services, or upon the transfer of risk to the customer. At this point in time, the amount of revenues can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company. Sales deductions and cash discounts are taken into account. Provisions for discounts and rebates granted to customers, including returns and other adjustments are generally recognized during the same period in which revenues are posted.

Revenues for consulting are recognized once a service has been delivered – generally on the basis of man-hours at the applicable rates, and refundable expenses. Revenues for fixed-price consulting services are recognized according to the percentage-of-completion method: The ratio of costs already incurred to estimated total costs is used to calculate the percentage of completion. Corresponding profits from consulting are recognized on the basis of the calculated percentage of completion. Where the estimated costs exceed revenues, provisions are formed for expected losses on the basis of the cost of manufacture. The figures stated for revenues and expenses are influenced by assumptions, risks and uncertainties arising from the use of the percentage-of-completion method. There are also numerous internal and external factors that affect estimated cost of manufacture.

Costs of research and development

Research costs are recognized in the income statement when they occur. Development costs are capitalized, provided that they satisfy the requirements of IAS 38.

Borrowing costs
In accordance with IAS 23 *Borrowing Costs*, borrowing costs are recognized directly in the income statement under financial income.

Income taxes
Income taxes owed or paid in the respective countries, including deferred taxes, are reported in the financial statements. They are calculated on the basis of expected local tax rates applicable at the time of deferred-tax realization; these rates are generally based on laws in force or already passed at the balance-sheet date.

Discontinued operations
Pursuant to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, income (after tax) from discontinued operations, including any profit or loss arising from their sale, is given as a separate item on the income statement for all periods. This item appears after income from continuing operations. Components of the Group are defined as discontinued operations if their operations and cash flows have been or will be eliminated from the ongoing operations of the entity as a result of the disposal transaction, the Group no longer has a significant involvement in these operations, and they can be distinguished operationally and for financial reporting purposes. Entities that have not been sold at the balance-sheet date, but which are classified as "held for sale", are also described as discontinued operations.

Earnings per share
Earnings per share are determined pursuant to IAS 33 *Earnings per Share*. Basic earnings per share are calculated by dividing consolidated net income by the weighted average number of shares outstanding. Undiluted earnings per share are calculated by dividing consolidated net income by the sum of the weighted average number of shares outstanding and the weighted average number of share options.

Intangible assets
Pursuant to IAS 38 *Intangible Assets*, intangible assets with finite useful lives are posted at the cost of acquisition or cost of manufacture and are subject to scheduled amortization. Accordingly, the Company amortizes development costs according to expected revenues, and other intangible assets with finite useful lives on a straight-line basis over their useful lives to the estimated residual book value. All other intangible assets with finite useful lives are largely software licenses and software developed inhouse (between three and six years), inhouse developed software (three years), and customer bases (between five and seven or five and twenty years).

Under IAS 38, intangible assets with indefinite useful lives need not be regularly amortized, but are subject to annual impairment testing and must be written down to their lower recoverable amount, where necessary. With the exception of goodwill, TDS held no intangible assets with indefinite useful lives at the balance-sheet date, or in fiscal 2004.

Goodwill
In accordance with IFRS 3 *Business Combinations*, goodwill and other intangible assets with indefinite useful lives arising from business combinations are not amortized (impairment only approach), but subject to annual impairment testing pursuant to IAS 36 *Impairment of Assets* (discounted-cash-flow method), using a single-stage testing method. Goodwill is tested for impairment at the level of the cash-generating units to which it is attributed, by comparing the book value of the unit with its recoverable amount. If the book value exceeds the recoverable amount, an impairment loss must be recognized. The recoverable amount is equivalent to the higher of the fair value less cost to sell, or the value in use. A cash-generating unit's value in use is defined as the present value of estimated future cash flows derived by the Company. Later write-up of an amount that was previously subject to an unscheduled write-down is not permissible.

A single, Group-wide interest rate is generally used for discounting cash flows. In fiscal 2005, a pre-tax interest rate of 5.4 percent (6.5 percent in 2004) was applied for the Group's planning period (five years). The perpetual bond is calculated on the basis of discounted cash flows for the fifth year of planning.

Capitalized software development costs
Pursuant to IAS 38 *Intangible Assets*, costs for software developed in-house are capitalized and amortized. Development costs for new software products and significant updates to existing software are posted as expenses at the time the costs are incurred, until the technological feasibility of the software has been proven. Once this feasibility has been proven, further development costs are capitalized until the product is ready for general release. Cost of manufacture includes costs that are attributable directly or indirectly to development. In each period, capitalized software development costs are amortized according to the straight-line method over their estimated useful life of five years. On the balance-sheet date, non-amortized capitalized software products are tested for impairment, and written down where appropriate.

Property, plant and equipment
Property, plant and equipment are stated at the cost of acquisition or manufacture less accumulated straight-line depreciation. The cost of manufacture of in-house manufactured property, plant and equipment comprise directly allocable costs. Property, plant and equipment acquired under a finance lease are valued at the present value of the minimum lease payment. Depreciation is calculated according to the

straight-line method. Property, plant and equipment held under finance leases and leasehold improvements are amortized according to the straight-line method over the shorter of the lease term or estimated useful life of the asset. The following useful lives are assumed:

- Leasehold buildings	20 years
- Technical plant equipment	3 to 14 years
- Computer peripherals and accessories	3 to 5 years
- Other office equipment	3 to 14 years

Investment property
Investment property held by TDS mainly comprises leased office buildings. In accordance with the option provided in IAS 40 *Investment Properties*, these are valued at depreciated cost of acquisition/manufacture. The buildings are depreciated using the straight-line method over 50 years, land is valued at the cost of acquisition and is not depreciated.

Unscheduled write-downs of intangible assets with finite useful lives and property, plant and equipment
At year-end, non-current assets are tested for impairment. If there is evidence of impairment, the asset's recoverable amount is determined and compared with the book value. If the recoverable amount is less than the book value, the asset is written down to the lower recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use. The latter is the discounted present value of future cash flows that can be derived from the asset. If reasons for write-downs carried out in the past no longer apply, the value of the asset is written-up.

Finance leases
Within the scope of finance leases, ownership is allocated to the lessee where all significant risks and rewards associated incidental to the ownership are borne by the lessee (IAS 17 *Leases*). If the ownership is allocable to TDS, the lower of the fair value and the present value of the minimum lease payments is capitalized at commencement of the lease term. The lease is depreciated over the shorter of the lease term or the useful life of the asset. Discounted payment obligations from leases are recognized as liabilities, and reported under other liabilities.

For any existing operating lease agreements within the TDS Group, lease payments or rental payments are recognized as expense in the income statement.

Financial assets (investments)
Holdings are recognized at the cost of acquisition or the lower fair value. The first time they are recorded, lendings are posted as financial assets at their fair value; they are subsequently carried at their amortized cost of acquisition. Interest-free and low-interest lendings are recorded at their present value.

Unscheduled write-downs are only applied to financial assets (investments) if impairment is expected to be permanent. Fair value is preferably based on stock exchange or market prices or other methods of valuation, taking into account all available information on the company in which the investment is held.

Inventories
Inventories are recognized at the lower of cost of acquisition or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

Impairment losses are reversed should the reasons for the write-down no longer exist.

Financial assets, other
Other financial assets comprise lendings, receivables and other assets, as well as cash and cash equivalents. All other financial assets are initially valued at the cost of acquisition on the maturity date, i.e. when the receivable comes into effect or ownership is transferred. Appropriate reductions have been made for all identifiable risks.

Loans and receivables and held-to-maturity investments are subsequently carried on each balance-sheet date at amortized cost of acquisition.

The Company considers liquid investments with original maturities of three months or less to be cash equivalents. These are posted at amortized cost of acquisition.

Treasury shares
Treasury shares are posted at their cost of acquisition under equity.

Provisions
Provisions for pensions and similar obligations are accounted for in accordance with IAS 19 *Employee Benefits*. Pensions and similar obligations include the Group's obligations under defined benefit plans (benefit plans based on employees' salary and period of service). Pension obligations are calculated using the projected unit credit method. In addition to current pensions and vested benefits known at the balance-sheet date, this method also accounts for expected future increases in salary and pension benefits.

Calculation is based on annual actuarial reports that make use of assumptions of demographic developments. Actuarial gains and losses are only recognized when they fall outside of the ten percent corridor for the value of the obligation. They are subsequently recognized in the income statement over the average remaining service period. In financial income, current service cost is included under payroll and related costs, while the interest on provisions and the return on plan assets are included under financial income/expense. Pension obligations are primarily considered to be non-current liabilities.

Provisions for tax and other provisions are formed if the present obligation to a third party results from a past event, is likely to lead to a future outflow of resources, and if this future outflow can be reliably estimated. This estimate must then be regularly reviewed and adjusted. Provisions for operating expenses are not formed, as there is no liability to external third parties. If one of the above criteria is not fulfilled and a provision cannot be formed, the corresponding obligations are included under contingent liabilities. For obligations that are not likely to cause an outflow of assets in the following year, provisions are formed for the present value of the expected amount.

Non-current provisions with a term of more than one year are discounted at the balance-sheet date on the basis of the corresponding interest rates, providing that the interest effect is significant.

Liabilities
Current liabilities are broken down by repayment or settlement amounts. Non-current liabilities are capitalized at amortized cost.

Obligations under finance leases are recorded at the time contracts are concluded on the basis of the present value of lease payments. Foreign-currency liabilities are valued at the balance-sheet date using the average exchange rate.

Derivative financial instruments and hedging
The Group employs derivative financial instruments (derivatives) exclusively for minimizing currency and interest-rate risks in business operations and for the corresponding financial transactions.

According to IAS 39 *Financial Instruments*, derivative financial instruments, in particular the interest-rate swaps and interest-rate/currency swaps used by the Group, are to be reported at market value. Market values correspond to the income/expense of a (hypothetical) cancellation of derivative contracts at the balance-sheet date. Market values are based on information provided by the respective banks.

Hedge accounting principles can be applied because derivatives are used exclusively within the scope of risk minimization. IAS differentiates between fair-value hedges and cash-flow hedges.

A fair-value hedge is used to safeguard against a change in value of an asset or liability. The change in value of the hedged item is recognized in profit or loss, the corresponding and opposite change in value of the derivative must also be included in the income statement.

A cash-flow hedge is applied when the derivative will compensate for risks in the future cash flows of an existing transaction or almost certain future transaction (for example, a possible exchange-rate disadvantage for foreign-currency revenues).

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity. The ineffective portion of the gain or loss is recognized in profit or loss. The effective portion is released to profit or loss in the same period during which the hedged item affects profit or loss.

Share-option plans
Under the Company's 2002 share-option plan, share options were granted in 2002 (2002 tranche) and 2004 (2004 tranche).

The Company applied IFRS 2 *Share-based Payment* to the 2004 tranche, whereby expense from share options is recognized across the service period until the exercise date. Additional paid-in capital increases in line with the expense posted.

Expense from share-option plans is determined by the market value of the share-options at the date of grant. Market value is calculated using the Black-Scholes pricing model.

According to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, application of IFRS 2 is optional for share options granted up to and including November 7, 2002. IFRS 2 was not applied to the 2002 tranche. In line with IAS 8 *Accounting Policies*, accounting and valuation based on the intrinsic-value method prescribed by Accounting Principles Board (APB) Opinion 25 *Accounting for Stock Issued to Employees* and related interpretations will be maintained. Accordingly, compensation expense would be recorded at the date of grant only if the current market price of the underlying share exceeds the exercise price. SFAS 123 *Accounting for Stock-Based Compensation* and SFAS 148 *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123* establish accounting and disclosure requirements for the transition from the intrinsic-value method to the fair-value method. As permitted by SFAS 123, the Company has elected to continue to apply the intrinsic-value method of accounting described above.

In line with the transition provisions in IFRS 2 *Share-based Payment* (2.56), disclosures for the 2002 tranche are made according to IFRS 2.44 and 2.45.

IFRS 2 is also applied to share-price based cash payments (virtual share options). Amounts are added to provisions on the basis of the market value of the virtual share options, calculated using the Black-Scholes pricing model, up to the date when the payments are made.

Deferred taxes
In accordance with IAS 12 *Income Taxes*, deferred taxes are formed for all temporary differences between the book values in the consolidated balance sheet and the tax-relevant values (tax base) of assets and liabilities (liability method), as well as for tax loss carryforwards. Deferred tax assets and deferred tax liabilities are established for future tax effects resulting from the differences balance-sheet values of assets and liabilities, their tax base, and usable tax loss carryforwards. All deferred taxes are calculated using the respective tax rates applicable to taxable income in the year that these temporary differences are expected to reverse. The effects of tax rate changes on deferred taxes are recorded in profit or loss in the year the amended tax law is passed. If necessary, the Company can form valuation allowances for deferred tax assets to align them with the realizable amounts.

Deferred tax assets are only formed for accounting and valuation differences, and for tax loss carryforwards, if there is sufficient reason to believe that these differences will be, in all probability, realized in the future. Deferred tax assets and deferred tax liabilities are not discounted.

Deferred tax assets and deferred tax liabilities are only netted if they apply to the same tax authority.

Statement of cash flows
Cash flows are broken down according to cash inflows and outflows from operating, investing and financing activities, in line with IAS 7 *Cash Flow Statements***.** Cash flows are calculated using the indirect method.

Cash and cash equivalents in the statement of cash flows include all bank deposits, checks etc. in the balance sheet that have a maturity period of three months or less. Cash and cash equivalents are not subject to restrictions on their access by the Company.

Cash flows from operating activities are derived indirectly from consolidated net income.

Under the indirect method, changes accounted for in the balance sheet and related to current operating activities are adjusted to account for currency translation effects and changes in the scope of consolidation.

The following items were posted for cash from operating activities: paid interest amounting to €1,820 thousand (€1,965 thousand in 2004), received dividend payments totaling €4 thousand (€5 thousand in 2004) and paid taxes of €0 thousand (€241 thousand in 2004).

Assumptions and estimates
To a certain extent, the consolidated financial statements necessitate assumptions and estimations that may influence assets and liabilities in the balance sheet, the disclosure of contingent liabilities at the balance-sheet date, or of income and expenses during the reporting period. Actual amounts can differ from these estimates. Assumptions made on the basis of estimates are subject to ongoing review. Adjustments to estimates are reported in the period in which the estimate was revised, and also in following periods, if the revision impacts current and subsequent periods.

New accounting standards
TDS has chosen to apply IFRS 7 *Financial Instruments: Disclosures*, published in August 2005, before mandatory application. No IFRS standards have been passed since January 1, 2006, that have a material influence on the Group's assets, financial status or profitability.

3 Changes to corporate structure and to consolidation

On April 29, 2004, BFD Aktiengesellschaft (BFD), Iserlohn, Germany concluded a contract to acquire all shares in G.O.D. - Gesellschaft für Organisation und Datenverarbeitung mbH (G.O.D.), Würzburg, Germany, in exchange for cash payment of €12,800 thousand, of which €2,800 thousand was already settled when it fell due in January 2006. The acquisition of G.O.D., a payroll accounting specialist, strengthened the position of BFD (now TDS HR) on the HR services outsourcing market and expanded its customer base. Pursuant to IFRS 3 *Business Combinations*, differences arising from the first-time consolidation of G.O.D. were examined to establish the extent to which intangible assets other than goodwill were acquired within the scope of the transaction. As a result, the acquired customer base was capitalized in the amount of €5,748 thousand. This figure was calculated on the basis of estimated discounted future net cash flows from the G.O.D. order backlog at the time of the acquisition. The customer base is to be amortized according to the straight-line method over its estimated useful life of twenty years. In addition, software developed in-house for G.O.D.'s customers was capitalized in the amount of €1,298 thousand. This figure was based on estimated future cash flows from the software, which is to be amortized according to the straight-line method over its estimated useful life of six years. Deferred tax liabilities totaling

€2,649 thousand were formed for the capitalized customer base and software. Goodwill totaling €7,877 thousand was capitalized for the remaining differences from the first-time consolidation of the company. This goodwill, which was assigned to the HR Services & Solutions segment, is not a tax-deductible expense.

G.O.D. posted the following results for fiscal 2004:

	2004 € thousands
Revenues	10,533
Net income	433

The following table shows the pro-forma figures for operating income that would have been posted if the acquisition of G.O.D. had been effective on January 1 of the applicable year. The figures are only given as general guidance, and do not necessarily reflect the actual impact of an acquisition on January 1 of the relevant year.

	2004 € thousands
Revenues	95,296
Consolidated net income	-11,516

At January 21, 2005, G.O.D was merged with BFD according to Section 2 Number 1 of the German Company Conversion Act (UmwG). The merger was completed upon entry into the commercial register on May 30, 2005. The merger was effective on October 1, 2004. As a result, G.O.D produced interim financial statements for the period up to September 30, 2004.

The relocation of BFD headquarters (registered office) from Iserlohn to Neckarsulm, and a change in the company's name were also completed on January 21, 2005. As a result, BFD trades under the name TDS HR Services & Solutions GmbH (TDS HR) with headquarters in Neckarsulm. The relocation of headquarters and the name change were entered into the commercial register on July 7, 2005.

On June 29, 2005 TDS HR concluded a contract to acquire all shares in PSC Personal Service Center GmbH (PSC), in Butzbach, Germany, in exchange for cash payment of €67 thousand. TDS HR took economic control of PSC on July 1, 2005.

In accordance with IFRS, differences arising from the first-time consolidation were examined to establish the extent to which intangible assets other than goodwill were acquired within the scope of the transaction. As a result of negative equity and additional costs of acquisition, goodwill amounted to €96 thousand. This goodwill, which was assigned to the HR segment, is not a tax-deductible expense.

The following table shows the pro-forma figures for operating income that would have been posted if the acquisition of PSC had been effective on January 1 of the applicable year. The figures are only given as general guidance, and do not necessarily reflect the actual impact of an acquisition on January 1 of the relevant year.

	2005 € thousands
Revenues	93,818
Consolidated net income	977

Following a merger contract signed on August 2, 2005 (effective July 1, 2005), PSC was merged with TDS HR, pursuant to Section 2 Number 1 of the German Company Conversion Act (UmwG). On August 2, 2005, application was made for entry in the commercial register. The merger was completed with entry into the commercial register on November 3, 2005.

Following a merger contract signed on August 2, 2005 (effective January 1, 2005), via data Gesellschaft für Informatik und Komunikation mbH (via data), Bielefeld, Germany, was merged with TDS HR pursuant to Section 2 Number 1 of the German Company Conversion Act (UmwG). The merger was completed with entry into the commercial register on October 6, 2005.

Companies merged with TDS HR and companies included in the consolidated financial statements were under the control of TDS HR on the date the merger was completed. As a result, book values were allocated to the assets and liabilities of these companies.

On March 24, 2004, BFD concluded a contract (effective January 1, 2004) to increase its shareholding in effect Personalmanagement GmbH, Pasching, Austria (effect), a payroll-accounting outsourcer, by a further 20 percent. On October 13, 2004, BFD concluded a contract (effective September 30, 2004) to acquire the remaining 29 percent of effect shares, taking its holding to 100 percent. This led to the capitalization of goodwill totaling €1,016 thousand. This goodwill, which was assigned to the HR Services & Solutions segment, is not a tax-deductible expense.

Following the acquisition of PSC in 2005, and the acquisition of G.O.D. in 2004, the following assets, liabilities, expenses and income were allocated to the Group:

	2005 € thousands	2004 € thousands
Intangible assets	5	131
Property, plant and equipment	8	823
Current assets (not including cash and cash equivalents)	36	1,243
Cash and cash equivalents	99	538
Deferred taxes	0	7
Provisions	25	691
Liabilities	147	1,523
Revenues	530	7,421
Expenses	490	7,055
Income	0	46

As part of the strategic restructuring of the IT Consulting division, TDS sold its Netherlands- and Belgium based operations in 2004.

On August 6, 2004, a contract was concluded (effective July 1, 2004) to sell all shares in TDS Belgien N.V., Mechelen, Belgium.

On November 15, 2004, TDS concluded a contract to sell all shares in TDS International B.V., 's-Hertogenbosch, The Netherlands, and therefore its indirect stake in TDS Nederland B.V., 's-Hertogenbosch, The Netherlands and IMC Products B.V., Rosmalen, The Netherlands. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the companies were no longer consolidated as of the date on which TDS lost economic control, i.e. when the notary-public contract was signed on December 22, 2004.

In order to focus on TDS's core business, the Systems Integration & Development (SI&D) unit in Germany was divested on November 1, 2004.

Pursuant to IFRS 5, income from the sale of the Dutch and Belgian subsidiaries and of the SI&D unit, as well as operating expenses and income generated by these components during fiscal 2004, were posted under income from discontinued operations. The following assets, liabilities, expenses and income were restructured for the Group in 2004 due to the sale of the subsidiaries:

	2004 € thousands
Non-current assets	2,347
Current assets (not including cash and cash equivalents)	4,874
Cash and cash equivalents	480
Deferred taxes	-22
Provisions	638
Liabilities	1,613
Revenues	9,992
Expenses	10,922
Income	924

4 Segment reporting

Figures in financial statements are broken down by business and geographical segments. The breakdown is based on internal reporting (management approach). Segment reporting provides visibility into profitability, future outlook, opportunities and risks for the Company's various types of business operations.

During the reporting period of 2005 and 2004, the TDS Group operated in three key segments.

- IT Outsourcing
- HR Services & Solutions
- IT Consulting

TDS evaluates performance and allocates resources based on earnings before interest, tax and minority interest (EBIT). Internal Group management and reporting is essentially based on the principles and methods described in note 1.

Segment reporting according to business segments

2005	IT Outsourcing	HR Services & Solutions	IT Consulting	Total
	€ thousands	€ thousands	€ thousands	€ thousands
Revenues				
External revenues	46,461	29,420	17,497	93,378
Intersegment revenues	3,835	649	1,315	5,799
Total segment revenues	50,296	30,069	18,812	99,177
Profit/loss				
EBIT	6,208	-1,512	-1,640	3,056
Assets and liabilities				
Assets	18,243	35,727	11,001	64,971
Liabilities	9,034	12,117	5,295	26,446
Other segment information				
Capital expenditure*	4,804	723	781	6,308
Scheduled amortization and depreciation	6,185	2,151	908	9,244

2004	IT Outsourcing	HR Services & Solutions	IT Consulting	Consolidated (corresponds to revenues from continuing operations)	Discontinued Operations
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Revenues					
External revenues	48,017	23,289	20,878	92,184	14,666
Intersegment revenues	2,997	460	1,920	5,377	-
Total segment revenues	51,014	23,749	22,798	97,561	14,666
Profit/loss					
EBIT	6,632	-3,261	-8,929	-5,558	-3,850
Assets and liabilities					
Assets	24,654	38,244	10,459	73,357	0
Liabilities	11,706	12,661	4,690	29,057	0
Other segment information					
Capital expenditure*	6,241	2,662	1,740	10,643	336
Scheduled amortization and depreciation	7,702	2,219	1,061	10,982	600
Unscheduled amortization and depreciation	233	0	5,134	5,367	185

In fiscal 2005 and 2004 there were no expenses (cash items) of significance for the individual segments.

* *Capital expenditure without financial assets*

Segment reporting according to geographical segments

The following figures for the reporting period are attributable to geographical areas.

2005	Germany € thousands	Europe € thousands	Total € thousands
External revenues	83,800	9,578	93,378
Assets	62,486	2,485	64,971
Capital expenditure	6,040	268	6,308

2004	Germany € thousands	Europe € thousands	Total € thousands
External revenues	82,328	9,856	92,184
Assets	65,235	8,122	73,357
Capital expenditure	10,499	144	10,643

Revenues are attributed to the country in which the corresponding subsidiary is headquartered. From the point of view of the corresponding subsidiary, revenues are only posted in their own countries.

External revenues indicate a segment's contribution to consolidated revenues. Intersegment sales and transfers are recognized at the cost of manufacture or, where sold to end customers, are recognized at the cost of manufacture plus profit markup. However, there were no significant intersegment transactions. Revenues for the individual segments include revenues from third parties and from other segments within the Group.

EBIT is the main parameter used for judging and managing segments. As a result, interest income and expense is not included because the segments – with the exception of HR Services & Solutions – are financed mostly by TDS AG and external interest income and expenses are posted primarily at TDS AG.

Segment assets comprise those deployed in usual segment operations. Financial assets, deferred tax assets and current tax assets are not included. Similarly, segment liabilities comprise liabilities and provisions, in so far as these can be assigned to the segment's operations. These do not include amounts due to banks, or obligations under finance leases. Capital expenditure includes spending on property, plant and equipment, and intangible assets. Amortization and depreciation apply to property, plant and equipment, and intangible assets.

Notes to the consolidated income statement

The consolidated income statement is compiled according to the cost-of-sales method.

5 Revenues

Revenues of €93,378 thousand (€92,184 thousand in 2004) comprise amounts invoiced to customers for goods and services – minus sales deductions, contractual penalties and cash discounts. The breakdown of revenues according to business and geographical segments is described in segment reporting.

Within the scope of long-term manufacturing contracts, revenues totaling €813 thousand were generated from customer-specific contracts in fiscal 2005 (€814 thousand in 2004) according to the percentage of completion method.

6 Cost of sales

	2005 € thousands	2004 € thousands
Expenditure for services received	10,837	14,498
Expenditure for finished goods and products	676	807
Cost of materials	**11,513**	**15,305**
Personnel costs	33,815	29,248
Other expenditures	21,593	24,108
Cost of sales	**66,921**	**68,661**

7 Depreciation and amortization

Scheduled amortization and depreciation of intangible assets and property, plant and equipment totaled €9,244 thousand (€10,982 thousand in 2004). A breakdown of depreciation and amortization is given in the corresponding notes.

Within the scope of the transition of accounting principles from US GAAP to IFRS, depreciation and amortization for goodwill for the cash generating unit Consulting Switzerland totaled €5,134 thousand at December 31, 2004 (see note 46, transition of accounting principles from US GAAP to IFRS).

As regards investment property, impairment testing was carried out as a result of reductions and losses of rental income at December 31, 2004. Following testing, and within the scope of the transition of accounting principles from US GAAP to IFRS, there was an unscheduled depreciation expense totaling €233 thousand for an office building (see note 46, transition of accounting principles from US GAAP to IFRS).

8 Other operating income and expenses

This item includes all other operating income and expenses that cannot be directly attributed to cost of sales, selling and marketing costs or general and administrative expenses.

	2005 € thousands	2004 € thousands
Income from other general costs charged to customers	911	638
Income from share-price gains	0	315
Netting of residual book value and proceeds from sales of assets	151	97
Commission income	153	0
Other operating income	474	141
	1,689	**1,191**
Expenses for share-price losses	39	312
Expenses for other general costs charged to customers	755	506
Other operating expenses	460	214
	1,254	**1,032**
Other operating income and expense, net	**435**	**159**

Income from and expenses for general costs charged to customers are primarily attributable to costs for services provided to customers by suppliers within the scope of projects.

9 Payroll and related costs

Payroll and related costs reported in the consolidated income statement include the following:

	2005 € thousands	2004 € thousands
Salaries and wages	40.479	37,394
Social security costs	6.197	5,501
Net periodic pension costs	307	239
Other pension costs	384	446
	42,367	43,580

The average headcount during fiscal 2005 was as follows:

	2005 Total	2004 Total
Employees	738	778
Trainees/interns	18	20
	756	798

10 Financial income/expense

This item comprises the following:

	2005 € thousands	2004 € thousands
Income from investments	4	5
Net income/loss from investments	**4**	**5**
Other interest and similar income	185	16
Interest and similar expense	-2,417	-1,952
Interest income/loss, net	**-2,232**	**-1,936**
Other financial income	1	36
Other financial expense	-194	-262
Other financial income/expense, net	**-193**	**-226**
	-2,421	**-2,157**

Other financial income/expense is primarily attributable to bank charges.

Interest is treated as an expense in the period in which it is incurred, in line with the benchmark method defined by IAS 23, *Borrowing Costs, IAS 23.29*. Other interest and similar income includes interest earned on pension fund assets to the value of €26 thousand (€35 thousand in 2004).

11 Income taxes

Tax expense
Income taxes break down as follows:

	2005 € thousands	2004 € thousands
Current tax expense	-130	-176
Tax reimbursement for previous fiscal years	69	75
Deferred tax attributable to temporary differences	229	-388
Deferred tax on loss carryforwards	137	498
Tax in the consolidated income statement	**305**	**9**

For German companies, at December 31, 2005 deferred taxes were calculated at a German corporation tax rate of 25 percent (25 percent in 2004). A “solidarity surcharge” of 5.5 percent for the costs of German reunification was also added to the corporation tax burden, as well as effective trade tax of 11.225 percent (11.225 percent in 2004). Taking into account the solidarity surcharge and trade tax, a deferred tax rate of 37.6 percent applied in 2005 (37.6 percent in 2004).

In 2003, changes to fiscal law in Germany led to greater restrictions being placed on the use of tax loss carryforwards, effective from 2004. Above an initial €1,000 thousand which can be fully offset, only 60 percent of positive earnings can now be offset against corporation and trade tax loss carryforwards. This limitation has impacted the extent to which the Executive Board estimates deferred tax assets will be realized.

The table below reconciles the Company's expected and actual tax expense in 2005 and 2004. The expected tax expense for 2005 was calculated by multiplying the average total tax rate of 37.6 percent in 2005 (37.6 percent in 2004) by pre-tax earnings. The average total tax rate consists of an effective German corporation tax rate of 26.375 percent (26.375 percent in 2004) plus effective trade tax, applied on the basis of the effective corporation tax rate, of 11.225 percent (11.225 percent in 2004).

Including items charged or credited directly to related components of stockholders' equity, income tax expense (income) consists of the following:

	2005 € thousands	2004 € thousands
Expected tax expense (income in 2004)	-239	2,901
Effect of foreign operations taxed at various rates	13	-97
Non-tax-relevant expense	-20	-2
Non-tax-deductible impairment write-downs of goodwill	0	-1,895
Trade-tax deviation	-86	-81
Changes to tax loss carryforwards as a result of audit by German tax authorities	373	0
Valuation allowance for deferred tax assets	205	-764
Currency exchange fluctuations	-2	-22
Tax from previous reporting periods	67	0
Other additions	-6	-31
Actual tax expense	**305**	**9**

Trade-tax deviation comprises mainly tax expenses arising from trade-tax additions.

Tax assets and provisions are netted insofar as they apply to the same tax authority and such netting is permissible.

Deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to temporary differences, and break down as follows:

	Dec 31, 2005 € thousands	Dec 31, 2004 € thousands
Deferred tax assets:		
Tax loss carryforwards	11,690	11,731
Provisions	773	1,167
Investment property	258	264
Provisions for pensions	465	322
Finance leases	11	81
Percentage of completion	4	0
	13,201	**13,565**
Valuation allowance	-3,630	-3,835
Total deferred tax assets	**9,571**	**9,730**
Deferred tax liabilities		
Provisions	-18	-9
Property, plant and equipment	0	-14
Percentage of completion	-219	-117
Licenses used by customers	-2,332	-2,522
Intangible assets	-298	-533
Valuation allowance for receivables	-193	-389
Total deferred tax liabilities	**-3,060**	**-3,584**
Total net deferred taxes	**6,511**	**6,146**

Net deferred tax breaks down as follows:

	Dec 31, 2005 € thousands	Dec 31, 2004 € thousands
Deferred tax assets:		
Current	195	241
Non-current	6,316	5,905
Total deferred tax assets	**6,511**	**6,146**

In assessing the realizability of deferred tax assets, the Executive Board considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. The valuation allowance for deferred tax assets has fallen by €205 thousand in comparison to 2004 to €3,630 thousand.

As a result of the limitations recently placed on tax loss carryforwards, the Executive Board does not believe that German deferred tax assets can be fully recovered. The new rules delay the use of tax loss carryforwards, and therefore the resulting tax advantage. As a result, a valuation allowance of €1,065 thousand (€1,209 thousand in 2004) was formed for the 2005 deferred tax assets posted for domestic tax loss carryforwards. This valuation allowance was calculated on the basis of taxable income being generated within a period of three years. The accuracy of projections diminishes significantly over a longer time period. Accordingly, a valuation allowance was formed for deferred tax assets for tax loss carryforwards beyond three years.

As of December 31, 2005, TDS AG posted corporation-tax loss carryforwards totaling €24,887 thousand (€24,659 in 2004), and trade-tax loss carryforwards totaling €16,735 thousand (€17,743 thousand in 2004). In Germany, there is no time limit on the use of tax loss carryforwards. As a result, deferred tax assets of €7,404 thousand (€7,286 thousand in 2004) – taking into account the €1,038 thousand (€1,209 thousand in 2004) valuation allowance, were carried in the financial statements.

TDS OHG posted trade-tax loss carryforwards of €5,861 thousand (€4,751 thousand in 2004). As a result, deferred tax assets of €630 thousand (€527 thousand in 2004) were carried in the financial statements. The valuation allowance amounted to €28 thousand (€0 thousand in 2004).

As of December 31, 2005, TDS MultiVision AG, St. Gallen, Switzerland, posted a corporation-tax loss carryforward of €84 thousand (€336 thousand in 2004), and deferred tax assets of €25 thousand (€101 thousand in 2004). Tax losses can be carried forward for seven years in Switzerland.

As of December 31, 2005, TDS Systemhouse, Chesterfield, UK, posted corporation-tax loss carryforwards of €1,748 thousand (€1,905 in 2004). In the United Kingdom, there is no time limit on the use of tax loss carryforwards.

TDS IS GmbH reported corporation-tax and trade-tax loss carryforwards of €111 thousand (€107 thousand in 2004). TDS HR posted loss carryforwards of €5,126 thousand (€5,089 thousand in 2004) for corporation tax and €4,987 thousand (€4,958 thousand in 2004) for trade tax. The realization of these deferred tax assets in the short term was not considered likely and an appropriate valuation allowance was formed.

12 Income from discontinued operations

Within the scope of restructuring its IT Consulting segment, TDS divested its activities in Belgium (effective July 1, 2004) and the Netherlands (effective December 22, 2004). In order to increase the Company’s focus on its core business, the entire Systems Integration & Development (SI&D) division was sold on November 1, 2004. SI&D carried out non-core consulting and software-development tasks. tasks.

	2004 € thousands
Revenues	14,666
Earnings before tax	-5,038
Income taxes	1,207
Income (loss) from discontinued operations	**-3,831**

The loss from discontinued operations from 2004 includes divestment costs to the value of €645 thousand.

A total loss of €760 thousand (€458 thousand after tax) was posted for discontinued operations in 2004. The sale of the discontinued components led to a loss of €3,071 thousand, of which €749 thousand is attributable to taxes. This figure also includes a loss from the disposal of goodwill totaling €657 thousand for TDS International.

Discontinued operations for fiscal 2004 accounted for cash flows from operating activities to the value of €535 thousand, cash flows from investing activities to the value of minus €336 thousand, as well as cash flows from financing activities to the value of minus €334 thousand.

In line with standard business practice, as part of the sale, TDS issued warranties with regard to future tax audits and the accuracy of the financial statements, including assurances that there are no out-standing third-party claims to shareholdings or assets, and that there are no unresolved legal disputes. These warranties total a maximum of €690 thousand. No warranty claims were made during the fiscal year. On December 31, warranties to the value of €500 thousand were outstanding. However, Company management does not expect to make payments under these warranties.

13 Earnings per share

Earnings per share are reported in line with IAS 33, and determined by dividing consolidated net income after tax by the weighted number of average shares outstanding during the fiscal year.

Earnings per share break down as follows:

	2005 € thousands	2004 € thousands
Consolidated net income from continuing operations	940	-7,706
Consolidated net income from discontinued operations	0	-3,831
Consolidated net income	**940**	-11,537

	2005 Number of shares	2004 Number of shares
Weighted average of all outstanding shares used to calculate basic earnings per share	29,010,928	28,239,574
Dilutive effects of share options	34,396	0
Weighted average of all outstanding shares used to calculate diluted earnings per share	**29,045,324**	28,239,574

	2005 € thousands	2004 € thousands
Earnings per share (basic)		
Consolidated net income from continuing operations	0.03	-0.27
Consolidated net income from discontinued operations	0.00	-0.14
Consolidated net income	**0.03**	-0.41

	2005 € thousands	2004 € thousands
Earnings per share (diluted)		
Consolidated net income	**0.03**	-0.41

There was a dilutive effect in 2005 but this did not result in a change to the diluted earnings per share of €0.03.

In 2004, dilutive effects were not taken into consideration in the calculation of earnings per share, as consolidated net income was negative.

14 Intangible assets

	Concessions, intellectual property and similar rights and assets and licenses to such rights and assets	Software developed in-house, including software in development	Leased software	Prepayments for intangible assets	Goodwill	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition						
January 1, 2005	24,573	2,422	958	0	42,305	70,258
Acquired via mergers and acquisitions	1	0	0	0	96	97
Additions	777	366	562	350	83	2,138
Disposals	541	0	61	0	0	602
Dec. 31, 2005	24,810	2,788	1,459	350	42,484	71,891
Amortization						
January 1, 2005	14,971	1,004	463	0	17,901	34,339
Additions	1,847	743	334	0	0	2,924
Disposals	533	0	61	0	0	594
Dec. 31, 2005	16,285	1,747	736	0	17,901	36,669
Book value						
Dec 31, 2005	8,525	1,041	723	350	24,583	35,222
Dec 31, 2004	9,602	1,418	495	0	24,404	35,919

TDS does not carry out its own R&D. All development costs, to the value of €366 thousand (€586 thousand in 2004), fulfill the criteria of IAS 38 and have been capitalized. No development costs were expensed.

Firm orders to the value of €54 thousand (€359 thousand in 2004) have been placed for intangible assets that are not yet in the possession of the TDS Group.

15 Goodwill

Consolidated goodwill has been assigned to four cash-generating units (CGUs) in line with IFRS 3, *Business Combinations*:

CGU	Legal entity
IT Consulting Germany	TDS Deutschland AG & Co. OHG, Neckarsulm, Germany
IT Consulting Switzerland	TDS Multivision AG, St. Gallen, Switzerland
HR Germany (until Dec 31, 2004: BFD/ERZ and G.O.D.)	TDS HR Services & Solutions GmbH, Neckarsulm, Germany
HR Austria	effect Personalmanagement Ges.m.b.H., Pasching, Austria

As explained in note 1, goodwill is subject to impairment testing at the end of each fiscal year. This determines the recoverable amount at CGU level on the basis of fair value less costs to sell. An interest rate after tax of 5.4 percent (6.5 percent in 2004) was used. According to impairment testing at December 31, 2005, there was no need for write-downs.

The G.O.D CGU was combined with the BFD/ERZ CGU to create the HR Germany CGU. This was the result of restructuring, in particular, the merger of G.O.D. with TDS HR, as well as the transition to IFRS at the end of the fiscal year.

At 31 December, 2005, goodwill broken down by cash-generating unit was as follows:

	IT Consulting Germany	IT Consulting Switzerland	HR Germany	HR Austria	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition					
January 1, 2005	13,954	7,255	19,420	1,676	42,305
Changes to consolidation	0	0	96	0	96
Additions	0	0	50	33	83
Disposals	0	0	0	0	0
Dec 31, 2005	13,954	7,255	19,566	1,709	42,484
Amortization					
January 1, 2005	10,763	7,138	0	0	17,901
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Dec 31, 2005	10,763	7,138	0	0	17,901
Book value					
Dec 31, 2005	3,191	117	19,566	1,709	24,583
Dec 31, 2004	3,191	117	19,420	1,676	24,404

16 Property, plant and equipment

	Leashold buildings	Plant and equipment	Leased technical plant and equipment, including office equipment	Other equip ment, including office equip ment	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition					
January 1, 2005	1,788	34,078	8,483	9,816	54,165
Currency translation effects	3	9	-1	5	16
Acquired via mergers and acquisitions	0	0	0	7	7
Additions	14	1,836	1,960	360	4,170
Disposals	17	3,932	1,637	483	6,069
Changes	834	31	0	-865	0
Dec 31, 2005	2,622	32,022	8,805	8,840	52,289
Amortization					
January 1, 2005	707	28,975	3,563	6,805	40,050
Currency translation effects	3	11	0	7	21
Additions	156	2,639	2,487	1,022	6,304
Disposals	4	3,817	1,633	442	5,896
Changes	462	32	0	-494	0
Dec 31, 2005	1,324	27,840	4,417	6,898	40,479
Book value					
Dec 31, 2005	1,298	4,182	4,388	1,942	11,810
Dec 31, 2004	1,081	5,103	4,920	3,011	14,115

Of total property, plant and equipment, including office equipment, and fixtures and fittings to the value of €3,784 thousand (€4,407 thousand in 2004) are used as security against loans.

Firm orders to the value of €253 thousand (€68 thousand in 2004) have been placed for property, plant and equipment not yet in the possession of the TDS Group.

Insurance compensation to the value of €1 thousand (€12 thousand in 2004) was received for damaged tangible assets.

Capital expenditure in 2005 is detailed in the management report.

17 Investment property

	Cost of acquisition	Depreciation
January 1, 2005	2,463	1,827
Additions	0	16
December 31, 2005	2,463	1,843

	Book value
Dec 31, 2005	620
Dec 31, 2004	636

At December 31, 2005, fair value of investment property totaled €723 thousand (€636 in 2004). Due to a lack of comparable property, fair value was not calculated using market data, but on the basis of discounted cash flows. Present value at the balance-sheet date was determined using estimated cash inflows from lease income less operating expenses over the remaining useful life of the investment property.

In fiscal 2005 lease income from investment property amounted to €74 thousand (€111 thousand in 2004). Operating expenses came to €4 thousand (€11 thousand in 2004).

18 Leased assets

Finance leases

The Company has obligations under various finance leases for software licenses, and equipment, including computer hardware, concluded for terms of between three and six years.

These finance leases generally include options for an extension at commercially acceptable rates, unless – as in a few instances – the leasing company has the right to oblige TDS to purchase the leased item at the end of the term.

Operating Leases

The Company also leases office space, office equipment, vehicles and certain services under operating leases. Operating leases break down as follows:

	2005 € thousands	2004 € thousands
Lease payments	4,544	7,038
Income from subleases	-346	-599
	4,198	**6,439**

Future minimum income from subleases, at December 31, 2005, was as follows:

	2005 € thousands	2004 € thousands
Less than one year	48	484
One to five years	64	370
More than five years	0	51
	112	**905**

At December 31, 2005, future minimum payments under operating leases and finance leases were:

	Finance leases	Operating leases
	€ thousands	€ thousands
Less than one year	2,630	5,842
One to five years	3,051	8,131
More than five years	0	14,172
Total minimum lease payments	5,681	28,145
Less amount representing interest	-352	
Present value of total minimum lease payments	5,329	
Of which current installments of finance-lease obligations	2,413	
Of which non-current installments of finance-lease obligations	2,916	

Calculation of the present value of total minimum payments for finance leases is largely based on interest rates of between 4 percent and 8 percent, depending on the type of contract.

19 Financial assets

	Included at cost	Lendings due from other Group companies	Other loans	Securities	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition					
At Jan. 1, 2005	1,320	77	2,507	16	3,920
Additions	0	0	0	0	0
Disposals	0	0	27	0	27
At Dec. 31, 2005	1,320	77	2,480	16	3,893
Amortization and depreciation					
At Jan. 1, 2005	1,093	77	734	4	1,908
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
At Dec. 31, 2005	1,093	77	734	4	1,908
Book values					
Dec. 31, 2005	227	0	1,746	12	1,985
Dec. 31, 2004	227	0	1.773	12	2.012

The following companies are included at cost:

Company name	Holding in percent
BFL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn (BFL)	0.32%
ROSEA Trendpark Objektverwaltungs-gesellschaft GmbH & Co. KG, Neckarsulm ROSEA KG)	50.00%
ROSEA Trendpark Objektverwaltungs-Beteiligungs-GmbH, Neckarsulm (ROSEA GmbH)	50.00%
RATIODATA Rechenzentrum AG, Oberengstingen, Switzerland	100.00%
Villa Rosa gGmbH, Heilbronn (Villa Rosa)	30.00%
VisionOne Consulting AG, Neuss	8.55%

The following table gives figures in accordance with the German commercial code (HGB) for the companies included at cost:

	BFL*	ROSEA KG	ROSEA GmbH	Villa Rosa	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Total assets	504,671	383	23	103	505,180
Total liabilities	494,389	392	0	65	494,846
Total revenues	265,773	3,339	1	429	269,542
Profit for the year	2,184	70	2	14	2,270

*At December 31, 2004

VisionOne Consulting AG, Neuss is in insolvency. Annual financial statements for December 31, 2005 and 2004 have not yet been prepared.

Subsidiaries and holdings are listed after these notes. A list of subsidiaries and holdings in accordance with the German commercial code has been entered in the commercial register at Heilbronn Local Court, Germany (HRB 6645).

Other lendings comprise three loans to ROSEA Grunstücksvermietungsgesellschaft mbH &Co. Objekt Neckarsulm KG, Düsseldorf, subject to an annual interest rate of 3 percent. These are: A maturity loan of €1,096 thousand, granted in 1997, and with a term of 20 years; another maturity loan of €153 thousand, due for repayment by 2022; and a loan of €497 thousand, with repayments made over the course of each year, due for repayment by March 2010. There was no need for value adjustments in fiscal 2005.

20 Other non-current assets

	Dec. 31, 2005 € thousands	Dec. 31, 2004 € thousands
Cash surrender value of life insurance	385	372
Receivables from related parties	180	356
Prepaid expenses	173	113
	738	841

The other non-current assets have a remaining term of more than one year. The prepaid expenses primarily comprise prepaid maintenance services for hardware and software.

21 Deferred tax assets

Details of deferred tax assets are provided in note 11, Income taxes.

22 Inventories

	Dec. 31, 2005 € thousands	Dec. 31, 2004 € thousands
Consumables	0	14
Commodities	16	46
	16	60

Commodities consist principally of consumables that are stated at the lower of cost of acquisition or market value

23 Trade receivables

	Dec. 31, 2005 € thousands	Dec. 31, 2004 € thousands
Trade receivables	10,206	14,215
Receivables from ongoing projects not yet invoiced (PoC)	3,018	2,199
	13,224	**16,414**
Less valuation allowances	-347	-1,065
Receivables, net	**12,877**	15,349

The decrease in trade receivables is attributable to the reduction in the IT outsourcing segment's sales volume. Trade receivables for the other segments have remained virtually unchanged, despite changes in sales volume.

At 31 December, 2005, assigned receivables totaled €8,692 thousand (€12,690 thousand in 2004).

At December 31, 2005, receivables from ongoing projects not yet invoiced included incurred costs of €2,439 thousand (€1,874 thousand in 2004), gains of €584 thousand (€327 thousand in 2004), and minus €5 thousand in losses (minus €2 thousand in 2004).

24 Current tax assets

	Dec.31, 2005 € thousands	Dec. 31, 2004 € thousands
Tax assets	**266**	175

25 Other current assets

	Dec. 31, 2005 € thousands	Dec. 31, 2004 € thousands
Supplier credit	58	86
Deposit payments	89	41
Receivables from employees	32	17
Downpayments to suppliers	59	2
Other receivables and assets	314	456
Value adjustment	-7	-6
	545	**596**
Prepaid expenses	1,014	1,595
	1,559	**2,191**

26 Cash and cash equivalents

The cash and cash equivalents posted here include bank deposits, checks, etc. Cash and cash equivalents in foreign currencies are valued according to the applicable exchange rate at the balance-sheet date. At December 31, 2005, cash and cash equivalents totaled €2,129 thousand (€1,100 thousand in 2004).

27 Shareholders' equity

Share capital
At December 31, 2005, share capital comprised 29,178,616 outstanding and paid-up shares, each with a nominal value of €1. Each share entitles the holder to one vote.

Share capital increased by €1,930 thousand during fiscal 2004, as TDS made use of the annual shareholders' meeting resolution of May 23, 2002, which approved an increase in authorized capital. In fiscal 2005, share capital increased by €198 thousand (€93 thousand in 2004) as a result of options exercised under the 2002 share-option plan, drawn from authorized-but-contingent capital IV. For more details, see the consolidated statement of changes in shareholders' equity.

Additional paid-in capital
The development of additional paid-in capital is shown in the table showing the reconciliation of shareholders' equity in the consolidated financial statements. Additional paid-in capital is primarily attributable to the premium from the initial public offering (IPO), and capital increases, less associated costs. Moreover, additional paid-in capital increased by the costs for share-based payment, and rose or fell due to increases or decreases from the sale of treasury shares.

Authorized capital
At May 23, 2002, the annual shareholders' meeting authorized the Executive Board to increase share capital once or several times by up to a total of €9,600 thousand by May 1, 2007, by means of issuing shares against cash or non-cash contributions. This authorized capital was recorded in the commercial register at June 25, 2002. Under this authorization, share capital was increased in 2003 by €7,582 thousand by issuing 7,581,790 shares with a nominal value of €1.00 per share (7,234,043 in exchange for non-cash contributions and 347,747 in exchange for cash contributions). The share swap was with the TDS majority stockholder General Atlantic Partners (TERN), L.P. (GAP), for shares in BFD AG, Iserlohn. TDS shareholders with subscription rights were offered one new share for every two shares held in exchange for cash.

Share capital was increased during 2004 as a result of a further share issue in exchange for cash totaling €1,930 thousand.

At May 28, 2004, the annual shareholders' meeting authorized the Executive Board to increase share capital, subject to the approval of the Supervisory Board, once or several times by up to a total of €11,460 thousand by May 27, 2009, by means of issuing 11,460,000 shares against cash or non-cash contributions, while maintaining outstanding authorized capital (€88 thousand, 88,210 shares). As a result, authorized capital totaled €11,548 thousand (11,548,210 shares) at December 31, 2005 (no change in comparison with December 31, 2004).

Authorized-but-contingent capital
At May 28, 2004, the annual shareholders' meeting resolved, pursuant to Section 218 of the German Stock Corporation Act (AktG), to cancel authorized-but-contingent capital in the amount of €102 thousand and reduce it by €54 thousand, from €444 thousand to €287 thousand (authorized-but-contingent capital I to III) at December 31, 2004. At June 9, 2005, the annual shareholders' meeting resolved to cancel all authorized-but-contingent capital I-III.

By resolution of the annual shareholders' meeting at May 23, 2002, authorized-but-contingent capital for the 2002 share-option plan (see note 37, Share-based payment) was raised by €1,490 thousand through the issue of up to 1,490,000 new shares (authorized-but-contingent capital IV). Moreover, authorized-but-contingent capital for the issue of new convertible bonds was raised by €7,750 thousand through the issue of 7,750,000 new shares (authorized-but-contingent capital V).

At December 31, 2005, authorized-but-contingent capital totaled €8,372 thousand. Authorized-but-contingent capital IV and V developed as follows:

	Authorized-but-contingent capital IV	Authorized-but-contingent capital V	Authorized-but-contingent capital (total)
	No. of shares	No. of shares	No. of shares
Resolution of the annual shareholders' meeting of May 23, 2002	1,490,000	7,750,000	9,240,000
Exercise of share-option program in 2004	-92,500	0	-92,500
At Dec. 31, 2004	1,397,500	7,750,000	9,147,500
Reduction in accordance with resolution of annual shareholders' meeting of June 9, 2005	-577,500	0	-577,500
Exercise of share-option program in 2005	-198,000	0	-198,000
At Dec. 31, 2005	622,000	7,750,000	8,372,000

Other comprehensive income (loss)
Comprehensive income was due entirely to differences in currency translation.

Details of the development of shareholders' equity for the Group can be found in table showing the reconciliation of shareholders' equity that precedes these notes.

Retained earnings
Retained earning comprises accumulated gains and losses from past accounting periods, as well as fiscal 2005 consolidated net income. Retained earnings include conversion charges of €8,066 thousand resulting from the transition to IFRS.

Treasury shares
At May 28, 2004, the annual shareholders' meeting authorized the Executive Board to buy back shares in the Company totaling up to 10 percent of equity, subject to the approval of the Supervisory Board, once or several times by November 27, 2005. To fulfil obligations arising from share-option plans, 36,214 Company shares were purchased at a cost of €87 thousand euros during the fiscal year, and added to the existing 20,000 treasury shares.

28 Convertible bonds

The TDS AG 5-percent convertible-bond programs, which were launched in 1998 and 2000 with a total nominal value of €851 thousand, expired in June and December 2004. The remaining settlement amount of €132 thousand was repaid.

29 Provisions for pensions

At December 31, 2005, provisions for pensions broke down as follows:

	At Jan. 1	Change in scope of consolidation, currency translation adjustments	Use	Reduction	Addition	At Dec. 31
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
2004	2,528	143	-44	-6	1,050	3,671
2005	3,671	-6	-87	0	736	**4,314**

Provisions for pensions are formed for liabilities from vested benefits, as well as current benefits paid to entitled and former employees of the TDS Group, or to their surviving dependents, and are based on individual contracts of employment. Benefits are based on the employee's length of service and compensation. The Company's pension plans are partially funded. There are different pension systems, depending on the legal, economic and tax situation in the country concerned. These systems are generally based on the employee's length of service and compensation.

Company pensions within the Group are based exclusively on defined benefit plans, which oblige the Company to ensure that promised payments are made to current and former employees. The benefit obligations of TDS AG and its German subsidiaries are financed by provisions. In Switzerland, pension plans are financed by funds.

The amount of pension obligations (present value of defined benefit obligations) has been calculated using actuarial methods, which necessarily involve estimates and assumptions. In addition to assumptions regarding life expectancy, the following assumptions, which depend on the economic environment of the specific country, are important:

	Germany		Switzerland	
	2005	2004	**2005**	2004
Discount rate	4.40/3.75*%	4.40%	3.00%	4.40%
Expected return on assets	-	-	2.50%	3.00%
Rate of compensation increase	2.50%	2.50%	1.50%	2.50%
Rate of retirement-benefit increase	1.50%	1.00%	0.00%	1.00%

* 4.40 % for employees and 3.75 % for retirees

The rate of compensation increase reflects expected future salary increases. These are estimated annually, taking into consideration factors such as inflation and the economic situation.

The pension obligations calculated using the projected unit credit method are reduced by the amount of the plan assets. If the plan assets exceed the pension obligations, they are included under other assets. If they do not cover the obligations, the net obligations are recorded under pension provisions.

Increases or decreases in either the present value of the defined benefit plans, or in the fair value of the plan assets can result in actuarial gains or losses. These increases and decreases can be caused by changes in the calculation parameters, in the estimates of risk development for the pension obligations, and by differences between the actual and expected return on plan assets. Checks to determine whether actuarial gains or losses must be recognized in the financial statements were performed on the basis of the individual plans at December 31, 2004, in accordance with the corridor approach. The sum of actuarial gains or losses that have not yet been taken into consideration, and that exceed 10 percent of the higher value of plan assets or defined benefit obligations, is spread across the average remaining service period of active employees. As permitted by IFRS 1, TDS elected to recognize all actuarial gains and losses accrued at December 1, 2004 in retained earnings.

Accumulated benefit obligations of defined benefit plans:

	Germany		Switzerland		Total	
	2005 € thousands	2004 € thousands	**2005** € thousands	2004 € thousands	**2005** € thousands	2004 € thousands
Present value of pension obligations financed by provisions	5,006	4,008	0	0	5,006	4,008
Present value of pension obligations financed by funds	0	0	1,166	1,242	1,166	1,242
Present value of defined benefit obligations	5,006	4,008	1,166	1,242	6,172	5,250
Plan assets at market values	0	0	-1,007	-1,104	-1,007	-1,104
Net obligations	5,006	4,008	159	138	5,165	4,146
Adjustment due to actuarial gains (+) and losses (-)	-825	-477	-26	2	-851	-475
Balance-sheet value at Dec. 31	**4,181**	**3,531**	**133**	**140**	**4,314**	**3,671**

Development of the net obligations from pension provisions and capitalized plan assets

	Germany		Switzerland		Total	
	2005 € thousands	2004 € thousands	**2005** € thousands	2004 € thousands	**2005** € thousands	2004 € thousands
At Jan. 1	3,531	2,385	140	143	3,671	2,528
Currency translation adjustments	0	0	-1	1	-1	1
Pension cost	310	189	200	209	510	398
Benefit payments and value of plans	-42	-42	-206	-213	-248	-255
Transfers	382	999	0	0	382	999
At Dec. 31	**4,181**	3,531	**133**	140	**4,314**	3,671

Pension cost from defined benefit obligations

	Germany		Switzerland		Total	
	2005 € thousands	2004 € thousands	**2005** € thousands	2004 € thousands	**2005** € thousands	2004 € thousands
Current service costs	127	55	179	187	306	242
Interest costs	177	134	47	56	224	190
Expected return on plan assets	0	0	-26	-34	-26	-34
Actuarial gains/losses	6	0	0	0	6	0
	310	189	**200**	209	**510**	398

The actual return on plan assets (loss on assets in 2004) from external pension funds was €22 thousand (minus €23 thousand in 2004).

30 Other provisions

Other provisions include appropriate amounts for fiscal years for which assessments by the tax authorities have not been finalized, and for other tax risks.

The provisions for payroll and related costs are primarily formed for vacation compensation and special payments. The provisions include €311 thousand (€94 thousand in 2004) for severance costs, lawyers' fees and costs for court proceedings.

The provisions for warranty obligations and risks from pending transactions includes a provision for expected losses from sales transactions formed within the scope of the IFRS transition (see note 46, Transition of accounting principles from US GAAP to IFRS). Due to its long term, this provision was discounted. Use of this provision includes an increase of €149 thousand due to a change in the amount discounted during the reporting period, as well as an increase of €42 thousand due to a lower discount rate at December 31, 2005.

The additional provisions are mainly formed for outstanding invoices, the audit of annual financial statements, and other uncertain liabilities.

At December 31, 2005, other provisions were as follows:

	At Jan. 1	Change in scope of consolida-tion, currency translation adjust-ments	Use	Release	Addition	At Dec. 31
	€ thou-sands	€ thou-sands	€ thou-sands	€ thou-sands	€ thou-sands	€ thou-sands
Provisions for tax liabilities	125	0	0	-103	193	215
Other provisions						
Payroll and related costs	3,240	2	-2,851	-391	3,293	3,293
Warranty obligations and risks from pend-ing transactions	3,396	0	-1,432	-36	61	1,989
Additional provisions	2,865	25	-1,946	-832	2,262	2,374
	9,626	**27**	**-6,229**	**-1,362**	**5,809**	**7,871**

At December 31, 2005, the following items were estimated for the provisions within the individual cate-gories.

	Remaining term less than one year	Remaining term one to five years	Remaining term > five years
	€ thousands	€ thousands	€ thousands
Provisions for tax liabilities	215	0	0
Payroll and related costs	3,293	0	0
Warranty obligations and risks from pend-ing transactions	724	1,265	0
Additional provisions	2,374	0	0
	6,606	**1,265**	**0**

31 Term of liabilities

December 31, 2005	Term less than 1 year	Term 1 to 5 years	Term more than 5 years	Total at Dec 31, 2005
	€ thousands	€ thousands	€ thousands	€ thousands
Amounts due to banks	3,388	12,187	57	15,632
Obligations under finance leases	2,328	3,007	0	5,335
Customer downpayments	2,405	0	0	2,405
Trade payables	3,483	0	0	3,483
Current tax liabilities	2	0	0	2
Other liabilities	8,306	195	0	8,501
(for tax)	(2,276)	0	0	(2,276)
(for social security)	(948)	0	0	(948)
Total	**19,912**	**15,389**	**57**	**35,358**

December 31, 2004	Term less than 1 year € thousands	Term 1 to 5 years € thousands	Term more than 5 years € thousands	Total at Dec 31, 2004 € thousands
Amounts due to banks	6,945	12,081	0	19,026
Obligations under finance leases	2,224	3,343	0	5,567
Customer downpayments	1,300	0	0	1,300
Trade payables	5,964	0	0	5,964
Current tax liabilities	149	0	0	149
Other liabilities	5,077	3,233	0	8,310
(for tax)	(1,725)	0	0	(1,725)
(for social insurance)	(935)	0	0	(935)
Total	**21,659**	**18,657**	**0**	**40,316**

32 Amounts due to banks

Amounts due to banks at year-end fiscal 2004 and year-end fiscal 2005 primarily comprise the following:

	Dec 31, 2004 € thousands	Interest rate fixed until	Interest rate %	Credit line € thousands	Term of credit line
DZ Bank					
Loan	1,959	Mar 13, 2005	5.7	1,851	Mar 31, 2005
Loan	2,177	Mar 31, 2006	5.7	2,177	Mar 31, 2006
Loan	400	June 30, 2005	5.7	400	Dec 31, 2005
Loan	433	June 30, 2005	5.7	433	Dec 31, 2006
Loan	333	June 30, 2005	5.7	333	Dec 31, 2007
BW-Bank					
Loan	1,500	Mar 31, 2005	4.5	1,904	Mar 31, 2005
Loan	1,500	Mar 31, 2006	4.5	2,240	Mar 31, 2006
Loan	400	Dec 31, 2005	5.9	400	Dec 31, 2005
Loan	433	Dec 31, 2005	5.9	433	Dec 31, 2006
Loan	118	Dec 31, 2005	5.9	118	Dec 31, 2007
Current account	37				
Dresdner Bank					
Loan	1,118	Mar 31, 2005	5.0	1,032	Mar 31, 2005
Loan	1,000	Mar 31, 2006	4.0	1,214	Mar 31, 2006
Current account	65				
Volksbank Heilbronn					
Loan	322	Mar 31, 2005	5.2	341	Mar 31, 2005
Loan	379	Mar 31, 2005	5.2	379	Mar 31, 2006
Current account	27				
Landesbank BW					
Loan	1,155	Mar 31, 2005	5.0	1,958	Mar 31, 2005
Loan	921	Mar 31, 2005	5.1	2,303	Mar 31, 2005
Loan	2,300	Mar 31, 2006	5.1	2,300	Mar 31, 2006
Current account	97				
Kreissparkasse Heil-bronn	161	Mar 31, 2005	4.8	161	Mar 31, 2005
Loan	189	Mar 31, 2006	4.8	189	Mar 31, 2006
Loan	400	June 30, 2005	5.1	400	Dec 31, 2005
Loan	700	June 30, 2005	5.1	700	Dec 31, 2006
Loan	63	June 30, 2005	5.1	63	Dec 31, 2007
Loan	56				
Current account					
Deutsche Bank				1,273	Mar 31, 2005
				1,498	Mar 31, 2006
Raiffeisenlandesbank Oberösterreich					
Current account	275				
HypoVereinsbank					
Current account	452				
Sparkasse Augsburg					
Current account	56				
	19,026				

	Dec 31, 2005 € thousands	Interest rate fixed until	Interest rate %	Credit line € thousands	Term of credit line
DZ Bank					
Loan	1,633	Mar 30, 2006	5.6	1,633	Mar 31, 2006
Loan	2,177	Jan 31, 2006	4.8	2,177	Mar 31, 2007
Loan	565	June 30, 2006	6.1	565	Dec 31, 2006
Loan	333	June 30, 2006	6.2	333	Dec 31, 2007
BW-Bank					
Loan	1,500	Mar 31, 2006	5.64	1,680	Mar 31, 2006
				2,240	Mar 31, 2007
Loan	170	Jan 30, 2006	5.9	170	Dec 31, 2006
Loan	118	Jan 30, 2006	5.9	118	Dec 31, 2007
Current account	623				
Dresdner Bank					
				911	Mar 31, 2006
Loan	562	Mar 31, 2007	4.1	1,214	Mar 31, 2007
Current account	1				
Volksbank Heilbronn					
Loan	303	Mar 31, 2006	5.6	284	Mar 31, 2006
Loan	379	Mar 31, 2006	5.6	379	Mar 31, 2007
Landesbank BW					
Loan	1,727	Mar 31, 2006	5.3	1,727	Mar 31, 2006
Loan	2,303	Apr 28, 2006	5.1	2,303	Mar 31, 2007
Kreissparkasse Heil-bronn	142	Mar 31, 2006	5.2	142	Mar 31, 2006
Loan	189	Mar 31, 2006	5.2	189	Mar 31, 2007
Loan	565	Dec 29, 2006	6.3	565	Dec 31, 2006
Loan	330	Dec 29, 2006	6.3	330	Dec 31, 2007
Loan					
Deutsche Bank					
Loan	1,000	Jan 31, 2006	5.0	1,124	Mar 31, 2006
Loan		Jan 31, 2006	5.0	1,498	Mar 31, 2007
Current account	671				
Raiffeisenlandes-bank Oberösterreich					
Current account	178				
Volksbank Giessen					
KfW loan	105	June 30, 2011	4.9		
Current account	1				
DZ Bank					
Derivative	57				
Total	**15,632**				

The loan from Kreditanstalt für Wiederaufbau (KfW loan) is handled via Volkbank Giessen, and is to be repaid by means of half-yearly payments with an annuity of €8 thousand by June 30, 2011.

In the first quarter of 2006, the Company concluded successful negotiations with its banks, securing extensions to loans expiring at March 31, 2006. The lead bank has already announced that the loan facility is to be extended until March 31, 2007. This has still to be confirmed by the other banks in the pool. The Company assumes that they will give their approval. The Company is not aware of any circumstances that would stand in the way of an extension.

TDS's bank debt is secured by means of a contract for the assignment of all current and future receivables from long-term contracts with customers and assignments of title to data-center equipment and furnishings, and to real estate. BFD has assigned the title to its shares in G.O.D. as security against existing and future claims arising from amounts due to banks. TDS HR has assumed all rights and responsibilities of BFD.

Interest rates are agreed with banks when the fixed interest-rate period of respective loans comes to an end. Consequently, higher or lower interest rates may be charged to the Company. Any other changes to the value of leases (increases) or to other factors affecting earnings will cause 2006 repayment amounts to rise, which would impact repayment periods.

33 Obligations under finance leases

Obligations under finance leases are capitalized at the present value of future lease payments and totaled €5,335 thousand at December 31, 2005 (€5,567 thousand in 2004).

34 Other liabilities

Other liabilities break down as follows:

	Dec 31, 2005 € thousands	Dec 31, 2004 € thousands
Acquisition costs	3,332	4,504
Value-added tax and other tax liabilities	2,276	1,725
Liabilities for social security	948	935
Salaries and wages	287	140
Liabilities from the early termination of building leases	797	0
Customer credit	75	100
Deferred income	557	598
Total of other liabilities	229	308
	8,501	8,310

35 Current tax liabilities

	Dec 31, 2005 € thousands	Dec 31, 2004 € thousands
Tax liabilities	**2**	149

36 Share-based payment

Share-option plan
On May 23, 2006, the annual shareholders' meeting authorized a share-option plan (2002 share-option plan), under which options for up to 1,490,000 Company shares could be granted to TDS Group employees and the Executive Board by December 31, 2004. Of 940,000 share options granted in 2002 (2002 tranche), 885,000 were accepted. A further 415,000 share options were granted and accepted in 2004 (2004 tranche). Each option may be exchanged for one share in the Company at the exercise price. The exercise price is the volume-weighted average closing price of the TDS share in Xetra trading on the Frankfurt Stock Exchange over the ten trading days preceding the issuance of the option, but not less than the portion of share capital allocable to one share, plus a premium of ten percent. The term is three years for 50 percent of the share options, and four years for the remaining 50 percent. Within the scope of each tranche, 50 percent of the share options issued to each individual recipient have a service period of two years and a term of three years, and 50 percent have a service period of three years and a term of four years.

Share options are cancelled when employees leave the Company. However, the Executive Board – or the Supervisory Board if Executive Board members are affected – is authorized to make exceptions to this rule in individual cases.

Options granted in 2002 can be exercised as follows:

	Term of options	Service period	Exercise period
Tranche 1 (50 percent)	2002 to 2005 (Sept - Sept)	2 years	Sept 04 - Sept 05
Tranche 2 (50 percent)	2002 to 2006 (Sept - Sept)	3 years	Sept 05 - Sept 06

Options granted in 2004 can be exercised as follows:

	Term of options	Service period	Exercise period
Tranche 1 (50 percent)	2004 to 2007 (Nov – Nov)	2 years	Nov 06 – Nov 07
Tranche 2 (50 percent)	2004 to 2008 (Nov – Nov)	3 years	Nov 07 - Nov 08

The Black-Scholes pricing model is used to calculate the fair value of each option upon the date of grant.

The following weighted-average assumptions were made for the 2002 share-option plan (2002 tranche): Share price €1.51, exercise price €1.66, average dividend yield 0 percent, risk-free interest rate of 4.25 percent, volatility 70.0 percent, and a term of three years for 50 percent of the options and four years for the remaining 50 percent. The Black-Scholes fair value was €0.70 and €0.81, respectively.

The following weighted-average assumptions were made for the 2004 tranche of the 2002 share-option plan: Share price €2.69, exercise price €2.96, average dividend yield 0 percent, risk-free interest rate of 3.5 percent, volatility 40.0 percent and a term of three years for 50 percent of the options and four years for the remaining 50 percent. The Black-Scholes fair value was €0.74 and €0.88 on the date of grant.

Volatility in the 2004 tranche was calculated on the basis of fair value, which was based on the price of the TDS share from August to December in Xetra trading on the Frankfurt stock exchange.

Share-option activity during the periods indicated is as follows:

	No. of options, 2002 plan 2002 tranche	Of which can be exercised at year-end	Average exercise price per option (€)
December 31, 2002	885,000	0	1.66
Granted	0		
Exercised	0		
Withdrawn	0		
Expired	0		
Cancelled	-115,000		1.66
December 31, 2003	770,000	0	1.66
Exercised	-92,500		1.66
Withdrawn	0		
Expired	0		
Cancelled	-272,500		1.66
December 31, 2004	405,000	405,000	1.66
Granted	0		
Exercised	-198,000		1.66
Withdrawn	0		
Expired	-49,500		
Cancelled	-25,000		1.66
December 31, 2005	132,500	132,500	1.66

	No. of options 2002 plan 2004 tranche	Of which can be exercised at year-end	Average exercise price per option (€)
December 31, 2003	0	0	
Granted	415,000		2.96
Exercised	0		
Withdrawn	0		
Expired	0		
Cancelled	0		
December 31, 2004	415,000	0	2.96
Granted	0		
Exercised	0		
Withdrawn	0		
Expired	0		
Cancelled	-10,000		2.96
December 31, 2005	405,000	0	2.96

50 percent of options from the 2002 share-option plan expired in September 2005 and 50 percent have a remaining term of 9 months.

50 percent of options from the 2004 tranche have a remaining term of 22 months and 50 percent a remaining term of 34 months.

Cancelled options are attributable to employees who left the Company before the service period ended.

According to IFRS 2, expense amounted to €117 thousand in 2005 (€19 thousand in 2004).

Virtual share options
In 2005 the Supervisory Board granted the Executive Board virtual share options, whereby Executive Board members will receive a cash bonus in 2007 based on the difference between the average prices of TDS shares at June 2005 and at June 2007. The increase in value is multiplied by the number of virtual options granted, and paid by the Company in cash. Advanced calculation and payment of the bonus is possible if, for example, there is an offer made to acquire all TDS shares, or if TDS shares cease to be listed. In total, 125,000 virtual share options were granted in 2005.

Fair value of virtual shares is calculated in line with IFRS 2. According to the Black-Scholes pricing model, fair value was €0.31 per option upon the date of grant. The following weighted-average assumptions were made for the calculation of this value: Share price €2.06, exercise price €2.33, average dividend yield 0 percent, risk-free interest rate 2.80 percent, volatility 37.45 percent and a term of 18.5 months for all options.

Amounts are added to provisions on the basis of fair value up to the date when bonuses are paid.. At December 31, 2005, the provisions for share-price based bonuses amounted to €2 thousand.

37 Derivative financial instruments

	Market value		Nominal value				
€ thousands	Dec 31, 2005	Dec 31, 2004	Term less than 1 year	Term more than 1 year	Term more than 5 years	Total at Dec 31, 2005	Total at Dec 31, 2004
Interest-rate cap	0	0	5,000 5,000	8,000 3,000		8,000	13,000
Interest-rate swap	-57	0			5,000	5,000	0
Total	-57	0				13,000	13,000

Nominal value corresponds to the value of underlying transactions. The market values given are the prices that third parties are willing to pay for rights to the derivatives. A capital market-oriented valuation is then completed at balance-sheet date using a recognized mathematical model. Negative market value of the interest-rate swap amounting to minus €57 thousand is included under amounts due to banks and recognized as financial income in profit or loss.

As a result of the interest-rate swap, the interest-rate risk of a base rate (Euro-Euribor-Telerate) for a reference amount of €5,000 thousand is limited to a corridor between 2.25 and 4.09 percent per annum. As a result of the agreed interest-rate caps, the interest-rate risk of a base rate (3-month Euribor rate) for a reference amount of €5,000 thousand or €3,000 thousand is limited to 3.5 percent per annum.

Maximum potential loss for derivative financial instruments is calculated in line with their total positive market value. In fiscal 2005, total positive market value of derivative financial instruments was €0 thousand (€0 thousand in 2004). Financial losses can arise for the Group if individual business partners fail to meet their obligations under derivative contracts.

38 Related parties

According to IAS 24 *Related Party Disclosure*, any individual or entity that may be expected to influence, or be influenced by, the reporting company, must be disclosed. This excludes companies included in the consolidated financial statements. Related parties within the TDS Group include members of the Executive Board and Supervisory Board, as well as unconsolidated and unassociated companies of TDS AG.

The following table shows the value of services of a material nature provided to and received from related parties:

	Value of services provided		Value of services received	
		€ thousands		€ thousands
	2005	2004	**2005**	2004
ROSEA Trendpark Objektverwaltungsgesellschaft GmbH & Co. KG, Neckarsulm	0	0	2,112	2,112
Villa Rosa gGmbH, Heilbronn	0	0	26	39

The services are charged at market prices.

There are no other business relationships between the Group and unconsolidated subsidiaries.

At December 31, 2005, receivables and liabilities for related parties were as follows:

	Receivables		Liabilities	
	€ thousands		€ thousands	
	2005	2004	**2005**	2004
BFL Gesellschaft des Bürofach-handels mbH & Co. KG, Esch-born	0	0	0	0
ROSEA Trendpark Objektverwal-tungsgesellschaft GmbH & Co. KG, Neckarsulm	181	274	1	7
ROSEA Trendpark Objektverwal-tung-Beteiligungs-GmbH, Ne-ckarsulm	0	0	0	0
Villa Rosa GmbH, Heilbronn	7	0	7	0
VisionOne Consulting AG, Neuss - values were adjusted	19 19	16 16	0	0

Expenses for the consulting activities of Supervisory Board member Günter Steffen totaled €89 thousand (€199 thousand in 2004). There were no liabilities for these activities at the balance-sheet date (€100 thousand in 2004).

For further information on relationships with Executive and Supervisory Board members, see note 48, Further relevant information concerning the Executive and Supervisory Board.

There were no revenues of a material nature earned from sales of goods and services to principle shareholders, officers, or companies under their common control in 2005.

Effective September 1, 1999, the Company concluded an operating lease agreement with ROSEA Trendpark Objektverwaltungsgesellschaft mbH & Co (Rosea KG), Neckarsulm, Germany for a period of 22 years. This led to lease expenses totaling €1,349 thousand (€1,349 thousand in 2004). Lease charges are regularly adjusted in line with market prices. TDS is charged for all operational and maintenance costs, including significant and minor repairs.

Lease expenses in the amount of €104 thousand (€104 thousand in 2004) resulted from a lease agreement with CommerzLeasing Anlagen-Vermietungsgesellschaft mbH, Düsseldorf.

TDS holds a 50 percent stake in Rosea KG. The remaining 50 percent is held by Beck Holding GmbH & Co. KG, Neckarsulm (DSB AG), which is not a related party of TDS AG. DSB AG and TDS each lease 50 percent of the building located at Konrad-Zuse-Strasse 16 in Neckarsulm. Due to the legal form of Rosea KG (the property is the sole asset of Rosea KG, both parties contributed approximately 1 percent of the value of this property as equity), consideration was given to whether Rosea KG is a special purpose entity (SPE) as defined by SIC 12, and whether TDS exercises control over this SPE. It was established that TDS AG does not exercise control over Rosea KG according to SIC 12. Rosea KG was therefore not consolidated by TDS.

Rosea KG is managed via Rosea GmbH, in which TDS also has a 50 percent stake. On July 26, 2005, Dr. Heiner Diefenbach became CEO of Rosea GmbH. This position was previously occupied by TDS Supervisory Board member Mr. Günter Steffen.

Due to their minor importance to the Group, Rosea GmbH and Rosea KG are included ‘at cost’ in the consolidated financial statements.

39 Contingent liabilities

Contingent liabilities comprise solely of purchase obligations totaling €711 thousand (€665 thousand in 2004).

40 Other financial obligations

Future financial obligations at December 31, 2005, break down as follows:

	€ thousands
Due in less than 1 year	5,842
Due between 1 and 5 years	8,131
Due in more than 5 years	14,172
	28,145

This item primarily consists of rental/lease expenses.

There is also an acquisition liability stemming from the acquisition of effect GmbH, which is calculated on the basis of effect's EBIT in the years 2006 to 2008.

41 Legal proceedings

TDS AG and its consolidated companies are not involved in any court or arbitration proceedings that may have a significant effect on the economical status of the Group.

42 Declaration of Compliance with the German Corporate Governance Code

The TDS AG Executive Board and Supervisory Board have submitted a Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration is available to all shareholders via the TDS website.

43 Disclosures in accordance with Section 25 (1) of the German Securities Trading Act (WpHG)

No disclosures were made in fiscal 2005 in accordance with Sections 21 and 25 of the German Securities Trading Act (WpHG). Disclosures for fiscal 2004 are listed under Disclosures in accordance with Section 25 of the German Securities Trading Act (WpHG).

44 Events after the balance-sheet date

On November 24, 2005, the Company concluded the transfer of PersLG from HR Services & Solutions to OP&V GmbH, Iserlohn (OP&V), and the acquisition of a 49 percent stake in OP&V. OP&V focuses on customer organizations with up to 300 employees in manufacturing, in retail and in the services industry. The Company concluded an acquisition and a capital contribution contract with OP&V on December 23, 2005. Capital contribution took the form of non-cash contributions. At December 31, 2005, the Company completed the transfer of PersLG to OP&V. Capital contribution took economic effect from January 1, 2006.

45 Other information

The following auditors' fees were posted in fiscal 2005:

	2005 € thousands
Audit of year-end financial statements	293
Tax consulting services	138
Other valuation, analysis and certification activities	46
	477

46 Transition of accounting principles from US GAAP to IFRS

Consolidated financial statements at December 31, 2005 were compiled for the first time according to International Financial Reporting Standards (IFRS). The accounting, valuation and consolidation methods applied in these financial statements are described in note 2. Figures for fiscal 2004, and the IFRS opening balance sheet at January 1, 2004 (transition date from US GAAP to IFRS) are also presented in line with these methods.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* was applied to the first IFRS financial statements. On the IFRS opening balance sheet for January 1, 2004, all assets and liabilities were presented according to IFRS accounting standards as they were at December 31, 2005. This includes compliance with the revised IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*, and the new IFRS 3 *Business Combinations* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. All changes resulting from the transition were entered in the IFRS opening balance sheet under retained earnings.

Within the scope of the improvement project, existing IAS standards were revised by members of the International Accounting Standards Board (IASB). As a result, the balance sheet differentiates between current and non-current assets and liabilities in accordance with IAS 1 *Presentation of Financial Statements*, and inventories are valued according to IAS 2 *Inventories.* IAS 8 *Accounting Policies*, IAS 16 *Property, Plant and Equipment*, and IAS 24 *Related Parties Disclosures* were applied with effect from January 1, 2004.

The effects of the transition from US GAAP to IFRS on the balance sheet, the consolidated income statement, and the statement of cash flows, are explained in the following tables and notes:

Reconciliation of the balance sheet from US GAAP to IFRS at January 1, 2004 and December 31, 2004

	Notes	US GAAP	Adjustment	IFRS	US GAAP	Adjustment	IFRS
		January 1, 2004			**December 31, 2004**		
Assets							
Goodwill	a	22,605	-877	21,728	30,420	-6,016	24,404
Other intangible assets		4,934	0	4,934	11,515	0	11,515
Property, plant and equipment		16,656	0	16,656	14,115	0	14,115
Investment property	b	1,374	-481	893	1,339	-703	636
At-equity financial assets		195	0	195	0	0	0
Other financial assets		2,115	0	2,115	2,012	0	2,012
Other non-current assets		651	0	651	841	0	841
Deferred tax assets	g,h	7,773	-302	7,471	7,986	-1,840	6,146
Total non-current assets		**56,303**	**-1,660**	**54,643**	**68,228**	**-8,559**	**59,669**
Inventories		290	0	290	60	0	60
Trade receivables		17,034	0	17,034	15,349	0	15,349
Current tax assets		0	0	0	175	0	175
Other assets		2,773	0	2,773	2,191	0	2,191
Cash and cash equivalents		6,794	0	6,794	1,100	0	1,100
Total current assets		**26,891**	**0**	**26,891**	**18,875**	**0**	**18,875**
Total assets		**83,194**	**-1,660**	**81,534**	**87,103**	**-8,559**	**78,544**

	Notes	US GAAP	Adjust-ment	IFRS		US GAAP	Adjust-ment	IFRS
Shareholders' equity and liabilities			**January 1, 2004**				**December 31, 2004**	
Share capital		26,958	0	26,958		28,981	0	28,981
Additional paid-in capital	e	32,056	0	32,056		35,235	19	35,254
Accumulated comprehensive income	d	48	48	96		21	80	101
Retained earnings	I	-26,619	-1,201	-27,820		-31,291	-8,066	-39,357
Treasury shares		0	0	0		-48	0	-48
Minority interest		2	0	2		0	0	0
Total shareholders' equity		**32,445**	**-1,153**	**31,292**		**32,898**	**-7,967**	**24,931**
Provisions for pensions	C	2,466	10	2,476		3,483	188	3,671
Other provisions	F	437	0	437		523	1,785	2,308
Amounts due to banks		13,415	0	13,415		12,081	0	12,081
Obligations under finance leases		2,899	0	2,899		3,343	0	3,343
Other liabilities	D	1,319	-48	1,271		3,270	-37	3,233
Deferred tax liabilities	G	468	-468	0		2,960	-2,960	0
Total non-current liabilities		**21,004**	**-506**	**20,498**		**25,660**	**-1,024**	**24,636**
Other provisions	F	9,925	0	9,925		6,887	431	7,318
Amounts due to banks		5,928	0	5,928		6,945	0	6,945
Obligations under finance leases		1,679	0	1,679		2,224	0	2,224
Customer downpayments		1,539	0	1,539		1,300	0	1,300
Trade payables		6,275	0	6,275		5,964	0	5,964
Current tax liabilities		26	-1	25		149	0	149
Other liabilities		4,373	0	4,373		5,076	1	5,077
Total current liabilities		**29,745**	**-1**	**29,744**		**28,545**	**432**	**28,977**
Total shareholders' equity and liabilities		**83,194**	**-1,660**	**81,534**		**87,103**	**-8,559**	**78,544**

Notes to the reconciliation of the balance sheet

a) The differences between **impairment testing of intangible assets as well as property, plant and equipment** in compliance with IFRS and US GAAP are as follows: According to both IFRS and US GAAP, an asset must be tested for impairment if there is an indication that it may be impaired.

In line with US GAAP, the first stage of impairment testing is to compare the book value of the relevant asset with the sum of the undiscounted cash flows that the asset is expected to generate. Only if the book value is greater than the sum of the undiscounted cash flows, will an unscheduled write-down to the lower fair value be necessary. Fair value is based on an estimate or on discounted estimated future cash flows.

In compliance with IAS 36, this first stage of impairment testing (based on estimated undiscounted cash flows) does not apply. If impairment testing is necessary, the recoverable amount must immediately be established and compared with the book value of the asset. If the book value is greater, then an unscheduled write-down to the recoverable amount will take place. The recoverable amount is the higher of an asset's net selling price (fair value less costs to sell) and its value in use (discounted present value of future cash flows).

According to IAS 36, **impairment testing for goodwill** was carried out at the level of the asset's cash-generating units (CGUs). Whereas, under US GAAP, impairment testing for goodwill was carried out at the level of reporting units. A CGU is defined by IFRS as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs, as defined by IFRS, are generally smaller than the reporting units defined by US GAAP. For TDS, CGUs were defined according to IAS 36 below the level of segments, whilst reporting units corresponded approximately to the reporting segments. In the IFRS opening balance sheet and at December 31, 2004, this led to write-downs of goodwill.

b) For **investment property**, impairment testing was carried out to account for reductions or losses of rental income. According to US GAAP (as described above in note a), an asset is not impaired if the sum of the undiscounted future cash flows for its remaining useful life is at least equal to the book value. In contrast, under IAS, an asset is impaired if the sum of its discounted future cash flows for its remaining useful life is less than the book value. In the IFRS opening balance sheet and at December 31, 2004, this led to write-downs of investment property.

c) In accordance with IAS 19, **Pension obligations** (defined benefit obligations) were calculated in line with interest rates at the balance-sheet date. According to SFAS 87, it was permissible to determine interest rates for the calculation of projected benefit obligations before the balance-sheet date. As a result, lower interest rates (4.4 percent under IFRS compared to 4.9 percent under US GAAP) at December 31, 2004, led to higher pension obligations according to IFRS. TDS applied the option provided by IFRS to record the interest cost of pension expenses under financial income. This is not the case under US GAAP, where the interest cost of pension expenses was recorded in the income statement under general and administrative expenses.

d) By applying the exemption option for **pension obligations** offered under IFRS 1, TDS chose to recognize all actuarial gains and losses from defined benefit plans at the date of the transition from US GAAP to IFRS accounting principles in the IFRS opening balance sheet (fresh start method). According to SFAS 87, if provisions for pensions falls below accumulated benefit obligations, **an additional minimum liability** (AML) must be disclosed. In other words, when the actuarial losses are greater than the part of the projected benefit obligations affected by salary increases. According to US GAAP, additional minimum liability was included under other liabilities. IAS 19 does not require the formation of an additional minimum liability. Moreover, an additional minimum liability would not have been necessary as a result of the fresh start.

e) In line with IFRS 1 *First-time Adoption of International Financial Reporting Standards*, TDS applied IFRS 2 *Share-based Payment* to **share options** that were granted after November 7, 2002. According to IFRS 2, expense from share options is spread across the service period up to the exercise date. As this expense is recognized, so additional paid-in capital increases. Under US GAAP, no share options were entered in the balance sheet. This was due to the application of an option specified in SFAS 123 *Accounting for Stock-Based Compensation* and SFAS 148 *Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123*, and in line with the Accounting Principles Board (APB) opinion 25 *Accounting for Stock Issued to Employees*. There was a statement included in the notes describing how application of SFAS 123 would have impacted consolidated net income.

f) According to US GAAP, **provisions for expected losses** should not be included for pending transactions. IAS 37, however, requires the formation of provisions for expected losses from present obligations under onerous contracts. This also applies to sales contracts. According to IAS 37, an onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are calculated using the full-cost method. A provision must be established for the difference between these amounts. As a result, a provision for expected losses from an HR outsourcing contract had to be formed in the IFRS balance sheet at December 31, 2004.

g) According to IAS 12 *Income Taxes*, **deferred tax assets and deferred tax liabilities** are only netted if they apply to the same tax authority . According to SFAS 109 under US GAAP, there is an additional requirement that deferred tax assets and liabilities can only be netted when they share the same maturity. As a result of the transition to IFRS, TDS now includes all deferred taxes as assets on the balance sheet.

h) The aforementioned changes have decreased or increased **deferred tax** assets based on the Group-wide tax rate of 37.60 percent as follows:

	Notes	**December 31, 2004** thousands	January 1, 2004 thousands
Investment property	b	264	181
Provisions for pensions	c, d	-22	-15
Provisions for expected losses	f	833	0
Net deferred tax liabilities/deferred tax assets	g	-2,960	-468
Change in deferred tax assets		**-1,840**	**302**

i) The aforementioned adjustments reduced or increased **retained earnings** as follows:

	Notes	**December 31, 2004** € thousands	January 1, 2004 € thousands
Goodwill	a	-6.016	-877
Investment property	b	-703	-481
Share options	e	-20	0
Provisions for pensions	c	-244	-10
Provisions for expected losses	f	-2,215	0
Deferred taxes	h	1,134	167
Rounding differences		-2	0
Change in retained earnings		**-8,066**	**-1,201**

Reconciliation of consolidated income statement for 2004:

	Notes	US GAAP	IFRS adjustment	IFRS 2004
Revenues		92,184	0	92,184
Cost of sales	f	-66,447	-2,215	-68,662
Gross profit		**25,737**	**-2,215**	**23,522**
Selling and marketing costs		-10,551	0	-10,551
General and administrative expenses	b, c, e	-13,221	-333	-13,554
Amortization of goodwill	a	0	-5,134	-5,134
Other operating income and expenses		159	0	159
Earnings before financial income (interest), taxes and minority interest (EBIT)		**2,124**	**-7,682**	**-5,558**
Financial income	c	-2,004	-153	-2,157
Earnings before taxes and minority interest (EBT)		**120**	**-7,835**	**-7,715**
Earnings before taxes (EBT) of continuing operations				
Income taxes	H	-961	970	9
Income from continuing operations		**-841**	**-6,283**	**-7,124**
Income from discontinued operations		-3,831	0	-3,831
Consolidated net loss		**-4,672**	**-6,865**	**-11,537**

Explanation of the main changes to the statement of cash flows

As a result of the transition from US GAAP to IFRS, cash flows from operating activities have decreased by 31 thousand euros, cash flows from investing activities have increased by 3,557 thousand euros, and cash flows from financing activities have fallen by 3,477 thousand euros. The main reason for these changes is capital expenditure funded by finance leases as well as the corresponding obligations under finance leases, each totaling 3,558 thousand euros, which are not taken into account in the statement of cash flows according to IFRS.

47 Further relevant information concerning the Executive and Supervisory Board

Compensation
The total compensation package for members of the TDS AG Executive Board totaled €986 thousand in 2005 (€665 thousand in 2004), including a fixed-rate component of €726 thousand (€597 thousand in 2004) and a performance-related component of €260 thousand (€68 thousand in 2004). Supervisory Board compensation totaled €114 thousand (€137 thousand in 2004).

Executive Board compensation broke down as follows for individual members:

Name	Compensation		
	Fixed-rate € thousands	Performance-related € thousands	Total € thousands
Michael Eberhardt (CEO)	306	150	456
Dr. Heiner Diefenbach	213	0	213
Ralf Klemisch (Executive Board member until December 31, 2005)	176	30	206
Thomas Brunner (Executive Board member until February 28, 2005)	32	80	112
Total	726	260	986

Supervisory Board compensation broke down as follows for individual members:

Name	Fixed-rate € thousands	Perform-ance-related € thousands	Meeting attendance fee € thousands	Total € thousands
Dr. Klaus Esser (Chairman)	16	0	10	26
Bernhard Dorn (Deputy Chairman)	12	0	10	22
Karl Heinz Achinger	10	0	6	16
Andreas Barth	10	0	6	16
Dr. Martin Schütte	8	0	6	14
Günter Steffen	10	0	10	20
Total	66	0	48	114

Directors' Dealings
As of December 31, 2005, there were no outstanding advance payments or loans to members of the TDS AG Executive Board or Supervisory Board.

The following transactions by directors of the Company during fiscal 2005 required disclosure pursuant to Section 15a of the German Securities Trading Act (WpHG):

Date	Name	Position	Type	Number	Price	Value
	Günter Steffen (holds an indirect share in GS Holding GmbH)	**Supervisory Board mbr.**				
May 30, 2005			Sale	5,295	2.35	12,443.25
May 30, 2005			Sale	1,000	2.38	2,380.00
June 8, 2005			Sale	2,000	2.35	4,700.00
June 8, 2005			Sale	2,000	2.37	4,740.00
June 10, 2005			Sale	2,000	2.33	4,660.00
June 10, 2005			Sale	1,000	2.33	2,330.00
June 15, 2005			Sale	2,000	2.35	4,700.00
	Michael Eberhardt	**CEO**				
July 4, 2005			Purchase (share options)	50,000	1.66	83,000.00
Dec 7, 2005			Purchase (increase)	1,000	2.05	2,050.00
Dec 13, 2005			Purchase (increase)	200	2.08	416.00
	Dr. Heiner Diefenbach	**CFO**				
Dec 21, 2005			Purchase	15,000	2.05	30,750.00

Shareholdings
As of December 31, 2005, Executive Board members held 68,200 shares in the Company. (Michael Eberhardt: 53,200, Dr. Heiner Diefenbach: 15,000).

Pension obligations
A total of €768 thousand (€885 thousand in 2004) was set aside to fulfill pension obligations for former members of the Executive Board and their dependents.

Share-based payment
During fiscal 2005, no subscription rights were granted to Executive Board members.

At December 31, 2005, CEO Michael Eberhardt held 150,000 options under the 2002 share-option plan; Executive Board member Ralph Klemisch held 50,000 options under the 2002 share-option plan.

In 2005, the Supervisory Board granted the Executive Board virtual share options (phantom stock), whereby Executive Board members will receive a cash bonus in 2007 based on the difference between the average prices of TDS shares at June 2005 (€2.33) and at June 2007. The increase in value is multiplied by the number of virtual options granted, and paid by the Company in cash. In total, 125,000 virtual share options were granted in 2005. Advanced calculation and payment of the virtual share options is possible if, for example, there is an offer made to acquire all TDS shares, or if TDS shares cease to be listed. In total, 125,000 virtual share options were granted in 2005, of which CEO Michael Eberhardt received 75,000, and Dr. Heiner Diefenbach received 50,000.

48 Publication date for the financial statements

On March 31, 2006, the Executive Board approved publication of the financial statements for the fiscal year ending December 31, 2005.

Neckarsulm, Germany, March 10, 2005

The Executive Board

Michael Eberhardt　　　　Dr. Heiner Diefenbach

SCHEDULE OF CONSOLIDATED ASSETS

	Cost of acquisition/manufacture						
	Jan 1, 2005	Currency translation adjustments	As a result of acquisition	Additions	Changes	Disposals	Dec 12, 2005
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Intangible assets							
Concessions, intellectual property and similar rights and assets and licenses in such rights and assets	24.573	0	1	777	0	541	24.810
In-house developed software including software in development	2.422	0	0	366	0	0	2.788
Rented software	958	0	0	562	0	61	1.459
Downpayments made on intangible assets	0	0	0	350	0	0	350
Goodwill	42.305	0	96	83	0	0	42.484
	70.258	**0**	**97**	**2.138**	**0**	**602**	**71.891**
Property, plant and equipment							
Leasehold buildings	1.788	3	0	14	834	17	2.622
Computer and similar equipment	34.078	9	0	1.836	31	3.932	32.022
Leased computer equipment, office equipment and other	8.483	-1	0	1.960	0	1.637	8.805
Other computer equipment and office equipment	9.816	5	7	360	-865	483	8.840
	54.165	**16**	**7**	**4.170**	**0**	**6.069**	**52.289**
Investment property	**2.463**	**0**	**0**	**0**	**0**	**0**	**2.463**
Investments (holdings)	1.320	0	0	0	0	0	1.320
Lendings due from other group companies	77	0	0	0	0	0	77
Securities	16	0	0	0	0	0	16
Other loans	2.507	0	0	0	0	27	2.480
	3.920	**0**	**0**	**0**	**0**	**27**	**3.893**
	130.806	**16**	**104**	**6.308**	**0**	**6.698**	**130.536**

	Amortization and depreciation						Book value	
	Jan 1, 2005	Currency translation adjustments	Current fiscal year	Changes	Disposals	Dec 31, 2005	Dec 31, 2005	Dec 31, 2004
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Intangible assets								
Concessions, intellectual property and similar rights and assets and licenses in such rights and assets	14.971	0	1.847	0	533	16.285	8.525	9.602
In-house developed software including software in development	1.004	0	743	0	0	1.747	1.041	1.418
Rented software	463	0	334	0	61	736	723	495
Downpayments made on intangible assets	0	0	0	0	0	0	350	0
Goodwill	17.901	0	0	0	0	17.901	24.583	24.404
	34.339	**0**	**2.924**	**0**	**594**	**36.669**	**35.222**	**35.919**
Property, plant and equipment								
Leasehold buildings	707	3	156	462	4	1.324	1.298	1.081
Computer and similar equipment	28.975	11	2.639	32	3.817	27.840	4.182	5.103
Leased computer equipment, office equipment and other	3.563	0	2.487	0	1.633	4.417	4.388	4.920
Other computer equipment and office equipment	6.805	7	1.022	-494	442	6.898	1.942	3.011
	40.050	**21**	**6.304**	**0**	**5.896**	**40.479**	**11.810**	**14.115**
Investment property	**1.827**	**0**	**16**	**0**	**0**	**1.843**	**620**	**636**
Investments (holdings)	1.093	0	0	0	0	1.093	227	227
Lendings due from other group companies	77	0	0	0	0	77	0	0
Securities	4	0	0	0	0	4	12	12
Other loans	734	0	0	0	0	734	1.746	1.773
	1.908	**0**	**0**	**0**	**0**	**1.908**	**1.985**	**2.012**
	78.124	**21**	**9.244**	**0**	**6.490**	**80.899**	**49.637**	**52.682**

TDS INFORMATIONSTECHNOLOGIE AG SUBSIDIARIES AND HOLDINGS AT DECEMBER 31, 2005

	Holding as a % of equity	Shareholders' quity at Dec 31,2005 (€ thousands)	Net income for fiscal 2005 (€ thousands)	
1. Consolidated companies				
Germany				
TDS HR Services & Solutions GmbH, Neckarsulm	100%	3,715.0	0,0	4)
TDS Deutschland AG & Co. OHG, Neckarsulm	100%	470.8	-1,799	3)
TDS Systemhaus GmbH, Neckarsulm	100%	104.8	0.0	4)
TDS IS GmbH, Neckarsulm	100%	109.4	0.0	4)
Outside Germany				
effect Personalmanagement GmbH, Pasching, Austria	100%	-109.0	-172.4	1)
TDS MultiVision AG, St. Gallen, Switzerland	100%	179.8	119.5	
TDS Systemhouse plc., Chesterfield, UK	100%	-838.5	152.0	
2. Affiliated companies valuated at cost				
BFL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn	0.32%	12,402.4	4	2)
ROSEA Trendpark Objektverwaltungsgesellschaft GmbH & Co. KG, Neckarsulm	50%	-16.3	70.1	2)
ROSEA Trendpark Objektverwaltung Beteiligungs-GmbH, Neckarsulm	50%	21.4	2.1	2)
RATIODATA Rechenzentrum AG, Oberengstingen, Switzerland	100%	29.8	0	1), 6)
Villa Rosa gGmbH, Heilbronn	30%	38.4	13.4	
VisionOne Consulting AG, Neuss	8.55%	933.8	-444.6	5), 6)

[1] Indirect stake
[2] At December 31, 2004
[3] Of which 5% indirect stake
[4] Zero earnings due to a profit-transfer agreement
[5] Company is insolvent, 2005 financial statements not prepared to date
[6] At December 31, 2003

DISCUSSION OF MATERIAL DIFFERENCES BETWEEN THE ACCOUNTING PRINCIPLES APPLIED IN THESE CONSOLIDATED FINANCIAL STATEMENTS AND THOSE DESCRIBED IN THE GERMAN COMMERCIAL CODE (HGB)

Differences in accounting methods

Fundamental differences — German and international accounting principles are based on fundamentally different approaches. While accounting under German law (HGB) emphasizes the principle of prudence and creditor protection, the availability of relevant information for shareholder decision-making is the chief objective of international accounting standards (IFRS). The comparability of financial information — both from year to year and from company to company — and the determination of performance on an accrual basis therefore rank higher under IFRS than under HGB.

Provisions — The rules for recognizing provisions are significantly more restrictive under IFRS than under HGB. Provisions are recognized under IFRS when an obligation exists towards a third party that is likely to be satisfied, and when the anticipated amount of the necessary accrual can be reliably estimated. Provisions for expenses are not permissible under IFRS.

In accordance with IFRS, provisions are posted at their most probable value. If there is a range of probable values, the average is employed. For certain liabilities, IFRS accounting applies the fair value, calculated primarily from market information. Where no reliable market information is available, TDS Informationstechnologie AG uses the present value of estimated future cash flows.

IFRS differs from German accounting practice in that pension provisions are determined in consideration of anticipated wage and salary increases. Rather than using the six percent discount rate employed in German tax law, IFRS bases its calculations on actual interest rates in the country in question.

Goodwill and intangible assets with an indefinite useful life — Under IFRS, goodwill and intangible assets are carried as assets, and subject to annual impairment testing.

The purchase method of accounting must be used for all business combinations. Offsetting goodwill against shareholders' equity, which is an option under HGB, is not permissible under IFRS.

Treasury shares — Under IFRS, treasury shares are deducted from equity at cost of acquisition. German accounting principles, however, require companies to capitalize these shares as securities under current assets, and to form provisions for the same amount.

Unrealized gains and losses — Under German law, the "imparity principle" means that only unrealized losses are included in the balance sheet, while under IFRS, certain unrealized gains also have to be recorded.

This principle is particularly relevant when calculating unrealized gains from the revaluation of foreign currency amounts at year-end.

Securities — According to German accounting regulations, securities are valued at the lower of cost of acquisition or fair value. International accounting regulations, on the other hand, call for securities to be reported at market price, and for changes in market price either to be reflected directly in the consolidated income statements or in shareholders' equity.

Long-term contracts — Under German law, revenues and expenses from long-term contracts are recorded in accordance with the "realization principle," while under IFRS, the percentage-of-completion method is used.

Leasing — Under IFRS, leased equipment is capitalized by the economic owner and not by the legal owner. In the case of a finance lease, the benefits and risks of ownership of leased equipment are primarily realized by the lessee, without the lessee simultaneously acquiring legal ownership. IFRS treats finance leases in the same way as purchases. In other words, the lessee capitalizes the leased equipment and records a corresponding liability. The lessor, in turn, records financial receivables and revenues from the sale of the leased equipment.

Capitalization of software — Self-created intangible assets are not capitalized under German law. Under IFRS, however, in-house developed software for company use is to be capitalized. Such software is capitalized in the full amount of the costs incurred for development.

According to HGB, development costs for self-created intangible assets allocable to a specific project must be capitalized as inventory. Under IFRS, technological feasibility is the key factor. Once this has been proven, all costs arising must be capitalized until the software is ready for sale. Subsequently, all production costs are calculated as the lesser of amortized costs or net realizable value.

Deferred taxes — Under IFRS, deferred taxes must be established for temporary differences between tax-relevant values and the values on the balance sheet. Tax loss carryforwards represent an economic benefit because of reduced tax payments in future years. At the time the loss occurs, the deferred tax advantage is capitalized to the extent that it is likely to be realized.

Supplementary notes to the consolidated financial statements

Income and expenses from other fiscal years

During 2005, income from other fiscal years totaled €1,722 thousand (€2,518 thousand in 2004), including €1,167 thousand for the reversal of provisions, €111 thousand for the reversal of write-downs, and €63 thousand for proceeds from the disposal of assets, €95 thousand in tax refunds from previous years, and €286 thousand for other items. Expenses from other fiscal years totaled €300 thousand (€359 thousand in 2004), including €63 thousand for back taxes for previous years, €30 thousand for losses from the disposal of assets, and €207 thousand for other items not attributable to fiscal 2005.

Application of the provisions of Section 264, Subsection 3, and Section 264b of the German Commercial Code (HGB)

TDS Deutschland AG & Co. OHG, Neckarsulm, a trading partnership ("Handelsgesellschaft") as defined by Section 264a of HGB, is subject to the regulations for stock corporations. As a fully consolidated subsidiary of TDS Informationstechnologie AG, TDS Deutschland AG & Co. OHG's reporting requirements are satisfied by the consolidated financial statements of its parent company. It therefore makes use of the exemption afforded by Section 264b of HGB from the requirement to produce a separate management report and annual financial statements, and to subject these statements to audit.

Furthermore, TDS HR Services & Solutions, GmbH, Neckarsulm, Germany, which is a subsidiary of TDS Informationstechnologie AG as defined by Section 290 of HGB, and for which the reporting requirements are satisfied by the consolidated financial statements of its parent company, makes use of the exemption afforded by Section 264, Subsection 3 of HGB from reporting requirements. Two further subsidiaries make use of the exemption afforded by Section 264, Subsection 3 of HGB from the requirement for stock corporations to produce annual financial statements, and to subject these statements to audit. These are:

TDS IS GmbH, Neckarsulm, Germany
TDS Systemhaus GmbH, Neckarsulm, Germany

Principles of consolidation

The principles applied for currency translation, the calculation of deferred taxes, and consolidation, are outlined in the notes to the consolidated financial statements (Note 2 "Principles of accounting, valuation and consolidation"). The notes are supplemented by the following statements:

Group-wide tax rate for deferred taxes

The tax rate applied to deferred taxes for elimination totaled 37.6 percent in fiscal 2005, and therefore remains unchanged over 2004.

Capital consolidation

The capital consolidation of investments led to differences between book value and share of equity in the amount of €32,140 thousand (€31,183 thousand in 2004).

Consolidation of debt

During fiscal 2005, lendings to related parties of €0 thousand (€7,925 thousand in 2004) and internal Group receivables totaling €12,635 thousand (€17,436 thousand in 2004) were netted against external liabilities in the amount of €13,048 thousand (€25,762 thousand in 2004); of this amount, €597 thousand (€20 thousand in 2004) were eliminated and recognized in net income for the period. The decrease of intercompany netted liabilities and receivables was primarily attributable to a waiver by TDS AG of receivables from TDS Deutschland AG & Co. OHG, Neckarsulm. The increase in profit largely results from TDS AG's reversal of write-downs on receivables from TDS Systemhouse plc., Chesterfield, UK.

Elimination of intercompany profits

Elimination of intercompany profits relates to transfers of intangible assets, property, plant and equipment, financial assets, leased items and inventories between consolidated companies. Intercompany profits in the amount of €46 thousand (€0 thousand in 2004) were eliminated in fiscal 2005.

Elimination of expense and income

During fiscal 2005, intercompany revenues of €5,799 thousand (€5,358 thousand in 2004) were netted against intercompany expenses, and intercompany interest income of €753 thousand (€725 thousand in 2004) was netted against intercompany interest expense. In addition, income from investments totaling €7 thousand (€274 thousand in 2004) and expenses and income from the transfer of losses totaling €1,744 thousand (€2,232 thousand in 2004) were eliminated. Eliminated income from investments decreased mainly as a result of the sale of Dutch subsidiaries in 2004.

Deferred taxes
The calculation of deferred taxes for temporary differences led to a net decrease in deferred tax assets — excluding tax loss carryforwards — of €152 thousand (decrease of €266 thousand in 2004).

DISCLOSURES FROM PREVIOUS FISCAL YEARS ACCORDING TO SECTION 25 OF THE GERMAN SECURITIES TRADING ACT (WPHG)

In fiscal 2005, no disclosures were made in accordance with Sections 22 and 25 of WpHG. The following disclosures serve as a basis for disclosures pursuant to Section 160, Subsection 1, No. 8 of the German Stock Corporation Act (AktG).

On December 29, 2003, TDS was informed of the following transactions, in accordance with Section 21 of WpHG. On January 7, 2004, in accordance with Section 25 of WpHG, the Company published corresponding disclosures in the Handelsblatt financial newspaper:

1. WIHSA Holdings S.A., 3, Boulevard Royal, L-2449 Luxembourg, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5, 10, 25, 50 and 75 percent thresholds. Its holding is now 75.90 percent. Of this amount, 14.57 percentage points were allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1, and Section 22, Subsection 1, Paragraph 2 of WpHG, and 61.33 percent with Section 22, Subsection 2.

2. WOODBRIDGE INTERNATIONAL HOLDINGS S.A., 3, Boulevard Royal, L-2449 Luxembourg, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5, 10, 25, 50 and 75 percent thresholds. Its holding is now 75.90 percent. Of this amount, 14.57 percentage points were allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1, and Section 22, Subsection 1, Paragraph 2 of WpHG, and 61.33 percent with Section 22, Subsection 2.

3. WIHL (UK), The Quadrangle, 180 Wardour St., London, WIA 4YG, UK, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5 and 10 percent thresholds. Its holding is now 14.57 percent.

   WIHL (UK), The Quadrangle, 180 Wardour St., London, WIA 4YG, UK, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company fell below the 5 and 10 percent thresholds. Its holding is now 0 percent.

4. GAP-W International, Sàrl, 3, Boulevard Royal, L-2449 Luxembourg, informed us in accordance with Section 21, Subsection 1, and Section 22, Subsection 1, Paragraph 1, No. 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5 and 10 percent thresholds as a result of allocation. Its holding is now 14.57 percent.

   GAP-W International, Sàrl, 3, Boulevard Royal, L-2449 Luxembourg, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5 and 10 percent thresholds as a result of acquisition. The total remained at 14.57 percent.

   GAP-W International, Sàrl, 3, Boulevard Royal, L-2449 Luxembourg, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5, 10, 25, 50 and 75 percent thresholds. Its holding is now 75.90 percent. Of this amount, 14.57 percentage points were allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 of WpHG, and 61.33 percent with Section 22, Subsection 2.

5. GAP-W International, LLC, c/o General Atlantic Service Corporation, 3 Pickwick Plaza, Greenwich, CT 06830, USA, informed us in accordance with Section 21, Subsection 1 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5 and 10 percent thresholds. Its holding is now 14.57 percent.

   GAP-W International, LLC, c/o General Atlantic Service Corporation, 3 Pickwick Plaza, Greenwich, CT 06830, USA, informed us in accordance with Section 21, Subsection 1, and Section 22, Subsection 2 of WpHG, that on December 22, 2003, its share of voting rights in the Company exceeded the 5, 10, 25, 50 and 75 percent thresholds as a result of the allocation of 61.33 percent. Its holding is now 75.90 percent.

In March 2004, TDS was informed of the following transaction, in accordance with Section 21 of WpHG. During the same month, in accordance with Section 25 of WpHG, the Company published the following disclosure in the Handelsblatt financial newspaper:

Ulrich Beck, Neckarsulm, Germany, has informed us that on August 19, 2003, his share of voting rights in the Company fell below the 5 percent threshold. Its holding is now 2.2 percent.

In June 2004, TDS was informed of the following transactions, in accordance with Section 21 of WpHG. In July 2004, in accordance with Section 25 of WpHG, the Company published corresponding disclosures in the Handelsblatt financial newspaper:

1. General Atlantic Partners (TERN), L.P., Clarendon House, Church Street, Hamilton, HM 11, Bermuda, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 60.26 percentage points are held directly by General Atlantic Partners (TERN), L.P., and 14.57 percentage points were allocated in line with Section 22, Subsection 2 of WpHG.

2. GAP (Bermuda) Ltd, Clarendon House, Church Street, Hamilton, HM 11, Bermuda, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 60.26 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 of WpHG, and 14.57 percentage points in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG.

3. Steven A. Denning, Peter L. Bloom, Peter Currie, Mark F. Dzialga, Erik Engstrom, Dr. Klaus Esser, William E. Ford, William O. Grabe, David C. Hodgson, Braden R. Kelly, René M. Kern, William J. Lansing, Matthew Nimetz, Clifton S. Robbins, Franchon M. Smithson, Tom C. Tinsley, Florian Wendelstadt and John Wong informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, their share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. This amount is allocated to them in line with Section 22, Subsection 1, Paragraph 1, No. 1 of WpHG, in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG.

   The postal address of Steven A. Denning, Peter L. Bloom, Mark F. Dzialga, Erik Engstrom, William E. Ford, William O. Grabe, David C. Hodgson, René M. Kern, Matthew Nimetz, Clifton S. Robbins, Franchon M. Smithson and Tom C. Tinsley is: c/o General Atlantic Service Corporation, 3 Pickwick Plaza, Greenwich, Connecticut 06830, USA. The postal address of Dr. Klaus Esser is: c/o General Atlantic Partners GmbH, Königsallee 62, 40212 Düsseldorf, Germany. The postal address of Florian Wendelstadt is: c/o General Atlantic Partners Limited, 83 Pall Mall, Sixth Floor, London, SW1Y 5ES, UK. The postal address of Peter Currie, Braden R. Kelly and William J. Lansing is: c/o General Atlantic Service Corporation, 228 Hamilton Avenue, Palo Alto, California 94301, USA. The postal address of John Wong is: c/o General Atlantic Service Corporation, 24 Raffles Place, 29-04 Clifford Center, Singapore 048621, Singapore.

4. GAP 1 SARL, 3, Boulevard Royal, 2449 Luxembourg, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

5. GAP 2 SARL, 3, Boulevard Royal, 2449 Luxembourg, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

6. GAP 3 SARL, 3, Boulevard Royal, 2449 Luxembourg, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

Further clarification was provided regarding the disclosures detailed above in that on May 17, 2004, the aforementioned companies and persons held no more than 74.83 percent of voting rights in the Company. The only body with a direct stake in TDS AG on May 17, 2004, was General Atlantic Partners (TERN), L.P., which holds 14.57 percent of voting rights in the Company.

In July 2004, TDS was informed of the following transactions, in accordance with Section 21 of WpHG. During the same month, in accordance with Section 25 of WpHG, the Company published the following disclosures in the Handelsblatt financial newspaper:

1. GAP-W International, LLC, c/o National Corporate Research, Ltd., 615 South Dupont Highway, Dover, Delaware 19901, USA, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are held directly by GAP-W International, LLC, and 60.26 percentage points were allocated in line with Section 22, Subsection 2 of WpHG.

2. GAP-W International SARL, 3, Boulevard Royal, L-2449, Luxembourg, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount,

14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

3. Woodbridge International Holdings S.A., 3, Boulevard Royal, L-2449, Luxembourg, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

4. WISHA Holdings S.A., 3, Boulevard Royal, L-2449, Luxembourg, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

5. Woodbridge International Holdings Limited, 65 Queen Street West, Suite 2400, Toronto, Ontario, Canada M5H 2M8, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

6. The Woodbridge Company Limited, 65 Queen Street West, Suite 2400, Toronto, Ontario, Canada M5H 2M8, informed us in accordance with Section 21, Subsection 1, Paragraph 1 of WpHG, that on May 17, 2004, its share of voting rights in the Company fell below the 75 percent threshold. Its holding is now 74.83 percent. Of this amount, 14.57 percentage points are allocated in line with Section 22, Subsection 1, Paragraph 1, No. 1 in conjunction with Section 22, Subsection 1, Paragraph 2 of WpHG, and 60.26 percentage points in line with Section 22, Subsection 2 of WpHG.

Further clarification was provided regarding the disclosures detailed above in that on May 17, 2004, the aforementioned companies and persons held no more than 74.83 percent of voting rights in the Company. The only body with a direct stake in TDS AG on May 17, 2004, was GAP-W International LLC, which holds 14.57 percent of voting rights in the Company.

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by TDS Informationstechnologie Aktiengesellschaft, Neckarsulm, consisting of the balance sheet, income statement, reconciliation of shareholders' equity, statement of cash flows and the notes thereto, and also the management report for the year ended December 31, 2005. Preparation of the consolidated financial statements and management report in line with International Financial Reporting Standards, as they are applied in the EU, and in line with the supplementary provisions of Section 315, Subsection 1 of the German Commercial Code (HGB), and the provisions of the Articles of Incorporation, is the responsibility of the Company's Executive Board. Our role is to express an opinion on the consolidated financial statements and the management report based on our audit. In addition, we were required to ascertain whether the consolidated financial statements comply with IFRS.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted auditing standards promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audits to identify any inaccuracies or irregularities that have a material effect on the presentation of assets, financial status or profitability in the consolidated financial statements in line with the accounting standards used, and in the management report. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit comprises a review of the financial statements of companies included in the consolidated financial statements, of the scope of consolidation, of accounting and consolidation principles, and of significant estimates made by management, as well as an evaluation of the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

Based on the findings of our audit, we believe that the consolidated financial statements comply fully with IFRS, as they are applied in the EU, that they comply with the supplementary provisions of Section 315, Subsection 1 of the German Commercial Code (HGB), and with the supplementary provisions of the Articles of Incorporation, and that they are a true reflection of the assets, financial status and profitability of the Group, in line with these standards. The management report is consistent with the consolidated financial statements, provides a true picture of the Group's status, and correctly presents opportunities and risks of future development.

Mannheim, Germany, March 10, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Held	Kern
Auditor	Auditor

FINANCIAL CALENDAR

2006 Financial calendar

May 11, 2006	Publication of three-month interim report
July 3, 2006	Annual stockholders' meeting
August 10, 2006	Publication of six-month interim report
November 9, 2006	Publication of nine-month interim report

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