ANNUAL REPORT 2006

TDS

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AN OVERVIEW OF TDS GROUP PERFORMANCE

Key Group figures according to IFRS

	2006 in € thousands	2005 in € thousands	Change in € thousands	Change in percent
Total revenues	**91,790**	**93,378**	1,588	-1.70
Revenues by regions				
Revenues in Germany	84,320	83,800	520	0.62
Revenues in other countries	7,470	9,578	-2,108	-22.01
Revenues by division				
Revenues for IT Outsourcing	47,225	46,461	764	1.64
Revenues for HR Services & Solutions	32,151	29,420	2,731	9.28
Revenues for IT Consulting	13,414	17,497	-4,083	-23.34
Gross profit	**27,658**	**26,457**	1,201	4.54
in % of revenues (gross return on sales)	30.1	28.3		
EBITDA	**17,190**	**12,300**	4,890	39.76
in % of revenues (EBITDA margin)	18.7	13.2		
EBIT	**8,120**	**3,056**	5,064	165.71
in % of revenues (EBIT margin)	8.8	3.3		
Net income	**5,558**	**940**	4,618	491.28
Net income per share (€) (basic)[1)]	0.19	0.03	0.16	
Net income per share (€) (diluted)[2)]	0.19	0.03	0.16	
Total assets	**79,159**	**73,733**	5,426	7.36
Shareholders' equity	31,987	26,190	5,797	22.13
Equity-to-total-assets ratio (in %)	40.4	35.5		
Share capital	29,291	29,179	112	0.38
Liabilities	34,265	35,358	-1,093	-3.09
Number of employees at December 31, 2006	719	743	-24	-3.23

[1)] Weighted average of all outstanding shares for earnings per share (basic) at December 31, 2006: 29,173,965 (29,010,928 in 2005)

[2)] Weighted average of all outstanding shares for earnings per share (diluted) at December 31, 2006: 29,173,965 (29,045,345 in 2005)

INTRODUCTION FROM THE EXECUTIVE BOARD

Dear shareholders, employees, and business partners,

TDS developed positively in fiscal 2006, and is well equipped and well positioned for the future. The productivity initiative, the leaner organizational structure, and the cost-cutting program introduced in 2005 all had a significant impact in 2006.

EBIT climbed by approximately 166 percent to €8,120 thousand, corresponding to EBIT margin of 8.8 percent. At €109,608 thousand, order intake was up significantly over 2005, while order backlog increased by a similar degree, totaling €175,314 thousand at year-end 2006. Revenues were €91,790 thousand, and on a par with 2005. Efforts made in 2006 to enhance the Company's operational strength were vital to enabling future growth.

Our strategy proved successful. Moreover, our business is based on three segments, that are increasingly cooperating to offer customers added value: IT Outsourcing, HR Services & Solutions and IT Consulting. TDS has enhanced its offering, and enhanced its competitiveness across all segments with the introduction of new services. In IT Outsourcing, TDS has positioned itself as an outsourcing provider for selected tasks or entire processes. Because of the long-term nature of this business, it is stable and more predictable. In the future, we expect more robust growth in this segment, particularly with regard to selective outsourcing. HR Services & Solutions also posted a profit in 2006. In Germany, TDS is one of the key players in this space, particularly for midmarket companies, and aims to build on this position in 2007. Meanwhile, we have pushed ahead with strategic restructuring of IT Consulting. Although the focus remains on SAP, we have proven skills in specific industries and applications, and we will expand activities in these areas. In addition, IT Consulting plays a key supporting role for both other divisions, enhancing the entire TDS portfolio. As a result, our customers enjoy high-quality, value-added services across the entire value chain.

TDS was able to achieve more distinct positioning in 2006, and will benefit from the growth expected in the IT market. Industry experts PAC rate TDS as one of the leading outsourcing providers to midsize enterprises.

Fiscal 2006 saw a major change in TDS's ownership structure, with Fujitsu, a global player, purchasing a majority holding. Its subsidiary Fujitsu Services is one of Europe's leading IT service providers. The transaction was completed on January 18, 2007 following approval by anti-trust authorities. Fujitsu then issued a mandatory offer to all shareholders pursuant to the German Securities Acquisition and Takeover Act (WpÜG). The new majority shareholder will provide fresh impetus, translating into additional business and growth. Fujitsu Services and TDS will work together to extend their presence in the IT market, both in Germany and in the rest of Europe.

In 2006, we established a solid basis for expansion. As the IT industry continues to pick up, we aim to generate revenues in the region of €100 million in 2007, with slightly improved EBIT margin.

We would like to thank our shareholders, customers, and business partners for their loyalty and trust, and extend a special thanks to our employees for their dedication over the past year. We remain committed to developing and maintaining high-quality products and services that will enable us to secure jobs and increase shareholder value. We hope you find this report interesting and informative.

Michael Eberhardt and Dr. Heiner Diefenbach

CORPORATE GOVERNANCE

Corporate governance at TDS

The Executive Board and Supervisory Board of TDS AG continue to implement the German Corporate Governance 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, and, since July 24, 2006, to the version published on June 12, 2006. Declarations for fiscal 2006 and preceding fiscal years have been made available to shareholders and other stakeholders via the TDS Website.

In 2006, TDS complied with all recommendations of the Code, with one exception, and with the majority of the Code's suggestions.

Declaration of Compliance with the German Corporate Governance Code

In their statement pursuant to Section 161 of the German Stock Corporation Act (AktG), made at December 15, 2006, the Executive Board and the Supervisory Board of TDS declared that the Company complied with the recommendations of the German Corporate Governance Code as published on June 2, 2005, and with the version revised on June 12, 2006, as of July 24, 2006, with the following exception - as declared in December 2005 - and will comply with the recommendations of the revised version of June 12, 2006 in the future, also with the following exception:

In 3.8, the code recommends that Directors' and Officers' (D&O) insurance include an appropriate deductible for the Executive Board and Supervisory Board. However, TDS cover for its Executive and Supervisory Board does not.

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 Boards" in the notes to the consolidated financial statements.

December 2006

The Executive Board

The Supervisory Board

SUPERVISORY BOARD REPORT

Dear shareholders,

In fiscal 2006, 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, and the current business situation and developments, including risks and risk management. All transactions of material importance were addressed by Executive Board reports, and discussed in detail and reviewed critically by the Supervisory Board. Company strategy was agreed between the Executive Board and 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.

Focus of Supervisory Board work in fiscal 2006

Seven Supervisory Board meetings were held in fiscal 2006. At these meetings, the Supervisory Board regularly discussed revenues and earnings development at the Company and at its divisions, as well as issues of general corporate planning, strategy, and the financial position. In addition, the Supervisory Board addressed the sale of the majority shareholding in TDS in 2006.

After in-depth discussion and review of submitted documents, the Supervisory Board approved the 2005 financial statements of TDS AG and consolidated statements for the TDS Group at its meeting on March 21, 2006. The auditors attended the meeting and reported on their key findings, with reference to their own documents. Furthermore, discussions were held on risks associated with the future development of the TDS Group, and on the current business situation and the Group's expectations for fiscal 2006. The Supervisory Board also considered the positioning of TDS in the SAP space, as described by the Executive Board, and requested that a written report be produced.

At the meeting on May 9, 2006, the Executive Board reported on the current business situation, and there was extensive discussion on strategy in the IT Consulting division. The Executive Board also updated the Supervisory Board on the restructuring of TDS Deutschland AG & Co. OHG to form TDS IT Consulting GmbH.

At the meeting on July 3, 2006, the Supervisory Board discussed the business model of IT Consulting on the basis of documents submitted by the Executive Board. The Executive Board also reported on the status of the proposed pooled loan facility, involving a consortium of banks, and the Supervisory Board discussed the planned sale of General Atlantic shares in TDS.

At the meeting on October 11, 2006, the Executive Board informed the Supervisory Board of the current business situation, and the possibility of TDS making an acquisition. The Executive Board then reported on the progress of the audit conducted by the German Financial Reporting Enforcement Panel (DPR).

The Executive Board presented the results of the DPR audit at the meeting on November 7, 2006. No infringements of financial reporting rules had been identified.

At the Supervisory Board meeting on December 15, 2006, the Executive Board reported on the current business situation, provided guidance on probable year-end 2006 financial results, and presented planning for fiscal 2007. The Supervisory Board examined transaction details of the proposed acquisition together with the Executive Board. In addition, the Supervisory Board discussed the sale of the majority shareholding in TDS to Fujitsu Services. Moreover, the Supervisory Board and Executive Board addressed compliance with the German Corporate Governance Code, as published on June 2, 2005 and June 12, 2006, and passed a corresponding resolution on the submission of a Declaration of Compliance.

Committee work

In fiscal 2006, the Supervisory Board established an HR Committee (Compensation Committee) and a Finance/Audit Committee. The HR Committee met three times in fiscal 2006: on March 21, May 9, and July 3, 2006. The Finance/Audit Committee held a total of four meetings: on March 6, April 27, September 7, and December 7, 2006.

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, 2006, and the management reports, were examined by KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft, Berlin and Frankfurt am Main, appointed as independent auditors at the annual shareholders' meeting on July 3, 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, 2006, as well as the management reports, the proposal by the Executive Board with regard to appropriation of retained earnings and the audit reports were submitted to Supervisory Board members in due time. They were discussed at length at the Finance/Audit Committee meeting on March 14, 2007, and at the Supervisory Board meeting on March 22, 2007. The independent auditors attended both meetings, where 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, following their own examination of all documents. On March 22, 2007, the Supervisory Board confirmed and endorsed the 2006 financial statements and consolidated financial statements, at the recommendation of the Finance/Audit Committee. The annual financial statements are therefore officially approved. The Supervisory Board also approved the Executive Board's proposal regarding appropriation of earnings.

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.

Explanation of disclosures pursuant to Section 289, Subsection 4, and Section 315, Subsection 4 of the German Commercial Code (HGB)

In its report on the position of the Company and the Group, the Executive Board made disclosures in accordance with Section 289, Subsection 4 and 315, Subsection 3 of the German Commercial Code (HGB). The Supervisory Board examined these disclosures, and concluded that that the information provided by the Executive Board is compliant with Section 289, Subsection 4, and Section 315, Subsection 4 of the German Commercial Code.

The Supervisory Board has the following supplementary comments with regard to the disclosures pursuant to Section 171, Subsection 2, Number 2 of the German Stock Corporation Act (AktG):

Disclosures relating to the breakdown of share capital, provisions for the appointment of Executive Board members, and for the termination of their membership, and for changes in the Articles of Incorporation, and with regard to compensation agreements in the case of takeover bid, are self-explanatory. This also applies to confirmation on the part of the Executive Board that there are no restrictions on voting rights or the transfer of shares, that there are no shares with special rights, and no employees who hold a share in capital as a result of employee share-option programs and who do not directly exercise their control rights.

The disclosure on direct and indirect holdings at December 31, 2006 relates to the former majority shareholder. This majority shareholder sold its shares in December 2006. The purchase contract for the transfer of shares to the new majority shareholder, Fujitsu Services Overseas Holdings Limited, was only concluded after the transaction was approved by anti-trust authorities in January 2007. Additional disclosures in the management report on the direct and indirect holdings of Fujitsu Group companies relate to the situation at February 28, 2007. Fujitsu Services Overseas Holdings Limited issued a mandatory offer to all Company shareholders in accordance with the German Securities Acquisition and Takeover Act (WpÜG). Since February 28, 2007, the direct and indirect holdings of Fujitsu Group companies have increased because a number of shareholders have already accepted the offer. At the time the resolution was passed, the Supervisory Board was unable to predict to what extent the mandatory offer would be taken up.

In the past, the Company has exercised the authorization granted to it for the buy-back of shares. As a result, the Company holds 56,214 treasury shares at present. The Company has not yet made use of authorized capital for share issues. Authorized-but-contingent capital IV is for subscription rights issued under the 2002 share-option plan. 405,000 share options are currently outstanding within the scope of this plan, at a subscription price of €2.96 per share. Authorized-but-contingent capital V is for convertible bonds. The Company has not yet issued any convertible bonds.

"Change of control" clauses (i.e. clauses that permit partners to terminate contracts in the event of a change in the control of the Company, such as that at present), are included in contracts with customers, suppliers, and banks. The Supervisory Board is, to date, not aware of a single case where a contract has been terminated as a result of such clauses, and does not expect these clauses to lead to a significant number of the terminations in the future.

Disclosure of relationships with related companies (dependency report)

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

> "Having examined and assessed the Executive Board's disclosure of relationships with related companies (dependency report) in accordance with German law, we can confirm that
>
> 1. the report includes no material misstatements,
> 2. the products and services provided by the Company for the transactions listed in the report were not excessive, or any financial disadvantage compensated for,
> 3. 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 report, 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 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, Germany, March 22, 2007

The Supervisory Board

Andrew MacNaughton
Chairman

SUPERVISORY BOARD AND EXECUTIVE BOARD MEMBERS' MANDATES ON SIMILAR BODIES

Members of the Executive Board in fiscal 2006
The following persons are members of the Supervisory Board of TDS Informationstechnologie AG:

Dr. Klaus Esser (until January 31, 2007)
(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, Navigon AG, Hamburg, Germany

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

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

Andrew MacNaughton (since February 15, 2007)
Managing Director, Fujitsu Services Overseas Holding Limited
Member of the Supervisory Board/Chairman since March 22, 2007

Mr. MacNaughton is a member of the following bodies:

Director, Zensar Technologie Ltd., Pune, India

Director and Chairman of the Board, ICL KME CS, Kazan, Russia

Director and President, Fujitsu Services Italia SpA, Milan, Italy

Director, Fujitsu Espana SA, Madrid, Spain

Director, Fujitsu Espana Services SA, Madrid, Spain

Director and President of the Board, Fujitsu Services France,
Asniere sur Seine, France

Bernhard Dorn (Deputy Chairman) (until March 31, 2007)
Self-employed 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

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

Karl Heinz Achinger
Self-employed 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

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

Andreas Barth (until January 31, 2007)
Management consultant, Grünwald, Germany
Member of the HR Committee

Mr. Barth is a member of the following bodies:

Non-executive director, Colt Telecom plc., London, UK (until July 3, 2006)

Non-executive director, Colt Telecom Group S.A., Luxembourg (since July 3, 2006)

Winfried Holz (since February 15, 2007)
Managing Director, Fujitsu Services GmbH, Düsseldorf, Germany
Member of the Supervisory Board

Mr. Holz has no further mandates on similar bodies

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

Dr. Schütte is a member of the following bodies:

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

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

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

Günter Steffen
Self-employed 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, Panatecs GmbH, Tübingen, Germany
(since January 13, 2006)

Chairman of the Advisory Board, greenovation Biotech GmbH, Freiburg, Germany
(since December 19, 2006)

Member of the Advisory Board, Baden-Württembergische Bank AG, Stuttgart, Germany
(until July 31, 2005)

Managing Director, GS-Holding GmbH, Neckarsulm, Germany

Managing Director, SG-Consult Beteiligungs-GmbH & Co. KG, Heilbronn, Germany

Managing Director, HM Systemberatung und Finanzkonzepte GmbH, Neckargemünd, Germany

Member of the Supervisory Board, REM AG, Stuttgart, Germany (since April 7, 2006)

MANAGEMENT REPORT

The figures and statements presented in the consolidated financial statements of TDS Informationstechnologie AG (TDS AG) and its subsidiaries (hereinafter "TDS", "the Group", "the Company", or "the TDS Group") are compiled in accordance with International Financial Reporting Standards (IFRS) effective at the balance-sheet date. All currency amounts are stated in euros (generally € thousands). Reference figures for 2005 have been adjusted accordingly. Shares in TDS are listed on the Frankfurt stock exchange and all other German bourses.

General business environment

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.

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.

Economic growth in Europe increases
in 2006, growth in the Europe economy exceeded forecasts for 2006. According to the German Federal Office of Statistics, gross domestic product (GDP) in the Eurozone climbed to 2.6 percent in 2006 (1.4 percent in 2005). Until the middle of the year, an increase of 1.6 percent had been widely expected. In Germany, GDP actually grew by 2.6 percent in 2006 according to IfW. Following years of relative stagnation, linked with businesses restructuring, cutting costs and reducing debt, plus low wage and salary demands for employees, economic development in Germany picked up in 2006. Growth was fuelled by a strong rise in exports, and also higher domestic demand, with consumers making purchases in anticipation of the increase in VAT on January 1, 2007.

German IT industry expands
In its fall 2006 study, industry association BITKOM forecast growth of 2.5 percent for the German ICT market, up to €146.4 billion. The IT segment grew by 2.5 percent, in line with the entire market, but was boosted by stronger demand for office equipment and IT services.

In the US, spending on external IT services and software accounted for 50 percent of the entire IT budget in 2006. In Germany, it was only 40 percent. However, external service providers are playing an increasingly important role in Germany. In its third newsletter of 2006, Pierre Audoin Consultants (PAC) forecast average growth of 6 percent for the software and IT industry for each year until 2010. Furthermore, German companies are increasingly outsourcing non-core tasks, a trend that will benefit TDS.

IT Outsourcing
PAC experts believe that the IT outsourcing market will undergo change. On the one hand, outsourcing is characterized by large contracts; on the other hand, there is a shift to more selective arrangements. Contracts with shorter terms and/or lower value, and more intensive competition may turn up the pressure on margins. Consultants at PAC forecast growth of up to 10 percent for each year until 2010, and expect the pattern of market share to change. In their opinion, companies can keep pace with market trends by implementing new pricing models, and offering greater flexibility.

HR Services & Solutions
Placing payroll-accounting and administrative HR processes with outside specialists is common practice in Germany. However, end-to-end outsourcing of HR management is still relatively rare. A study on HR

software found that 67.7 percent of enterprises entrust external providers with their payroll accounting - making it by far the most frequently outsourced process. However, a major obstacle is concern over the future of in-house HR employees.

IT Consulting
According to Pierre Audoin Consultants, the improved investment climate means that consulting services are becoming more important. Demand is particularly high in specific fields, for example, for SAP-based compliance solutions. In the long term, companies will become increasingly dependent on outside support: As "baby boomers" approach retirement age, employers will seek to replace in-house IT skills through external providers. Technical advances in hardware and software, particularly for mobile communications, and higher capital expenditure for IT security, will also generate greater demand for consulting.

Competitive position
TDS has been aware of this shift for some time, and is increasingly offering selective arrangements. In September 2006, the updated PAC study on midsize enterprises (SMB Snapshot 2006) confirmed TDS' position as one of the leading IT outsourcing players for the midmarket. Based on the number of payroll transactions, the Company is the market leader for payroll services and HR BPO (Business Process Outsourcing). In addition, TDS offers SAP-related and document-management consulting services.

Material legal influences
Pursuant to Section 312, Subsection 3 of the German Stock Corporation Act (AktG), the Executive Board disclosed that the Company had received appropriate consideration for all transactions with related companies and was not disadvantaged by any action/omission.

Members of the TDS Executive and Supervisory Boards
The members of the Executive and Supervisory Boards of TDS AG are responsible for managing and overseeing the business of the Company and its subsidiaries. There are two Executive Board members: Michael Eberhardt (Chairman of the Executive Board) and Dr. Heiner Diefenbach. At year-end 2006, the members of the Supervisory Board were Dr. Klaus Esser (Chairman of the Supervisory Board), Bernhard Dorn (Deputy Chairman of the Supervisory Board), Karl Heinz Achinger, Andreas Barth, Dr. Martin Schütte and Günter Steffen (see appendix). Dr. Klaus Esser and Andreas Barth resigned from their positions on the Supervisory Board, effective from January 31, 2007. Subsequently, Stuttgart Court (court of first instance) appointed Andrew MacNaughton and Winfried Holz to the Supervisory Board, effective from February 15, 2007.

Assessment by the Executive Board
The Executive Board believes that overall business development was positive in fiscal 2006.

Parameters used to manage and measure business performance

Value-driven management
The TDS Group takes a value-driven approach to management. Sustainable increases in shareholder value will be achieved by focusing on attractive segments of the IT market.

The corresponding key performance indicators are revenues, EBITDA (earnings before interest, taxes, depreciation and amortization), EBIT (earnings before interest and taxes), net income, order intake, cash flows, capital expenditure, receipt of payments (days sales outstanding - DSO), and employee efficiency.

Via monthly Group-wide reporting, actual results are compared to targets. In addition, management is also based on qualitative goals, such as the development of new solutions, winning new reference customers, and certification by customers, suppliers, and external organizations and companies.

The personal targets of employees are aligned with corporate goals by means of individual performance-related agreements. Material qualitative and quantitative parameters remained unchanged in fiscal 2006, and are comparable with previous years.

Summary of Company profitability
In fiscal 2006, the TDS Group posted consolidated earnings of €5,558 thousand, significantly exceeding 2005 earnings of €940 thousand. Earnings before interest and taxes (EBIT) increased by approximately 166 percent to €8,120 thousand (€3,056 thousand in 2005).

Development of revenues
In fiscal 2006, TDS generated revenues of €91,790 thousand (€93,378 thousand in 2005), failing to meet its target by approximately 4 percent. While TDS saw an increase in demand for outsourcing and HR services, the volume of business in IT Consulting fell by some 23 percent as the result of strategic restructuring in this segment. On June 30, 2006, majority shareholder General Atlantic announced that it would examine its strategic options with regard to a sale of its shares in TDS, which briefly unsettled capital markets. Projects likely to be awarded to TDS were put on hold until the question of the majority holding in TDS was resolved. This primarily had a negative impact on growth in the IT Outsourcing segment.

As a result of staff changes within the sales organization, TDS was unable to exploit the potential for growth, particularly with regard to winning new customers for SAP licenses.

Order intake/backlog
In 2006, the Neckarsulm-based IT specialist strengthened existing customer relationships, and won many new customers. Order intake for the IT Outsourcing segment climbed significantly after the question of the majority holding in the Company had been resolved. At €109,608 thousand, intake was up considerably over 2005 (€79,856 thousand). Order backlog rose correspondingly, totaling €175,314 thousand at year-end 2006 (€157,418 thousand in 2005).

Earnings
The TDS Group posted gross profit of €27,658 thousand in fiscal 2006, an increase of 4.5 percent over 2005 (€26,457 thousand). This is due to the comparatively sharp decrease of 4.2 percent in cost of sales, corresponding to a drop of €2,789 thousand. This is mainly due to the reversal of a provision (€1,447 thousand), and the capitalization of homegrown software in HR Services & Solutions (€1,016 thousand). Gross margin improved from 28.3 percent to 30.1 percent. As a result of lower headcount, selling and marketing costs fell by €1,376 thousand, or 14.3 percent, to €8,238 thousand. General and administrative expenses were also down, thanks to the effects of the cost-cutting program initiated in 2005: At €11,758 thousand, these were €2,464 or 17.3 percent below 2005. Other operating income and expenses only changed slightly in comparison, up by 5.3 percent to €458 thousand (€435 thousand in fiscal 2005).

Amortization and depreciation dropped slightly in 2006 from €9,244 thousand to €9,070 thousand, a fall of €174 thousand. At €1,444 thousand, marketing costs were on a par with 2005 (€1,567 thousand). Payroll and related costs per capita were up by 3.5 percent on average, as a result of salary increases (particularly for key members of staff), and higher provisions for bonuses due to the positive development of consolidated earnings.

Earnings before interest (financial income) and taxes (EBIT) climbed by some 166 percent to €8,120 thousand (€3,056 thousand in 2005), corresponding to EBIT margin (EBIT in relation to consolidated revenues) of 8.8 percent (3.3 percent in 2005). In light of the factors above, earnings were significantly above the goal of at least €6 million. Financial income improved by 23.1 percent or €560 thousand to minus €1,861 thousand, due in particular to lower interest and bank guarantees within the scope of the new pooled loan facility (involving a consortium of banks), lower interest for provisions for pensions, and higher interest income. Earnings before taxes (EBT) increased almost ten-fold to €6,259 thousand (€635 thousand in 2005). This corresponds to a pre-tax margin of 6.8 percent (0.7 percent in 2005). The post-tax margin (consolidated net income in relation to consolidated revenues) rose to 6.1 percent (1.0 percent in 2005).

Financial situation
Minimizing financial risks and continuously optimizing financing arrangements are key management tasks. Via long-term financial planning, the Group has established a system of liquidity planning covering a period of twelve months, that offers high visibility into its financial situation and liquidity.

The TDS Group improved its financial situation thanks to strong consolidated earnings. Cash and cash equivalents increased from €2,129 thousand in 2005 to €4,147 thousand at December 31, 2006. Cash flows from operating activities climbed from €10,538 thousand in 2005 to €12,248 thousand. Cash flows from investing activities were up to €8,020 thousand (€3,451 thousand in 2005), primarily due to a remaining payment for G.O.D Gesellschaft für Organisation und Datenverarbeitung mbH (GOD), and higher capital expenditure for fixed assets - largely for updating data-center hardware. At €2,182 thousand, cash flows from financing activities were significantly below the 2005 figure of €6,024 thousand that included repayment of €3,511 thousand due to banks. Repayments of loans and obligations under finance leases were down in comparison to 2005.

The Company is able to fulfill all its payment obligations.

The pooled loan facility agreement of July 27, 2006 replaced TDS' previous arrangement, and led to debt restructuring. Since this date, all material amounts due to banks by TDS AG are channeled via this agreement, signed between TDS AG, TDS IT Consulting GmbH and TDS HR Services & Solutions GmbH (together, the borrower), and Baden-Württembergische Bank (the lead bank in the consortium), and four further banks (together, the lender). The agreement grants a credit line in the amount of

€20,000 thousand, and is divided into several types of loan. In addition, a capital-market financed corporate bond of €5,000 thousand was agreed. At December 31, 2006, the credit line was reduced, as scheduled, to €19,400 thousand.

For all existing, future, and conditional claims, the borrower pledged all current and future bank-account balances, including all interest claims, assigned trade receivables and claims for payment from factoring activities, and offered all fixed assets and inventories as security.

TDS must ensure compliance with defined financial performance indicators given in the pooled loan facility agreement, at the level of the Group, during the entire term of the agreement or at specified balance-sheet dates. Financial indicators are determined on the basis of published quarterly reports, and at the end of each fiscal year on the basis of the audited TDS consolidated financial statements. In addition, there are limits with regard to leasing activities.

Details of financing arrangements

Corporate bond

This bond in the amount of €5,000 thousand will mature at September 15, 2011. Interest is based on the applicable Euribor rate for the corresponding interest period, plus a premium of 1.8 percent, and is currently 5.474 percent per annum. The interest rate is fixed until March 14, 2007, and is adjusted every three months.

Pooled loan facility agreement:

Loan A (amortizing loan)
This loan in the amount of €7,400 thousand is to be repaid in tranches of €600 thousand/ €800 thousand and €1,000 thousand, every six months until June 30, 2011. Interest is based on the applicable Euribor rate for the corresponding interest period, plus a premium of 2.0 percent, and is currently 5.772 percent. The interest rate is fixed until March 30, 2007 and is adjusted in accordance with the loan amount at each balance-sheet date, and depending on the debt-to-cash-flow ratio. The interest period is currently three months, and can be modified to either two or six months. Interest is payable at the end of the interest period.

Loan B (non-amortizing loan)
This loan in the amount of €4,000 thousand is due to mature at June 30, 2011. Interest is currently 6.222 percent per annum. The interest rate is fixed until March 30, 2007. Interest is based on the applicable Euribor rate for the corresponding interest period plus a premium of 2.5 percent. The interest rate, interest period and maturity are adjusted as for loan A.

Loan C (for acquisitions)
A credit line of €4,000 thousand is available until June 30, 2011 for potential acquisitions. The Company does not make use of this credit line at present.

Loan D (operating line of credit)
This credit line totals €4,000 thousand, of which €1,200 thousand is a bilateral credit line (sub-limit) available for use until July 26, 2007 as a current-account loan, money-market loan, or for guarantees/letters of credit in euros. If the sub-limit is used as a current-account loan, interest will be charged on the corresponding amount of credit used at, currently, 6 percent per annum. If employed as a money-market loan, interest is based on the Euribor rate plus a margin or, where the loan has been taken out in Swiss francs, based on the Libor rate plus a margin, for the corresponding amounts used. A commitment fee of 0.6 percent per annum applies for unclaimed amounts. At December 31, 2006, the Company had not made use of the sub-limit.

Assets

Total assets for the TDS Group totaled €79,159 thousand, an increase of some 7.4 percent over the 2005 figure (€73,733 thousand). At €57,125 thousand, non-current assets remained on a par with the 2005 figure of €56,886 thousand. Intangible assets were up by 2.5 percent from €35,222 thousand to €36,093 thousand due to the purchase of software licenses, and capitalization of software-development costs at subsidiaries. However, property, plant and equipment fell by 5.5 percent from €11,810 thousand to €11,159 thousand. This was partly due to an increase of approximately €400 thousand in the depreciation of capital expenditure. Investment property rose by approximately 44 percent to €891 thousand (€620 thousand in 2005) as a result of write-ups.

As for 2005, the Company invested in leased hardware and software assets. The cash value of minimum lease payments totaled €5,894 thousand at year-end 2006 (€5,329 thousand in 2005).

Current assets improved by around 31 percent in comparison to 2005 (€16,847 thousand), to €22,034 thousand. This is largely due to an increase of approximately 23 percent (or €2,911 thousand) in trade receivables, and a hike of around 95 percent (or €2,018 thousand) in cash and cash equivalents (€4,147 thousand in fiscal 2006, and €2,129 thousand in 2005). Higher cash and cash equivalents can be attributed to large items from major customers that were due at the balance-sheet date, in particular an additional

customer project that included commodities. Receivables management at the TDS Group was enhanced, and efforts are ongoing to improve compliance with payment deadlines.

TDS Group shareholders' equity rose by €5,797 thousand (approximately 22 percent) in comparison to 2005 (€26,190 thousand) to €31,987 thousand, mainly through higher consolidated net income. Retained earnings improved from minus €38,417 thousand to minus €32,859 thousand. Share capital increased by €112 thousand to €29,291 thousand (€29,179 thousand in 2005) as a result of options exercised from authorized-but-contingent capital. Additional paid-in capital was up by €165 thousand to €35,666 thousand. At €135 thousand, treasury shares remain unchanged. Equity-to-total-assets ratio increased to 40.4 percent in 2006 (35.5 percent in 2005).

As a result of financing arrangements, non-current liabilities climbed by approximately 11 percent to €23,372 thousand (€21,025 thousand in 2005), while current liabilities fell by approximately 10 percent to €23,800 thousand (€26,518 thousand). At the balance-sheet date, TDS had reduced liabilities by €371 thousand, and improved its financing structure thanks to the switch from current to non-current liabilities. Non-current amounts due to banks increased by €2,8886 thousand to €15,130 thousand, while current amounts due to banks fell by €1,988 thousand to €1,400 thousand. This was made possible by the pooled loan facility. Non-current obligations under finance leases rose by approximately 7 percent to €3,215 thousand, and current obligations under finance leases by 15 percent to €2,679 thousand, due to new capital expenditure, in particular for data centers. Other non-current liabilities were up by approximately 22 percent to €239 thousand, while other current liabilities dipped by more than 63 percent to €3,052 thousand. Trade receivables for the TDS Group totaled €5,353 thousand at the balance-sheet date (€3,483 thousand in 2005).

Summary of the Group's assets, financial position, and earnings
Key performance indicators for finances and earnings improved over 2005. In spite of the announcement by the majority shareholder that it was examining its strategic options with regard to it shares in the Company, causing brief unsettlement on capital markets, business development can be regarded as satisfactory.

Segment reporting
Figures for segments include intercompany revenues.

IT Outsourcing
IT Outsourcing is characterized by long-term customer relationships and stable cash flows. In fiscal 2006, revenues rose marginally to €50,610 thousand (€50,296 thousand in 2005), and accounted for 51.8 percent of consolidated revenues (50.7 percent in 2005). Earnings before interest and taxes (EBIT) climbed by 10.6 percent to €6,866 thousand (€6,208 thousand in 2005). TDS more than made up for price pressure in the industry by implementing cost reductions. EBIT margin in this segment was 13.6 percent (12.3 percent in 2005).

HR Services & Solutions
Outsourcing contracts for payroll accounting, and sales of HR software and services for financial accounting and for the not-for-profit sector, helped the TDS Group achieve higher revenues and income. In 2006, revenues increased by 4.4 percent to €31,391 thousand (€30,069 thousand in 2005), corresponding to 32.1 percent of consolidated revenues (30.3 percent in 2005). EBIT improved from minus €1,512 thousand to €3,125 thousand, which clearly indicates profitability. The increase in earnings was mainly due to the reversal of a provision (€1,447 thousand) and the capitalization of homegrown software (€1,016 thousand). Other factors were growth, and the impact of the cost-cutting program (including the closure of sites and streamlining of processes). EBIT margin was 10.0 percent (minus 5.0 percent in 2005).

IT Consulting
In 2006, TDS continued its strategic restructuring of IT Consulting. Due to oversupply on the market and slimmer margins, the business model was brought in line with market requirements, and the segment focused on selected areas of expertise, such as SAP solutions, Enterprise Content Management, and archiving. In 2006, TDS also became an SAP Gold Partner. IT Consulting posted revenues of €15,675 thousand in 2006 (€18,812 thousand in 2005). However, losses increased by €231 thousand to minus €1,871 thousand (€1,640 thousand in 2005) as a result of fewer license sales and lower workload per employee (capacity utilization).

Germany remains main driver of revenues and earnings
TDS activities focus on Germany, Austria and Switzerland. However, the Group also has a presence in the United Kingdom. In 2006, TDS generated 91.9 percent of revenues in Germany (89.7 percent in 2005), and over 96 percent of earnings.

The TDS Group maintained its competitive position in 2006, particularly in IT Outsourcing and HR Services & Solutions, although it was unable to fully exploit potential for growth. The Group can leverage strong, long-term customer relationships in these segments to take advantage of market expansion.

Other financial performance indicators
Minimizing financial risks and continuously optimizing financing arrangements are key tasks of Company management. Through long-term financial planning, the Group has established a system of liquidity planning covering a period of twelve months that offers high visibility into its financial situation and liquidity. Available credit lines and improved profitability ensure that TDS management always has sufficient cash reserves at its disposal. TDS' credit rating improved again in 2006, thanks to the increase in shareholders' equity following positive net income, and the continuous reduction of bank debt in previous years.

Capital expenditure
The TDS Group invested €9,907 thousand in fiscal 2006 (€6,308 thousand in 2005). This was mostly attributable to the acquisition of property, plant and equipment in the amount of €5,267 thousand (€4,170 thousand in 2005), primarily computer and office equipment for customer projects. Software production and new concessions and licenses increased intangible fixed assets by €4,323 thousand, and TDS invested a further €317 thousand in financial assets. Total capital expenditure included cash payments of €5,715 thousand, and finance leases of €3,825 thousand.

Other performance indicators
The TDS Group employed 719 staff at the balance-sheet date (743 in 2005), of which 255 were employed at IT Outsourcing (254 in 2005), 331 in the HR Services & Solutions segment (344 in 2005), and 133 at IT Consulting (145 in 2005). The average age was 34.4. At year-end 2006, there were 15 trainees (18 in 2005). 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, was down significantly from 10.9 percent in 2005 to 9.7 percent in 2006. The cost-cutting program in 2005 saw a reduction in headcount.

In 2006, the Company invested €642 thousand (€534 thousand in 2005) in the external training and development of staff. TDS also organized many in-house training sessions.

TDS promotes the high commitment of its staff, and rewards good performance by means of variable salaries. The variable salary should generally account for at least 10 percent, or sometimes more than 30 percent, of an employee's total salary. Employee performance is assessed on the basis of personal goals, and the underlying goals of the Company - for example, TDS operating earnings or customer satisfaction.

TDS is committed to developing its own people, and has high expectations of its staff. To compensate for the lack of skills on the open market, TDS employs a defined career-development model. In total, there are ten positions defined at TDS: consultants, systems administrators, sales staff, clerks, senior professionals, assistants, administrative staff, project managers, developers, and support agents. Each position has its own career-development path along which employees can progress as they acquire more skills and experience. TDS offers training and development programs for both hard skills (sales, consulting, project management), and soft skills (motivation and success, speaking and presentation skills, chairing meetings, and management).

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.

The Group's customer base is structured as follows: TDS and its subsidiaries generate approximately 42 percent of revenues with the 20 largest customers.

There is no dependency on suppliers because the Company ensures access to at least two suppliers for all key products and services. However, a certain dependency exists at IT Consulting due to the focus on the SAP space; this is actively managed and monitored. TDS evaluates key suppliers annually, with a rating of delivery capability, strategy, problem solving, willingness to collaborate, and communications. If the overall rating is only "satisfactory", the Company switches supplier.

Financial instruments
The goal of financial instruments is to minimize risks arising from the negative development of financial markets on the financial situation and earnings of TDS, insofar as this is possible. These include derivative financial instruments that are employed by the Company exclusively to hedge underlying transactions. At 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. Off-balance-sheet financial instruments such as the sale of receivables (factoring), asset-backed securities transactions, and sale-and-lease-back arrangements were not applied.

Financial key performance indicators
In fiscal 2006, the TDS Group posted a return on equity (consolidated net income in relation to shareholders' equity) of 17.4 percent (3.6 percent in 2005). The debt-to-cash-flow ratio rose from 1.79 percent to 1.54 percent. The equity-to-fixed-assets ratio improved from 46 percent to 56 percent, and return on capital employed (consolidated net income in relation to capital invested in the Company) climbed from 2.0 percent to 10.0 percent.

Compensation report

The TDS compensation report describes the principles for defining Executive and Supervisory Board remuneration, including amounts and structure. In addition, the report presents figures for share-based payments received by Executive Board members, and shares held by the Executive and Supervisory Board members.

Disclosures on the Executive Board

Executive Board compensation
The HR Committee of the Supervisory Board is responsible for defining Executive Board compensation. In fiscal 2006, the HR Committee comprised the then Chairman of the Supervisory Board, Dr. Klaus Esser, as well as Supervisory Board members Karl Heinz Achinger, Andreas Barth and Günter Steffen.

Executive Board compensation is performance related and can be broken down into three components: fixed compensation, variable compensation, and share-based payment. For fixed and variable compensation, a target income is defined and subject to regular examination. Examinations comprise assessment of personal performance, of the economic development of TDS, and of Executive Boards compensation at comparable companies.

Executive Board compensation breaks down as follows:

- Fixed compensation is paid as a monthly salary.
- Variable compensation consists of a bonus that is defined for each individual Executive Board member, depending on their managerial position. Variable compensation is partially based on the development of operating earnings (EBIT) in comparison to the target defined at the beginning of the corresponding fiscal year. The bonus is paid annually.
- In fiscal 2006, no further share options were granted to Executive Board members within the scope of share-based payment. Disclosures on the structure and fair values of share options granted before 2006 can be found in the notes to the consolidated financial statements. Since fiscal 2005, virtual share options (phantom stock) have been issued, whereby Executive Board members receive a cash payment based on the difference (increase) between the average prices of TDS shares in the month phantom stock is issued, and at a defined point in the future.

Share-based compensation of Executive Board members
Share options granted in fiscal 2002 expired in fiscal 2006 and can no longer be exercised.

Options granted in 2004 can be exercised as follows:

	Term of share 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 (2004 tranche): Share price €2.69, exercise price €2.96, average dividend yield 0 percent, risk-free interest rate of 3.50 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, respectively.

At December 31, 2006, the Chairman of the Executive Board, Michael Eberhardt, held 100,000 subscription rights to shares from the 2002 option plan, while former Executive Board member Ralf Klemisch held 50,000.

For the 125,000 virtual share options (phantom stock) granted in fiscal 2005, 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 fiscal 2006, the Supervisory Board granted the Executive Board further virtual share options (phantom stock), whereby Executive Board members will receive a cash bonus in 2008 based on the difference between the average prices of TDS shares at June 2006 (€2.44) and at June 2008. 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 2006.

The bonus is calculated and paid before its normal term if the majority of TDS shares are transferred to a single shareholder, and this majority shareholder either submits a takeover bid to all TDS shareholders, TDS is merged with another company without such a takeover bid, or if TDS shares are de-listed.

Shares held by the Executive Board
At December 31, 2006, Executive Board members held 118,200 shares in the Company (Michael Eberhardt: 103,200, Dr. Heiner Diefenbach: 15,000).

Other business
At December 31, 2006, a total of €1,079 thousand was set aside to fulfill pension obligations for former members of the Executive Board and their dependents.

There were no outstanding advance payments or loans to Executive Board members as of December 31, 2006.

TDS has a Directors and Officers Insurance (D&O insurance) for Executive and Supervisory Board members of TDS that covers personal liability for a defined group of people. No deductible exists as defined by Subsection 3.8 of the German Corporate Governance Code. A general consensus has not been reached at TDS as to the usefulness of defining an appropriate deductible, and, as before, no recognizable standard practice been established.

Should Executive Board contracts be terminated in connection with a change in control at TDS, members are entitled to compensation for two years (Dr. Heiner Diefenbach) or three years (Michael Eberhardt) of their target salary.

Disclosures on the Supervisory Board

Supervisory Board compensation
Supervisory Board remuneration is defined in Section 17 of the Articles of Incorporation, whereby each Supervisory Board member receives the following:

a) fixed compensation in the amount of €8,000.00, payable at the end of the fiscal year;

b) a bonus payable after the Company's consolidated financial statements have been approved, in the amount of €500.00 for each €0.01 net income per share (fully diluted), or part thereof, over and above net income per share of €0.09;

c) a fee for attending Supervisory Board meetings or committee meetings, in the amount of €1,200.00 per meeting.

The amounts given above for the fixed compensation and bonus are doubled for the Chairman of the Supervisory Board, multiplied by a factor of 1.5 for the Deputy Chairman of the Supervisory Board and for the Chairmen of Supervisory Board committees, and multiplied by a factor of 1.25 for selected members of Supervisory Board committees. Should a Supervisory Board member exercise more than one of these functions, compensation is paid on the basis of the function with the highest compensation.

Supervisory Board members also receive reimbursement for expenses incurred when performing their tasks. The Company also reimburses VAT on payments they have received from TDS.

In fiscal 2006, Supervisory Board compensation totaled €171,000.00 (€114 thousand in 2005). Compensation for individual members in 2006 broke down as follows (amounts stated in euros):

Name	Fixed-rate	Performance-related	Meeting attendance fee	Total
Dr. Klaus Esser (Chairman)	16,000.00	10,000.00	12,500.00	38,500.00
Bernhard Dorn (Deputy Chairman)	12,000.00	7,500.00	13,750.00	33,250.00
Karl Heinz Achinger	10,000.00	6,250.00	8,750.00	25,000.00
Andreas Barth	10,000.00	6,250.00	8,750.00	25,000.00
Dr. Martin Schütte	8,000.00	5,000.00	7,500.00	20,500.00
Günter Steffen	10,000.00	6,250.00	12,500.00	28,750.00
Total	66,000.00	41,250.00	63,750.00	171,000.00

Changes in shares held by members of the Executive Board and Supervisory Board
In fiscal 2006, the following transactions required disclosure pursuant to Section 15a of the German Securities Trading Act (WpHG):

Date	Name	Position	Type	Number	Price (in €)	Value (in €)
	GS Holding GmbH	Günter Steffen (Supervisory Board)				
June 30, 2006			Purchase	13,000	2.45	32,650.00
June 30, 2006			Purchase	7,000	2.49	17,430.00
June 30, 2006			Purchase	10,000	2.50	25,000.00
	Bernhard Dorn	Supervisory Board (Deputy Chairman)				
January 2, 2006			Purchase	20,000	2.10	42,000.00
February 8, 2006			Purchase	5,960	2.10	12,516.00
February 17, 2006			Purchase	3,150	2.08	6,552.00
July 11, 2006			Purchase	15,000	2.41	36,201.00
	Michael Eberhardt	Executive Board (Chairman)				
July 7, 2006			Purchase (share options)	50,000	1.66	83,000.00

At December 31, 2006, Supervisory Board members held 758,266 shares in the Company (Bernhard Dorn: 44,010, Günter Steffen: 704,616, Karl Heinz Achinger: 9,640).

Other business
Supervisory Board members did not receive any share options or share-based payments for their activities on the Board.

As of December 31, 2006, there were no outstanding advance payments or loans to Supervisory Board members.

Declaration of Compliance with the German Corporate Governance Code
The TDS Executive Board and Supervisory Board complied with the German Corporate Governance Code, with one exception that is explained elsewhere in this document. In the Declaration of Compliance, pursuant to Section 161 of the German Stock Corporation Act (AktG), they explain how compliance with code recommendations was and is ensured.

New code of conduct in place
In fiscal 2006, the Executive Board introduced a Company-wide code of conduct. This code is a binding set of rules for all employees, and will ensure sustainable financial success, and provide visibility into staff conduct. The aim of the code is to minimize risk, ensure compliance with legal requirements, and safeguard the reputation of the Company among customers, partners, shareholders, and the general public.

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 HR Services & Solutions and IT Consulting segments carry out development work to ensure the successful evolution of the Company's software products.

Events after the balance-sheet date
The acquisition of the majority shareholding in TDS by Fujitsu Services Overseas Holdings Limited, London, UK (Fujitsu Services), in accordance with the purchase contract of December 11, 2006, was concluded on January 18, 2007.

On February 26, 2007, Fujitsu Services issued a mandatory offer to all remaining shareholders, pursuant to the German Securities Acquisition and Takeover Act (WpÜG), at a price of €2.80 per share.

There were no transactions of particular significance that could negatively impact the Company's assets, financial position, or earnings.

The Company has not identified any serious macroeconomic or industry-related changes since the balance-sheet date (December 31, 2006) that could lead to a change in the assessment of the Company's situation.

RISK REPORT

Shareholder value: a key company goal
The TDS Group is committed to systematically and continuously increasing shareholder value. The Company takes appropriate and manageable risks where this enables opportunities arising from TDS' 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, in all segments. Systematic risk management supports the effective discovery, assessment, management and minimization of exposure, as well as the exploitation of opportunities.

Professional risk management
TDS has implemented a Group-wide risk-management system that enables early detection and professional 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 assessment and management of risks, 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
The demand for IT products and services depends on the development of the economy as a whole. A fall in domestic German demand resulting from the VAT increase may negatively impact spending. Against this background, it is possible that the call for IT services may fall, and investment in new projects may be postponed, or fail to materialize.

Low growth may cause competition to intensify in the IT market, particularly in the consulting and outsourcing segments. Mergers, and the arrival of new competitors, could negatively impact profitability, and prevent TDS from reaching targets for IT Consulting and HR Services & Solutions, as well as for IT Outsourcing. TDS' 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 earnings for the TDS Group.

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.

There is a certain dependency on major customers at IT Outsourcing. These 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.

TDS' success relies heavily on the availability of employees with excellent IT and interpersonal skills. 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.

There may be certain risks associated with the financial structure of the Company. As a result, TDS has implemented measures to improve its bank credit ratings, and reduce borrowing costs in previous years. However, the Company remains dependent on bank loans - in particular to ensure mid-term liquidity. To this end, the Group made use of a pooled loan facility in 2006, involving a consortium of banks, to underpin financing in the mid term. TDS makes appropriate ongoing efforts to limit financial risks and to optimize borrowing arrangements.

The success of an acquisition largely depends on the subsequent integration of the acquired company. With a multinational player such as Fujitsu Services, TDS has the opportunity to secure cross-border projects, and to bid for projects from larger companies. Combining the offerings of TDS and Fujitsu Services will open up many new market opportunities.

There is a risk that the purchase of the Company by the Fujitsu Group may lead to difficulties with the integration of employees, or the integration of operations with regard to marketing and customer ser-

vices. There is also a danger that customer relationships cannot be continued or extended to the degree planned. To minimize these risks, TDS and Fujitsu Services established a dedicated integration team, with its own steering committee. The team's aim is to ensure successful integration, and achieve the desired results.

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.

Reporting according to Section 289 Subsection 4 and Section 315 Subsection 4 of the German Commercial Code (HGB), enacted to implement the EU Directive on Takeover Bids

As a stock corporation with publicly traded voting shares, as defined under Section 2 Subsection 7 of the German Securities Acquisition and Takeover Act (WpÜG), TDS is obliged to disclose the following:

Breakdown of share capital
The share capital of the Company consists entirely of voting shares, each with a nominal value of €1.00.

Restrictions on voting rights or the transfer of shares
There are no restrictions on voting rights or the transfer of shares.

Direct and indirect holdings
At December 31, 2006, General Atlantic Partners (TERN), L.P. with headquarters at Clarendon House, Church Street, Hamilton, HM 11, Bermuda, had a direct holding of 60.26 percent in TDS, and GAP-W International, LLC, c/o National Corporate Research, Ltd., 615 South Dupont Highway, Dover, Delaware 19901, had a direct holding of 14.57 percent. Further companies affiliated with the GA Group had an indirect holding in TDS AG.

At February 28, 2007, Fujitsu Services Overseas Holdings Limited, 22 Baker Street, London W1U 2BW, UK, directly held 79.42 percent of shares in TDS. Further companies affiliated with the Fujitsu Group have an indirect holding in TDS AG.

Bearers of shares with special rights
There are no bearers of shares with special rights.

Type of control in the case of voting rights for employee shares
There are no employee shares. There are no controls through voting rights for free-float shares.

Legal provisions, and provisions in the Articles of Incorporation, for the appointment of Executive Board members and termination of their membership, and for changes in the Articles of Incorporation
The appointment of Executive Board members and the termination of their membership, and changes in the Articles of Incorporation, are based on the corresponding legal provisions. There are no provisions in the Articles of Incorporation that deviate from legal provisions.

Authority of the Executive Board to issue and buy back shares
A resolution was passed on the purchase of treasury shares, valid for the period until December 2006.

The Executive Board is authorized to increase the Company's share capital with the agreement of the Supervisory Board on one or multiple occasions by up to a total of €14,589,308.00 until July 2, 2011, by means of issuing new bearer shares against cash or non-cash contributions (authorized capital).

The Executive Board is authorized to increase share capital by up to €509,500.00 by means of issuing up to 509,500 bearer shares (authorized-but-contingent capital IV). Furthermore, the Executive Board is authorized to increase share capital by up to €7,750,000.00 by means of issuing up to 7,750,000 bearer shares (authorized-but-contingent capital V).

Material agreements relating to a change of control in the event of a takeover bid
There are no agreements that lead to a mandatory offer in accordance with Section 35 of the German Securities and Acquisition and Takeover Act (WpÜG). Change-of-control clauses are included in certain contracts with customers, suppliers and banks. There is not a single case to date where a contractual partner has invoked such a clause.

Compensation agreements
There are no compensation agreements for the Supervisory Board. Should Executive Board contracts be terminated in connection with a change in control at TDS, members are entitled to compensation for two years (Dr. Heiner Diefenbach) or three years (Michael Eberhardt) of their target salary.

In addition, Executive Board members receive virtual share options (as disclosed in the compensation report). These shares are calculated and paid before the normal term if the majority of TDS shares are transferred to a single shareholder, and this majority shareholder either submits a takeover bid to all TDS shareholders, TDS is merged with another company without such a takeover bid, or if TDS shares are delisted.

OFFICES AND MAIN OPERATIONAL SITES

TDS has its headquarters in Neckarsulm, Germany, along with three central data centers it employs to deliver computing/hosting services. In fiscal 2006, TDS maintained offices in Hanover, Iserlohn, Hamburg, Düsseldorf, Munich and Würzburg. TDS IT Consulting GmbH, Neckarsulm, wholly owned by the Company, has further sites in Munich, Hamburg, Eschborn, Bielefeld, Berlin, and Düsseldorf. Furthermore, TDS AG holds 100 percent of shares in TDS HR Services & Solutions GmbH (TDS HR) in Neckarsulm, Germany. TDS HR has offices in Munich, Wiesbaden, Berlin, Düsseldorf, Würzburg, 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 has holdings, have no further sites.

Changes in the structure of the Group in 2006 were as follows: Operating activities were transferred from TDS Deutschland AG & Co. OHG to TDS IS GmbH, a wholly owned subsidiary of TDS. The minor partner (*Kommanditistin*), TDS Systemhaus GmbH, was merged with the major partner (*Komplementärin*), TDS AG. As a result of this merger, TDS Deutschland AG & Co. OHG was dissolved. TDS IS GmbH changed its name to TDS IT Consulting GmbH, with headquarters in Neckarsulm.

OUTLOOK

According to leading institutions, economic growth in Europe will ease off somewhat in 2007, and fall slightly below the 2006 figure of 2.6 percent. Forecasts suggest that TDS' core market, Germany, will continue to expand in 2007. IfW believes that the German economy will continue to pick up for some time, and raised forecasts for GDP in 2007 from 1.0 percent to 2.1 percent. For 2008, IfW expects growth of 1.8 percent. According to IfW experts, the development of wages and exports are key factors. Should wages and salaries increase slowly as in the past three years, the economic upturn may be even more marked and prolonged. In 2006, growth was not only driven by higher domestic demand for consumer goods, but also by anticipatory demand, and demand for capital goods. This suggests that companies expect the favorable business environment to continue. IfW believes that the new dynamism in the German economy will be maintained by an increase in the number of people in employment, and falling energy prices.

Against the background of the favorable economic climate, TDS anticipates increased demand for IT projects and services, especially with regard to HR services and outsourcing. ICT industry association BITKOM expects lower growth of 1.6 percent in 2007, over 2.5 percent in 2006. In particular, growth will fall significantly in the market for digital consumer electronics. However, expansion in the software and IT services segments will pick up, and exceed that of 2006.

IT Outsourcing

At December 5, 2006, a BITKOM survey presented the expectations of outsourcing players: Almost 74 percent expect stronger revenues in 2007, and only 10 percent anticipate a fall. In addition, nearly 57 percent expect better earnings, and only 3 percent lower. PAC experts assume average annual growth of ten percent until 2010. Meanwhile, BITKOM concludes that outsourcing will be a key driving force in the market for IT services. TDS will respond by expanding and enhancing its portfolio of services, for example, by offering selective outsourcing solutions. This will enable the Company to grow in line with customer requirements, and safeguard margins. In 2007, EBIT in this segment will at least remain on a par with 2006, while revenues will climb slightly.

HR Services & Solutions

Gartner estimates that the global market for HR BPO will increase to more than 31 billion US dollars by 2009, corresponding to average growth of 8.3 percent each year. According to PAC, interest in outsourcing HR processes will increase among midsize enterprises and public-sector players. However, the outsourcing of processes, already common practice in the US and UK, is not expected to take off in Germany for a number of years. TDS therefore anticipates only a moderate rise in revenues at HR Services & Solutions. Because the above effects are non-recurring, the Company assumes a slight reduction in this segment's contribution to earnings.

IT Consulting

According to a study by Pierre Audoin Consultants (PAC), German companies are currently faced with an investment backlog for IT projects. Due to the improved economic climate, particularly for exports, the demand for capital goods will increase significantly. PAC believes that the market for IT services will become more robust, and project business will expand. Consulting plays an important supporting and complementary role at TDS, especially for outsourcing. The expertise of IT Consulting is increasingly being applied to projects involving other segments. Looking ahead, IT Consulting and IT Outsourcing will collaborate even more closely, and offer integrated solutions with a focus on SAP. For the first time in several years, IT Consulting will again contribute to the growth and profitability of the Group in 2007.

TDS will pursue its current strategy with the new majority shareholder, and can reap the benefits of increased spending for modernization of its IT infrastructure. The Company will enhance its IT Outsourcing offering, in particular for SAP systems (selective outsourcing). TDS is adapting its portfolio to changing customer requirements, and exploiting new market opportunities. The Company will modify its sales approach with packaged solutions, giving new impetus to the marketing of consulting services, and mitigating price pressure.

The Company will remain focused on profitability in fiscal 2007, and expects revenues of approximately €100 million, and a slight improvement in EBIT margin. All three TDS segments will contribute to higher revenues, boosted in particular by higher SAP license sales, and increased revenues for selective outsourcing and HR BPO. For fiscal 2008, the Company expects revenues of approximately €110 million, in conjunction with unchanged EBIT margin.

CONSOLIDATED FINANCIAL STATEMENTS

1 Consolidated income statement for the period January 1 to December 31, 2006

	Notes	2006	2005
		€ thousands	€ thousands
Revenues	5	91,790	93,378
Cost of sales	6	-64,132	-66,921
Gross profit		**27,658**	**26,457**
Selling and marketing costs		-8,238	-9,614
General and administrative expenses		-11,758	-14,222
Other operating income and expenses	8	458	435
Earnings before financial income (interest), taxes and minority interest (EBIT)		**8,120**	**3,056**
Financial income (interest)	10	-1,861	-2,421
Earnings before taxes and minority interest (EBT)		**6,259**	**635**
Income taxes	11	-701	305
Consolidated net income		**5,558**	**940**
Earnings per share (basic)	12	0.19	0.03
Earnings per share (diluted)	12	0.19	0.03

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

Assets	Notes	Dec. 31, 2006 € thousands	Dec. 31, 2005 € thousands
Non-current assets			
Intangible assets	13	36,093	35,222
Property, plant and equipment	15	11,159	11,810
Investment property	16	891	620
Other financial assets	18	2,074	1,985
Other assets	19	852	738
Deferred tax assets	20	6,056	6,511
		57,125	**56,886**
Current assets			
Inventories	21	206	16
Trade receivables	22	15,788	12,877
Current tax assets		158	266
Other assets	23	1,735	1,559
	24		
Deferred tax assets		4,147	2,129
		22,034	**16,847**
Total assets		**79,159**	**73,733**

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

Shareholders' equity and liabilities	Notes	Dec. 31, 2006 € thousands	Dec. 31, 2005 € thousands
Shareholders' equity			
Share capital	25	29,291	29,179
Additional paid-in capital	25	35,666	35,501
Accumulated comprehensive income	25	24	62
Retained earnings	25	-32,859	-38,417
Treasury shares	25	-135	-135
		31,987	**26,190**
Non-current liabilities			
Provisions for pensions	26	4,777	4,314
Other provisions	27	11	1,265
Amounts due to banks	29	15,130	12,244
Obligations under finance leases	28	3,215	3,007
Other liabilities	30	239	195
		23,372	**21,025**
Current liabilities			
Other provisions	27	8,119	6,606
Amounts due to banks	29	1,400	3,388
Obligations under finance leases	28	2,679	2,328
Customer downpayments	28	3,196	2,405
Trade payables	28	5,353	3,483
Current tax liabilities	28	1	2
Other liabilities	30	3,052	8,306
		23,800	**26,518**
Total shareholders' equity and liabilities		**79,159**	**73,733**

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

3 Statement of cash flows for fiscal 2006

	2006		2005	
	€ thousands	€ thousands	€ thousands	€ thousands
Consolidated net income		5,558		940
Non-cash items				
Write-ups/depreciation of non-current assets	8,778		9,244	
Cost of share-option plans	91		117	
Changes in				
- Provisions for pensions	463		643	
- Other provisions	259		-1,780	
Profit from disposal of non-current assets	-144		-95	
Net change in deferred taxes	455	9,902	-365	7,764
Changes in operating assets and liabilities				
- Inventories	-190		44	
- Receivables, other assets, and prepaid expenses	-3,273		3,152	
- Liabilities and deferred income	251	-3,212	-1,362	1,834
Cash flows from operating activities		**12,248**		**10,538**
Puchase of intangible assets, property, plant				
and equipment	-5,715		-3,786	
Proceeds from disposal of non-current assets	341		276	
Acquisition of consolidated subsidiaries,				
net of cash and cash equivalents acquired	-2,850		32	
Proceeds from lendings repaid	204		27	
Cash flows from investing activities		**-8,020**		**-3,451**
Proceeds from borrowings	1,517		0	
Repayments of amounts due to banks	-619		-3,511	
Obligations under finance leases	-3,266		-2,754	
Proceeds from share issues	186		328	
Redemption of bonds	0		0	
Purchase of TDS shares	0		-87	
Cash flows from financing activities		**-2,182**		**-6,024**
Currency translation effects	-28		-34	
Change in cash and cash equivalents		2,046		1,063
Cash and cash eqivalents at the beginning of the period		2,129		1,100
Cash and cash equivalents at the end of the period		**4,147**		**2,129**

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, 2005	28,980,616	28,981	35,254	101	-39,357	20,000	-48	24,931
Net loss					940			940
Currency translation				-39				-39
Comprehensive Loss				*-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
December 31, 2005	**29,178,616**	**29,179**	**35,501**	**62**	**-38,417**	**56,214**	**-135**	**26,190**
Net income					5,558			5,558
Currency translation				-38				-38
Comprehensive Income/Loss				*-38*	*5,558*			*5,520*
Exercise of share options	112,500	112	74					186
Cost of share-option plans			91					91
December 31, 2006	**29,291,116**	**29,291**	**35,666**	**24**	**-32,859**	**56,214**	**-135**	**31,987**

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, Konrad-Zuse-Strasse 16, 74172 Neckarsulm, Germany (hereinafter "TDS AG" or "the Company") at December 2006 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 2006 have been employed. Figures for 2005 were determined on the basis of the same standards.

The consolidated financial statements are prepared in accordance with IFRS.

The consolidated financial statements of TDS at December 31, 2006 will be disclosed in the electronic Federal Gazette, and will be available at www.unternehmensregister.de.

Description of business operations

TDS Informationstechnologie Aktiengesellschaft and its subsidiaries ("the Company" or "TDS") operate in Germany, Austria and Switzerland, and 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 for all periods. 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
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. All additional holdings are included at cost due to their less significant role with regard to the Group's assets, finances and income (see note 18 "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, 2006, no investments (holdings) were accounted for using the equity method, as in 2005.

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, liabilities and contingent 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. 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, assets and liabilities are translated using official exchange rates at the balance-sheet date, and shareholders' equity using the respective historical exchange rate. 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 separate 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. This also applies to gains from exchange differences that are not realized by the balance-sheet date.

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 effects.

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

	2006 **Balance-sheet rate**	2006 **Average rate for income statement**	**2005 Balance-sheet rate**	**2005 Average rate for income statement**
US dollars	1.31810	1.25594	1.18340	1.24506
Swiss francs	1.60800	1.57311	1.55550	1.54828
Pounds sterling	0.67140	0.68186	0.68706	0.68396

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.

Revenues from licensing are recognized once the software is installed at the customer's site or the customer is in possession of the installation key, and if payment is probable (more likely than not).

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.

Financial income and expense
Financial income includes interest income, dividend income, income from the sale of financial assets and liabilities, income from changes in the fair value of financial assets and liabilities and included in profit for the year and, and profit from the valuation of derivatives included in the income statement. Interest income is included when the interest occurs by means of the effective interest method (i.e. the interest rate that exactly discounts estimated future cash inflows through the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability). Dividend income is included at the date of entitlement.

Financial expense includes interest expense from borrowing, interest expense for discounted provisions, losses from the sale of financial assets and liabilities, expense for changes in the fair value of financial assets and liabilities and included in profit for the year, and losses from the valuation of derivatives included in the income statement. All borrowing costs are reported in the income statement by applying the effective interest method.

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 tax laws applicable or known at the balance-sheet date.

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 (adjusted where necessary) 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. Intangible assets with finite useful lives are largely software licenses (between three and six years), in-house developed software (five years), and customer bases gained through acquisitions (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 2005.

Goodwill
In accordance with IFRS 3 *Business Combinations*, goodwill arising from business combinations is 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.

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, and assuming that all other capitalization criteria pursuant to IAS 38 are met, 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 for completed software are amortized according to the straight-line method over their estimated useful life of five years. On the balance-sheet date, capitalized costs for software under development 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. 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 and 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 term of the lease agreement (i.e. the point in time at which the lessee is entitled to exercise his rights of use over the leased asset). 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 as obligations under finance leases.

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 in other companies and lendings)
Investments in other companies 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.

At each balance-sheet date, TDS decides whether there is a need for impairment testing of financial assets. If such a need exists, the fair value of the financial asset is determined and compared to its book value. If the fair value is lower than the book value, the fair value is subject to an unscheduled write-down. 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 (general)
Financial assets as defined in IAS 39 *Financial Instruments: Recognition and measurement* are investments recognized in profit or loss at their fair value, or as loans or receivables, held-to-maturity investments, or available-for-sale financial assets. TDS' financial assets comprise lendings to companies in which TDS has an investment receivables and other assets, and cash and cash equivalents. The first time they are recorded, financial assets are posted at their fair value. The TDS Group defines the classification of financial assets the first time they are posted, and verifies the classification at the end of each fiscal year insofar as this is permissible and appropriate. Financial assets classified for trading purposes are included under "financial assets recognized in profit or loss at their fair value". Profit/loss from these financial assets are included in the income statement.

Non-derivative financial assets with fixed or at least determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the positive intention and ability to hold these assets to maturity. Held-to-maturity investments are carried at amortized cost of acquisition. This is the cost of acquisition less repayments, plus or less accumulated amortization of a difference between the original amount and the amount repayable at maturity, calculated by means of the effective interest method. Profit/loss resulting from this is recognized in profit for the year.

Loans to other companies and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost of acquisition using the effective interest method. Profit/loss resulting from this is recognized in profit for the year.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and are not classified as one of the three categories above. The first time they are recorded, available-for-sale financial assets are posted at their fair value, although profit/loss is recognized in equity. When the financial asset is derecognized, or an impairment loss is defined, the cumulative profit or loss previously recognized in equity is recognized in profit or loss.

The fair value of financial assets traded on active markets is calculated on the basis of the bid price at the balance-sheet date. For financial assets without an active market, the fair value is estimated using other methods of valuation.

A financial asset is derecognized if one three of the following requirements are met:

- If contractual rights to the cash flows from the financial asset expire
- The Group retains the contractual rights to receive the cash flows of the financial assets, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in IAS 39 paragraph 19
- The Group transfers its contractual rights to receive cash flows of the financial asset and (a) retains substantially all the risks and rewards associated with ownership of the financial asset or (b) neither transfers nor retains substantially all the risks and rewards associated with ownership of the financial asset, but transfers control of the financial asset.

The Group 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. 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 of acquisition.

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 caps 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.

Because derivatives are used exclusively within the scope of risk minimization, hedge accounting principles can be applied providing the conditions are fulfilled. IAS differentiates between fair-value hedges and cash-flow hedges. However, hedge accounting principles pursuant to IAS 39 were not applied in fiscal 2006.

Share-based payment
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* (8.10 - 8.12), the accounting and valuation principles applicable on the date share options were granted (which TDS adopted from the US GAAP accounting principles applied at that time) will be maintained. These principles are based on the intrinsic-value method prescribed by Accounting Principles Board (APB) Opinion 25 *Accounting for Stock Issued to Employees* and related interpretations. 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 offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, or if these deferred tax assets and deferred tax liabilities relate to income taxes on the same taxable entity and levied by 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 €1,561 thousand (€1,820 thousand in 2005), received dividend payments totaling €5 thousand (€4 thousand in 2005) and reimbursed income tax of €205 thousand (€0 thousand in 2005).

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.

In particular, there are risks associated with assumptions and estimates for the following items:

- Note 11 "Income tax": future applicability of tax loss carryforwards
- Note 16 "Investment property": Estimate of future lease income
- Note 22 "Trade receivables": Valuation of receivables from ongoing projects not yet invoiced.
- Note 26 "Provisions for pensions": Valuation of the present value of pension obligations
- Note 27 "Other provisions": Estimate of future losses arising from non-profitable contracts

New accounting standards
Contrary to the statement made in the notes to the consolidated financial statements at December 31, 2005, TDS did not voluntarily apply IFRS 7 *Financial Instruments: Disclosures*, published in August 2005, before application was mandatory. IFRS 7 *Financial Instruments: Disclosures* was adopted from January 1, 2007, the date at which IFRS 7 came into force.

Of the standards and interpretations that were published in advance but only applicable from January 1, 2007, IFRS 7 *Financial Instruments: Disclosures* and the modification to IAS 1 *Capital Disclosures* are relevant to TDS. These are not significant in terms of their impact on accounting principles, but because they have effects on the statements to be included in the notes.

The following interpretations already been published and applicable as of fiscal 2007 are not relevant to TDS at present, and are therefore not applied by the Company:

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

IFRIC 4 *Determining whether an Arrangement contains a Lease* became mandatory at January 1, 2006. IFRIC 4 gives criteria for identifying lease elements in contracts that are not officially declared as lease contracts. Contractual provisions that meet the criteria defined in IFRIC 4 should be accounted for in accordance with IAS 17 *Leases*. An examination of relevant contracts against the criteria given in IFRIC 4 did not identify any contractual provisions that amounted to lease arrangements.

No other IFRS standards have been introduced since January 1, 2007, that could have a material influence on the Group's assets, financial status or profitability.

3 Changes to corporate structure and to consolidation

The following measures were taken at January 1, 2006 within the scope of restructuring: Firstly, TDS AG transferred its shares in TDS IS GmbH, Neckarsulm, Germany (TDS IS) to TDS Deutschland AG & Co. OHG, Neckarsulm. TDS IS then changed its name to TDS IT Consulting GmbH, Neckarsulm (TDS ITC). Business operations of TDS Deutschland AG & Co. OHG. were then transferred to TDS ITC. In a further step, TDS Systemhaus GmbH, Neckarsulm (TDS SH) was merged with TDS AG. TDS Deutschland AG & Co. OHG was thereby automatically merged with TDS AG, and dissolved. As a result, the companies TDS IS and TDS SH, that had already discontinued business operations, ceased to exist. IT Consulting activities are now handled by TDS ITC, which concluded a profit-transfer agreement with TDS AG on January 1, 2006. The restructuring measures above have no material impact on the consolidated financial statements.

There is a liability stemming from the acquisition of effect Personalmanagement GmbH, Pasching, Austria (effect) which is calculated on the basis of effect's earnings in the years 2006 to 2008. In accordance with an agreement of March 14, 2006, this variable acquisition liability was settled through a one-time payment of €50 thousand, thereby settling all and any further claims. Of this acquisition cost, additional goodwill in the amount of €50 thousand was capitalized. This goodwill is attributable to the HR segment, and is non-tax-deductible.

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, retail and services. The Company concluded an acquisition and a capital contribution contract with OP&V at 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. The stake in OP&V was included in equity in the consolidated financial statements. With a purchase contract signed September 25, 2006, TDS sold its shares in OP&V for strategic reasons, effective from September 30, 2006. The led to profit in the amount of €176 thousand.

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 2006 and 2005, 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

2006	IT Outsourcing	HR Services & Solutions	IT Consulting	Total
	€ thousands	€ thousands	€ thousands	€ thousands
Revenues				
External revenues	47,225	31,151	13,414	91,790
Intersegment revenues	3,385	240	2,261	5,886
Total segment revenues	50,610	31,391	15,675	97,676
Profit/loss				
EBIT	6,866	3,125	-1,871	8,120
Assets and liabilities				
Assets	23,010	36,297	11,563	70,870
Liabilities	11,647	7,146	5,954	24,747
Other segment information				
Capital expenditure *	5,651	1,978	1,961	9,590
Scheduled amortization and depreciation	5,678	2,127	1,265	9,070
Reversal of impairment losses	151	94	47	292

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

In 2006 and in 2005, there were no non-cash expenses of particular significance for 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.

2006	Germany € thousands	Rest of Europe € thousands	Total € thousands
External revenues	84,320	7,470	91,790
Assets	68,862	2,008	70,870
Capital expenditure	9,459	131	9,590

2005	Germany € thousands	Rest of 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

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 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 €91,790 thousand (€93,378 thousand in 2005) 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 €1,054 thousand were generated from customer-specific contracts in fiscal 2006 (€813 thousand in 2005) according to the percentage-of-completion method.

6 Cost of sales

	2006 € thousands	2005 € thousands
Expenditure for services received	10,904	10,837
Expenditure for finished goods and products	200	676
Cost of materials	**11,104**	**11,513**
Personnel costs	34,924	33,815
Depreciation and amortization	7,558	7,286
Other expenditures	10,546	14,307
Cost of sales	**64,132**	**66,921**

Cost of sales include income from the reversal of a provision for expected losses from sales transactions amounting to €1.447 thousand.

7 Depreciation, amortization and write-ups

Scheduled amortization and depreciation of intangible assets and property, plant and equipment totaled €9,070 thousand (€9,244 thousand in 2005). A breakdown of depreciation and amortization is given in the corresponding notes. Depreciation and amortization are included in cost of sales, selling and marketing costs, and in general and administrative expenses.

With regard to investment property, there was a write-up in the amount of €292 thousand in fiscal 2006 for the reversal of impairment losses on the higher fair value of the investment property of €899 thousand (see note 16 "Investment property"). This reversal is included in the income statement under general and administrative expenses.

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.

	2006 € thousands	2005 € thousands
Income from other general costs charged to customers	1,174	911
Other tax income	88	0
Income from share-price gains	4	0
Income from disposal of non-current assets	23	151
Commission income	0	153
Other operating income	209	474
	1,498	**1,689**
Expenses for other general costs charged to customers	956	755
Other tax expense	10	0
Expenses for share-price losses	3	39
Expenses from disposal of non-current assets	22	0
Other operating expenses	49	460
	1,040	**1,254**
Other operating income and expense, net	**458**	**435**

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.

All exchange differences recognized in profit or loss in fiscal 2006 are reported under other operating income and expenses.

9 Payroll and related costs

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

	2006 € thousands	2005 € thousands
Salaries and wages	40,142	40,479
Social security costs	5,981	6,197
Net periodic pension costs	399	312
Other pension costs	125	379
	46,647	**47,367**

The average headcount during fiscal 2006 was as follows:

	2006 Total	2005 Total
Number of employees, production	570	572
Number of employees, sales and marketing	59	71
Number of employees, administration	75	95
	704	**738**

10 Financial income/expense

This item comprises the following:

	2006 € thousands	2005 € thousands
Income from investments	180	4
Net income/loss from investments	**180**	**4**
Interest and similar income	334	185
Interest and similar expense	-2,188	-2,417
Interest income/loss, net	**-1,854**	**-2,232**
Other financial income	2	1
Other financial expense	-189	-194
Other financial income/expense, net	**-187**	**-193**
	-1,861	**-2,421**

Net income/loss from investments includes income from the sale of an investment included in equity in the amount of €176 thousand (€0 thousand in 2005). 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 €29 thousand (€26 thousand in 2005).

11 Income taxes

Tax expense
Income taxes breaks down as follows:

	2006 € thousands	2005 € thousands
Current tax expense	-486	-130
Tax reimbursement for previous years	240	69
Deferred tax attributable to temporary differences	-517	229
Deferred tax on loss carryforwards	62	137
Tax in the consolidated income statement	**-701**	**305**

For German companies, at December 31, 2006 deferred taxes were calculated at a German corporation tax rate of 25 percent (25 percent in 2005). 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 2005). Taking into account the solidarity surcharge and trade tax, a deferred tax rate of 37.6 percent applied in 2006 (37.6 percent in 2005).

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.

The table below reconciles the Company's expected and actual tax expense in 2006 and 2005. The expected tax expense for 2006 was calculated by multiplying the average total tax rate of 37.6 percent in 2006 (37.6 percent in 2005) 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 2005) plus effective trade tax, applied on the basis of the effective corporation tax rate, of 11.225 percent (11.225 percent in 2005).

Including items charged or credited directly to related components of stockholders' equity, tax expense (income in 2005) breaks down as follows:

	2006 € thousands	2005 € thousands
Expected tax expense	-2,353	-239
Effect of foreign operations taxed at various rates	-6	13
Non-tax-relevant expense	-3	0
Non-tax-deductible impairment write-downs of goodwill	13	-20
Non-tax-deductible impairment write-downs of goodwill	45	0
Trade-tax deviation	-74	-86
Changes to tax loss carryforwards as a result of audit by German tax authorities	0	373
Valuation allowance for deferred tax assets	1,469	205
Currency exchange fluctuations	-1	-2
Tax from previous reporting periods	240	67
Other additions	-31	-6
Actual tax expense (income in 2005)	**-701**	**305**

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 the offsetting of such amounts is permissible.

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

	Dec 31, 2006 € thousands	Dec 31,2005 € thousands
Deferred tax assets		
Tax loss carryforwards	10,442	11,690
Intangible assets	386	0
Provisions	54	773
Investment property	0	258
Property, plant and equipment	4	0
Provisions for pensions	523	465
Finance leases	74	11
Percentage of completion	0	4
Financial instruments	12	0
	11,495	**13,201**
Valuation allowance	-2,320	-3,630
Total deferred tax assets	**9,175**	**9,571**
Deferred tax liabilities		
Provisions	-35	-18
Percentage of completion	-130	-219
Licenses used by customers	-1,883	-2,332
Intangible assets	-908	-298
Valuation allowance for receivables	-163	-193
Total deferred tax liabilities	**-3,119**	**-3,060**
Total net deferred taxes	**6,056**	**6,511**

Net deferred tax breaks down as follows:

	Dec 31, 2006 € thousands	Dec 31,2005 € thousands
Deferred tax assets		
Current	1,572	195
Non-current	4,484	6,316
Total deferred tax assets	**6,056**	**6,511**

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 €1,310 thousand in comparison to 2005 to €2,320 thousand.

The valuation allowance formed for deferred tax assets of TDS AG and TDS Deutschland AG und Co. OHG, Neckarsulm, Germany (TDS OHG, now TDS ITC) in previous years totaling €1,065 thousand was completely reversed in fiscal 2006. Impairment testing for tax loss carryforwards is based on taxable income over a four-year period. The limitations placed on the amount of tax loss carryforwards by German legislation are also taken into account.

The trade-tax loss carryforwards of TDS OHG, totaling €4,823 thousand at December 31, 2005, were transferred to TDS AG within the scope of the restructuring described in note 3 "Changes to corporate structure and to consolidation". TDS ITC losses were transferred to TDS AG as of January 1, 2006 as a result of the profit-transfer agreement signed on January 1, 2006.

As of December 31, 2006, TDS AG posted corporation-tax loss carryforwards totaling €22,354 thousand (€24,887 thousand in 2005), and trade-tax loss carryforwards totaling €19,114 thousand (€16,735 thousand in 2005). In Germany, there is no time limit on the use of tax loss carryforwards. As a result, deferred tax assets in the amount of €8,041 thousand were carried in the financial statements (€7,404 thousand in 2005). There was no valuation allowance (€1,038 thousand in 2005).

As of December 31, 2006, TDS MultiVision AG, St. Gallen, Switzerland, posted a corporation-tax loss carryforward of €185 thousand (€84 thousand in 2005), and deferred tax assets of €35 thousand (€25 thou-

sand in 2005). Tax losses can be carried forward for seven years in Switzerland. The reduction in tax rate from 30 percent to 19 percent had an impact of €3 thousand on deferred taxes.

As of December 31, 2006, TDS Systemhouse, Chesterfield, UK, posted corporation-tax loss carryforwards of €1,813 thousand (€1,748 thousand in 2005). In the United Kingdom, there is no time limit on the use of tax loss carryforwards. Although used in 2005 and planned for use in 2006, loss carryforwards in euros increased due to the change in the exchange rate. As a result, the entire amount had been discounted in the previous year. In view of positive earnings in the previous year, and expected positive earnings for 2007, it was decided to form deferred tax assets for earnings expected in 2007.

TDS IS GmbH, renamed TDS IT Consulting GmbH on January 1, reported corporation-tax and trade-tax loss carryforwards of €111 thousand at December 31, 2005. The realization of these deferred tax assets in the amount of €40 thousand was not considered likely in the short term, and an appropriate valuation allowance was formed. The valuation allowance remains in place.

TDS HR posted corporation-tax loss carry forwards in the amount of €4,785 thousand (€5,126 thousand in 2005), and trade-tax loss carryforwards in the amount of €4,625 thousand (€4,987 thousand in 2005). The realization of these deferred tax assets in the short term was not considered likely, and an appropriate valuation allowance was formed for total tax loss carryforwards at TDS HR.

12 Earnings per share

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

Earnings per share break down as follows:

	2006 € thousands	**2005** € thousands
Consolidated net income	**5,558**	940

	2006 **Number of shares**	**2005** **Number of shares**
Weighted average of all outstanding shares used to calculate basic earnings per share	29,173,965	29,010,928
Dilutive effects of share options	0	34,396
Weighted average of all outstanding shares used to calculate diluted earnings per share	**29,173,965**	**29,045,32 4**

	2006 € thousands	**2005** € thousands
Earnings per share (basic)	**0.19**	0.03

	2006 **EUR**	**2005** **EUR**
Earnings per share (diluted)	**0.19**	0.03

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

13 Intangible assets

In fiscal 2006, intangible assets developed as follows:

	Concessions, intellectual property and similar rights and assets and licenses to such rights and assets	Software developed in-house, including software in developmen t	Rented software	Downpay-ments made on intangi-ble assets	Goodwill	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acqui-sition						
January 1, 2006	24,810	2,788	1,459	350	42,484	71,891
Additions	1.857	1,620	796	0	50	4,323
Disposals	2.726	173	0	0	33	2,932
Reallocations	-943	1,298	74	-350	0	79
December 31, 2006	22,998	5,533	2,329	0	42,501	73,361
Amortization						
January 1, 2006	16,285	1,747	736	0	17,901	36,669
Additions	1,979	857	546	0	0	3,382
Disposals	2,753	58	0	0	0	2,811
Reallocations	-570	573	25	0	0	28
December 31, 2006	14,941	3,119	1,307	0	17,901	37,268
Book values						
December 31, 2006	8,057	2,414	1,022	0	24,600	36,093
December 31, 2005	8,525	1,041	723	350	24,583	35,222

TDS does not carry out its own R&D. All development costs, to the value of €1,620 thousand (€366 thou-sand in 2005), fulfill the criteria of IAS 38 and have been capitalized. No development costs were ex-pensed.

Firm orders to the value of €81 thousand (€54 thousand in 2005) have been placed for intangible assets that are not yet in the possession of the TDS Group.

Amortization of intangible assets is mainly included in cost of sales, and also to a lesser degree in general and administrative expenses.

In fiscal 2006, intangible assets developed as follows:

	Concessions, intellectual property and similar rights and assets and licenses to such rights and assets	Software developed in-house, including software in developmen t	Rented software	Downpay-ments made on intangi-ble assets	Goodwill	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acqui-sition						
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
December 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
December 31, 2005	16,285	1,747	736	0	17,901	36,669
Book values						
December 31, 2005	8,525	1,041	723	350	24,583	35,222
December 31, 2004	9,602	1,418	495	0	24,404	35,919

14 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 IT Consulting GmbH, Neckarsulm, Germany (TDS Deutschland AG & Co. OHG, Neckarsulm, Germany in 2005)
IT Consulting Switzerland	Consulting activities of TDS MultiVision AG, St. Gallen, Switzerland
HR Germany	TDS HR Services & Solutions GmbH, Neckarsulm, Germany
HR Austria	effect Personalmanagement Ges.m.b.H., Pasching, Austria

Goodwill is subject to impairment testing at the end of each fiscal year. This establishes the recoverable amount at CGU level on the basis of fair value less costs to sell. A standard interest rate is applied across the Group for discounting cash flow. In fiscal 2006, a pre-tax interest rate of 6.3 percent (5.4 percent in 2005) was used for company planning (five years). Perpetuity is calculated on the basis of discounted cash flow.

According to impairment testing at December 31, 2006, there was no need for write-downs.

At 31 December, 2006, goodwill broken down by cash-generating unit (CGU) was as follows:

	IT Consulting Germany	IT Consulting Switzerland	HR Germany	HR Austria	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition					
January 1, 2006	13,954	7,255	19,566	1,709	42,484
Additions	0	0	0	50	50
Disposals	0	0	33	0	33
December, 31, 2006	13,954	7,255	19,533	1,759	42,501
Amortization					
January 1, 2006	10,763	7,138	0	0	17,901
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
December, 31, 2006	10,763	7,138	0	0	17,901
Book values					
December, 31, 2006	3,191	117	19,533	1,759	24,600
December, 31, 2005	3,191	117	19,566	1,709	24,583

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

	IT Consulting Germany € thousands	IT Consulting Switzerland € thousands	HR Germany € thousands	HR Austria € thousands	Total € 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
December 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
December 31, 2005	10,763	7,138	0	0	17,901
Book values					
December 31, 2005	3,191	117	19,566	1,709	24,583
December 31, 2004	3,191	117	19,420	1,676	24,404

15 Property, plant and equipment

In fiscal 2006, property, plant and equipment developed as follows:

	Leasehold buildings	Computer and similar equipment	Leased computer equipment, office equipment, etc.	Other computer equipment and office equipment, etc.	Downpayments, plant and equipment under construction	Total
	€ thousands	**€ thousands**	**€ thousands**	**€ thousands**	**€ thousands**	**€ thousands**
Cost of acquisition						
January 1, 2006	2,622	32,022	8,805	8,840	0	52,289
Currency translation effects	0	-3	1	-1	0	-3
Additions	119	1,744	3,029	362	13	5,267
Disposals	59	1,618	983	733	0	3,393
Reallocations	-28	151	-230	0	0	-107
December 31, 2006	2,654	32,296	10,622	8,468	13	54,053
Amortization						
January 1, 2006	1,324	27,840	4,417	6,898	0	40,479
Currency translation effects	1	4	3	0	0	8
Additions	125	2,036	2,590	916	0	5,667
Disposals	52	1,618	881	653	0	3,204
Reallocations	-28	152	-180	0	0	-56
December 31, 2006	1,370	28,414	5,949	7,161	0	42,894
Book values						
December 31, 2006	1,284	3,882	4,673	1,307	13	11,159
December 31, 2005	1,298	4,182	4,388	1,942	0	11,810

Of total property, plant and equipment, including office equipment, fixtures and fittings in the amount of €4,952 thousand (€3,784 thousand in 2005) are used as security against loans.

Firm orders to the value of €1,274 thousand (€253 thousand in 2005) have been placed for property, plant and equipment not yet in the possession of the TDS Group.

Insurance compensation to the value of €4 thousand (€1 thousand in 2004) was received for damaged tangible assets.

Capital expenditure in 2006 is detailed in the management report.

In fiscal 2005, property, plant and equipment developed as follows:

	Leasehold buildings	Computer and similar equipment	Leased computer equipment, office equipment, etc.	Other computer equipment and office equipment, etc.	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition					
January 1, 2005	1,788	34,078	8,483	9,816	54,165
Currency translation	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
Reallocations	834	31	0	-865	0
December 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
Reallocations	462	32	0	-494	0
December 31, 2005	1,324	27,840	4,417	6,898	40,479
Book values					
December 31, 2005	1,298	4,182	4,388	1,942	11,810
December 31, 2004	1,081	5,103	4,920	3,011	14,115

16 Investment property

The following table shows changes in investment property in fiscal 2006:

	Investment property € thousands
Cost of acquisition	
January 1, 2006	2,463
Additions	0
Disposals	0
Reallocations	28
December 31, 2006	2,491
Amortization	
January 1, 2006	1,843
Scheduled write-downs for current fiscal year	21
Unscheduled write-ups for the higher fair value	292
Reallocations	28
December 31, 2006	1,600
Book values	
December 31, 2006	891
December 31, 2005	620

At December 31, 2006, fair value of investment property totaled €899 thousand (€723 thousand in 2005). Due to a lack of comparable property, fair value was not calculated using market data, but using discounted cash flows of the recoverable amount based on fair value less costs to sell). 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. Based on the findings of independent experts, there was a reassessment of realizable lease income, resulting in an increase in the fair value. At September 30, 2006, impairment losses in the amount of €292 thousand were reversed for the higher fair value of €899 thousand.

In fiscal 2006, lease income from investment property amounted to €34 thousand (€74 thousand in 2005). Operating expenses came to €10 thousand (€4 thousand in 2005).

In fiscal 2005, investment property developed as follows:

	Investment property € thousands
Cost of acquisition	
January 1, 2005	2,463
Additions	0
Disposals	0
December 31, 2005	2,463
Amortization	
January 1, 2005	1,827
Scheduled write-downs for 2007	16
December 31, 2005	1,843
Book values	
December 31, 2005	620
December 31, 2004	636

17 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. The present value of minimum expenses for finance lease contracts is usually calculated with an interest rate of between 2.5 percent and 8 percent, depending on the lease contract.

Future minimum lease payments for finance leasing can be reconciled with the present value as follows:

	2006 € thousands		**2005 € thousands**	
	Minimum lease payments	Present value of the minimum lease payments	Minimum lease payments	Present value of the minimum lease payments
Less than one year	2,908	2,679	2,630	2,413
Between one and five years	3,361	3,215	3,051	2,916
Total minimum lease payments	**6,269**		**5,681**	
Less interest	-375		-352	
Present value of minimum lease payments	**5,894**		**5,329**	

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

	2006 € thousands	**2005** € thousands
Lease expenses	4,159	4,544
Income from subleasing arrangements	-111	-346
	4,048	**4,198**

At December 31, 2006, future obligations under operating leases for the minimum lease term were as follows:

	2006 € thousands	**2005** € thousands
Less than one year	3,595	5,842
Between one an five years	7,578	8,131
Longer than five years	13,493	14,172
	24,666	**28,145**

Future minimum income from subleases, at December 31, 2006, was as follows:

	2006 € thousands	**2005** € thousands
Up to one year	153	48
Between one and five years	32	64
Longer than five years	0	0
	185	**112**

18 Financial assets (investments in other companies and lendings)

Development in fiscal 2006:

	Included at cost (investments)	Included in equity (investments in associated companies)	Lendings to companies in which TDS has an investment	Other lendings	Securities	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition						
January 1, 2006	1,320	0	77	2,480	16	3,893
Additions	0	24	293	0	0	317
Disposals	0	24	113	91	0	228
December 31, 2006	1,320	0	257	2,389	16	3,982
Amortization						
January 1, 2006	1,093	0	77	734	4	1,908
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
December 31, 2006	1,093	0	77	734	4	1,908
Book values						
December 31, 2006	227	0	180	1,655	12	2,074
December 31, 2005	227	0	0	1,746	12	1,985

Development in 2005:

	Included at cost (investments)	Lendings to companies in which TDS has an investment	Other lendings	Securities	Total
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Cost of acquisition					
January 1, 2005	1,320	77	2,507	16	3,920
Additions	0	0	0	0	0
Disposals	0	0	27	0	27
December 31, 2005	1,320	77	2,480	16	3,893
Amortization					
January 1, 2005	1,093	77	734	4	1,908
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
December 31, 2005	1,093	77	734	4	1,908
Book values					
December 31, 2005	227	0	1,746	12	1,985
December 31, 2004	227	0	1,773	12	2,012

The following companies are included at cost:

Name of company	Holding in percent
BFL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn (BFL)	0.32 %
ROSEA Trendpark Objektverwaltungsgesellschaft mbH & Co. KG, Neckarsulm (ROSEA KG)	50.00 %
ROSEA Trendpark Objektverwaltungs-Beteiligungs-GmbH, Neckarsulm (ROSEA GmbH)	50.00 %
RATIODATA Rechenzentrum AG, Oberengstingen, Schweiz (Ratiodata)	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 companies included at cost:

	BFL**	ROSEA KG	ROSEA GmbH	Villa Rosa*
	€ thousands	€ thousands	€ thousands	€ thousands
Total assets	504,671	428	27	103
Total liabilities	494,389	401	1	65
Total revenues	265,773	3,485	1	429
Profit for the year	2,184	3	2	13

* At December 31, 2005
** At December 31, 2004

VisionOne Consulting AG, Neuss is in insolvency. Annual financial statements for December 31, 2006, 2005 and 2004 have not yet been prepared.

Subsidiaries and holdings are listed after these notes. A list of subsidiaries and holdings at December 31, 2006, and in accordance with the German commercial code, has been entered in the commercial register at Stuttgart Local Court, Germany under HRB 106645 (and in the commercial register at Heilbronn Local Court, Germany under HRB 6645 for the status at December 31, 2005), and has also been published in the electronic Federal Gazette.

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 €406 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 2006.

19 Other non-current assets

	December 31, 2006 € thousands	**December 31, 2005** € thousands
Cash surrender value of life insurance	398	385
Receivables from companies in which TDS has an investment	0	180
Prepaid expenses	427	173
Other non-current assets	27	0
	852	**738**

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. Receivables from companies in which TDS has an investment were transferred to the item "Lendings due from companies in which TDS has an investment" (see note 18 "Financial assets").

20 Deferred tax assets

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

21 Inventories

	December 31, 2006 € thousands	**December 31, 2005** € thousands
Consumables	2	0
Commodities	204	16
	206	**16**

Inventories in the amount of €205 thousand (€0 thousand in 2005) are used as security against loans. In fiscal 2006, there were no write-downs on inventories.

22 Trade receivables

	December 31, 2006 € thousands	**December 31, 2005** € thousands
Trade receivables	11,871	10,206
Receivables from ongoing projects not yet invoiced (PoC)	4,071	3,018
	15,942	**13,224**
Less valuation allowances	-154	-347
Receivables, net	**15,788**	**12,877**

At 31 December, 2006, receivables assigned as security within the scope of the pooled loan facility (involving a consortium of banks) totaled €10,746 thousand (€8,692 thousand in 2005).

At December 31, 2006, receivables from ongoing projects not yet invoiced included incurred costs of €3,796 thousand (€2,439 thousand in 2005), gains of €346 thousand (€584 thousand in 2005), and minus €71 thousand in losses (minus €5 thousand in 2005).

Trade receivables with a term of between one and five years totaled €236 thousand (€0 thousand in 2005).

Assumptions, risks, and uncertainties associated with application of the percentage-of-completion method impact amounts for revenues and expenses. Numerous internal and external factors have effects on estimations of cost of manufacture.

23 Other current assets

	December 31, 2006 € thousands	**December 31, 2005** € thousands
Supplier credit	40	58
Deposit payments	7	89
Receivables from employees	70	32
Downpayments to suppliers	52	59
Other receivables and assets	249	314
Valuation allowance	0	-7
	418	**545**
Prepaid expenses	1,317	1,014
	1,735	**1,559**

24 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, 2006, cash and cash equivalents totaled €4,147 thousand (€2,129 thousand in 2005).

25 Shareholders' equity

Share capital
At December 31, 2006, share capital comprised 29,291,116 outstanding and paid-up shares, each with a nominal value of €1.00. Each share entitles the holder to one vote.

Share capital increased in fiscal 2006, as TDS made use of the annual shareholders' meeting resolution of May 23, 2002, which approved an increase in authorized capital. In fiscal 2006, share capital increased by €112 thousand (€198 thousand in 2005) 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 given 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 July 3, 2006, the annual shareholders' meeting authorized the Executive Board to increase share capital, subject to the approval of the Supervisory Board, on one or multiple occasions by up to a total of €14,589 thousand by July 2, 2011, by means of issuing 14,589,308 shares against cash or non-cash contributions. As a result of this resolution, outstanding authorized capital in the amount of €11,548 thousand (11,548,210 shares) was cancelled and replaced by new authorized capital of €14,589 thousand (14,589,308 shares). Authorized capital, and the corresponding change in the Articles of Incorporation, were entered in the commercial register at July 20, 2006.

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 31, 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, 2006, authorized-but-contingent capital totaled €8,260 thousand (€8,372 thousand in 2005). Authorized-but-contingent capital IV and V developed as follows:

	Authorized-but-contingent capital IV No. of shares	Authorized-but-contingent capital V No. of shares	Authorized-but-contingent capital (total) No. of shares
Resolution of the annual shareholder's 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
December 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
December 31, 2005	622,000	7,750,000	8,372,000
Exercise of share-option program in 2006	-112,500	0	-112,500
December 31, 2006	509,500	7,750,000	8,259,500

Comprehensive income (loss) from currency translation
This was due entirely to differences in currency translation. Changes in income from currency translation can be found in the 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 2006 consolidated net income.

Treasury shares
At June 9, 2005, 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, on one or multiple occasions by December 8, 2006. At December 31, 2006, the number of treasury shares remained the same at 56,214. These shares were valued at unchanged acquisition cost of €135 thousand.

26 Provisions for pensions

At December 31, 2006, provisions for pensions broke down as follows:

	January 1, 2006 € thousands	Currency translation adjustments € thousands	Use € thousands	Reduction € thousands	Addition € thousands	December 31, 2006 € thousands
2005	3,671	-6	-87	0	736	**4,314**
2006	4,314	-4	-138	-20	625	**4,777**

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	
	2006	2005	2006	2005
Discount rate	4.80/4.37 %*	4.40/3.75 %*	2.90 %	3.00 %
Expected return on assets	-	-	2.40 %	2.50 %
Rate of compensation increase	2.00 %	2.50 %	1.50 %-5.00 %	1.50 %
Rate of retirement-benefit increase	1.50 %	1.50 %	0.00 %	0.00 %

*4.80 % (4.40 % in 2005) for employees and 4.37 % (3.75 % in 2005) 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. In Switzerland, the rate of compensation increase is estimated separately for different age groups.

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 in accordance with IAS 19, taking account of the asset ceiling described in this standard. 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 the balance-sheet date, 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.

Accumulated benefit obligations of defined benefit plans:

	Germany		Switzerland		Total	
	2006 € thousands	2005 € thousands	**2006** € thousands	2005 € thousands	**2006** € thousands	2005 € thousands
Present value of pension obligations financed by provisions	4,879	5,006	0	0	4,879	5,006
Present value of pension obligations financed by funds	0	0	1,525	1,166	1,525	1,166
Present value of defined benefit obligations	4,879	5,006	1,525	1,166	6,404	6,172
Plan assets at market values	0	0	-1,304	-1,007	-1,304	-1,007
Net obligations	4,879	5,006	221	159	5,100	5,165
Adjustment due to actuarial gains (+) and losses (-)	-225	-825	-98	-26	-323	-851
Balance-sheet value at December 31	**4,654**	**4,181**	**123**	**133**	**4,777**	**4,314**

Development of the present values of pension obligations:

	Germany		Switzerland		Total	
	2006 € thousands	2005 € thousands	**2006** € thousands	2005 € thousands	**2006** € thousands	2005 € thousands
January 1	5,006	4,008	1,166	1,242	6,172	5,250
Currency-translation adjustments	0	0	-47	-10	-47	-10
Current service costs	178	127	63	179	241	306
Interest costs	218	177	37	47	255	224
Employee contributions	0	0	100	103	100	103
Benefit payments*	-55	-42	138	-316	83	-358
Actuarial gains/losses	-442	354	68	-79	-374	275
Transfers	-26	382	0	0	-26	382
December 31	**4,879**	**5,006**	**1,525**	**1,166**	**6,404**	**6,172**

Development of plan assets of TDS MV

	2006 € thousands	2005 € thousands
January 1	1,007	1,104
Currency-translation adjustments	-76	-8
Expected return on plan assets	29	26
Actuarial gains (+) and losses (-)	6	-5
Employee and employer contributions	200	206
Benefit payments*	138	-316
December 31	**1,304**	**1,007**

*As a result of features specific to pension plans in Switzerland, benefit payments in this country may include proceeds from pension funds from the former employers of new staff and/or outgoing payments for benefit obligations to former employees of TDS.

Pension cost from defined benefit obligations:

	Germany		Switzerland		Total	
	2006 € thou-sands	2005 € thou-sands	2006 € thou-sands	2005 € thou-sands	2006 € thou-sands	2005 € thou-sands
Current service costs	178	127	63	179	241	306
Interest costs	218	177	37	47	255	224
Expected return on plan assets	0	0	-29	-26	-29	-26
Actuarial gains (+) and losses (-)	158	6	0	0	158	6
	554	**310**	**71**	**200**	**625**	**510**

Plan assets are maintained in the TDS MV pension plan, a foundation managed by Winterthur Columna, Winterthur, Switzerland, and are pursuant to article 80 onwards of the Swiss Civil Code. Details of the plan's investment strategy are not published. TDS MV and employees make equal contributions to plan assets. In 2007, TDS MV plans to contribute €71 thousand to plan assets.

The actual return on plan assets from external pension funds totaled €35 thousand (€22 thousand in 2005).

27 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 €176 thousand (€311 thousand in 2005) for severance costs, lawyers' fees and costs for court proceedings. In particular, the significant increase in provisions for payroll and related costs in comparison to 2005 is a result of higher provisions for bonuses due to the improvement in consolidated earnings.

At January 1, 2006, the provision for warranty obligations and risks from pending transactions included a provision for expected losses from an HR outsourcing contract that was used/reversed in its full amount in fiscal 2006. In the second half of the year, TDS was able to deliver additional services within the scope of this relationship, which led to a marked change in the associated planning for revenues and costs. As a result of the low workload at present, these services can be performed more or less with the same number of staff, and positive contribution margins can be generated via this contract.

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

At December 31, 2006, other provisions were as follows:

	January 1, 2006	Currency-translation adjustments	Reallocations	Use	Release	Addition	December 31, 2006
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Provisions for tax liabilities	215	0	0	-37	-40	475	613
Other provisions							
Payroll and related costs	3,293	0	0	-3,001	-292	5,101	5,101
Warranty obligations and risks from pending transactions	1,989	0	50	-499	-1,447	0	93
Additional provisions	2,374	3	-50	-1,720	-450	2,166	2,323
	7,871	**3**	**0**	**-5,257**	**-2,229**	**7,742**	**8,130**

At December 31, 2006, the following items were estimated for the provisions within the individual categories.

	Remaining term less than one year	Remaining term one to five years	Remaining term more than five years
	€ thousands	€ thousands	€ thousands
Provisions for tax liabilities	613	0	0
Payroll and related costs	4,618	0	0
Warranty obligations and risks from pending transactions	72	0	0
Additional provisions	1,866	0	0
Total	**7,169**	**0**	**0**
Non-cash provisions	961	0	0
Total provisions	**8,130**	**0**	**0**

28 Term of liabilities

December 31, 2006	Remaining term less than one year	Remaining term one to five years	Remaining term more than five years	Total at December 31, 2006
	€ thousands	€ thousands	€ thousands	€ thousands
Amounts due to banks	1,400	15,087	43	16,530
Obligations under finance leases	2,679	3,215	0	5,894
Customer downpayments	3,196	0	0	3,196
Trade payables	5,353	0	0	5,353
Current tax liabilities	1	0	0	1
Other liabilities	3,052	239	0	3,291
(for tax)	(1,989)	(0)	(0)	(1,989)
(for social security)	(2)	(0)	(0)	(2)
Total	**15,681**	**18,541**	**43**	**34,265**

At December 31, 2006 customer downpayments included downpayments for long-term service contracts in the amount of €3,138 thousand (€2,348 thousand).

December 31, 2005	Remaining term less than one year	Remaining term one to five years	Remaining term more than five years	Total at December 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**

29 Amounts due to banks

The pooled loan facility agreement of July 27, 2006 replaced TDS' previous arrangement, and led to debt restructuring. Since this date, all material amounts due to banks by TDS AG are channeled via this agreement, signed between TDS AG, TDS IT Consulting GmbH and TDS HR Services & Solutions GmbH (together, the borrower), and Baden-Württembergische Bank (the lead bank in the consortium), and four further banks (together, the lender). The agreement grants a credit line in the amount of €20,000 thousand, and is divided into several types of loan. In addition, a capital-market financed corporate bond of €5,000 thousand was agreed. At December 31, 2006, the credit line was reduced, as scheduled, to €19,400 thousand.

For all existing, future, and conditional claims, the borrower pledged all current and future bank-account balances, including all interest claims, assigned trade receivables and claims for payment from factoring activities, and offered all fixed assets and inventories as security.

TDS must ensure compliance with defined financial performance indicators given in the pooled loan facility agreement, at the level of the Group, during the entire term of the agreement or at specified balance-sheet dates. Financial indicators are determined on the basis of published quarterly reports, and at the end of each fiscal year on the basis of the audited TDS consolidated financial statements. In addition, there are limits with regard to leasing activities.

Details of financing arrangements

Corporate bond

This bond in the amount of €5,000 thousand will mature at September 15, 2011. Interest is based on the applicable Euribor rate for the corresponding interest period, plus a premium of 1.8 percent, and is currently 5.474 percent per annum. The interest rate is fixed until March 14, 2007, and is adjusted every three months.

Pooled loan facility agreement:

Loan A (amortizing loan)
This loan in the amount of €7,400 thousand is to be repaid in tranches of €600 thousand/ €800 thousand and €1,000 thousand, every six months until June 30, 2011. Interest is based on the applicable Euribor rate for the corresponding interest period, plus a premium of 2.0 percent, and is currently 5.772 percent. The interest rate is fixed until March 30, 2007 and is adjusted in accordance with the loan amount at each balance-sheet date, and depending on the debt-to-cash-flow ratio. The interest period is currently three months, and can be modified to either two or six months. Interest is payable at the end of the interest period.

Loan B (non-amortizing loan)
This loan in the amount of €4,000 thousand is due to mature at June 30, 2011. Interest is currently 6.222 percent per annum. The interest rate is fixed until March 30, 2007. Interest is based on the applicable Euribor rate for the corresponding interest period plus a premium of 2.5 percent. The interest rate, interest period and maturity are adjusted as for loan A.

Loan C (for acquisitions)
A credit line of €4,000 thousand is available until June 30, 2011 for potential acquisitions. The Company does not make use of this credit line at present.

Loan D (operating line of credit)
This credit line totals €4,000 thousand, of which €1,200 thousand is a bilateral credit line (sub-limit) available for use until July 26, 2007 as a current-account loan, money-market loan, or for guarantees/letters of credit in euros. If the sub-limit is used as a current-account loan, interest will be charged on the corresponding amount of credit used at, currently, 6 percent per annum. If employed as a money-market loan, interest is based on the Euribor rate plus a margin or, where the loan has been taken out in Swiss francs, based on the Libor rate plus a margin, for the corresponding amounts used. A commitment fee of 0.6 percent per annum applies for unclaimed amounts. At December 31, 2006, the Company had not made use of the sub-limit.

Interest rates are renegotiated with banks when the fixed interest-rate period of respective loans comes to an end. This may lead to an increase or a reduction in the interest rate for the Company.

At December 31, 2006, the amount due to banks within the scope of the pooled loan facility was €16,400 thousand. As a result of the variable interest rate agreed for this pooled loan facility, on the basis of Euribor, the costs of acquisition for bank loans listed in the balance sheet are given as their fair values at the balance-sheet date.

As well as the pooled loan facility, there is a loan from the Kreditanstalt für Wiederaufbau (KfW-Darlehen) handled via Volksbank Giessen, to be repaid by means of half-yearly payments with an annuity of €10 thousand by June 30, 2011. At December 31, 2006, this loan totaled €87 thousand.

In addition, the market value of interest-rate swap II (see note 32 "Derivatives") in the amount of €43 thousand, is included under amounts due to banks.

30 Other liabilities

Other liabilities break down as follows:

	December 31, 2006 € thousands	**December 31, 2005** € thousands
Acquisition costs	0	3,332
Value-added tax and other tax liabilities	1,989	2,276
Liabilities for social security	2	948
Salaries and wages	73	287
Liabilities from the early termination of building leases	463	797
Customer credit	200	75
Deferred income	362	557
Total of other liabilities	202	229
	3,291	**8,501**

31 Share-based payment

Share-option plan
On May 23, 2002, 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 were exercised as follows:

	Term of options	**Service period**	**Exercise period**
Tranche 1 (50 percent)	2002 to 2005 (Sept - Sept)	2 years	Sept 2004 - Sept 2005
Tranche 2 (50 percent)	2002 to 2006 (Sept - Sept)	3 years	Sept 2005 - Sept 2006

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 2006 - Nov 2007
Tranche 2 (50 percent)	2004 to 2008 (Nov - Nov)	3 years	Nov 2007 - Nov 2008

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 was 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
Granted	0		
Exercised	-112,500		1.66
Withdrawn	0		
Expired	-20,000		1.66
Cancelled	0		
December 31, 2006	0	0	

	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
Granted	0		
Exercised	0		
Withdrawn	0		
Expired	0		
Cancelled	-25,000		2.96
December 31, 2006	380,000	0	2.96

50 percent of options from the 2002 share-option plan expired in September 2005, and 50 percent in September 2006.

50 percent of options from the 2004 tranche have a remaining term of 11 months and 50 percent a remaining term of 23 months.

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

According to IFRS 2, expense amounted to €91 thousand in 2006 (€117 thousand in 2005).

Virtual share options

As in 2005, the Supervisory Board granted the Executive Board 125,000 virtual share options in fiscal 2006. For virtual share options granted in 2006, Executive Board members will receive a cash bonus in 2008 based on the difference between the average prices of TDS shares at June 2006 and at June 2008. For virtual share options granted in 2005, 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 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 are de-listed.

Fair value of virtual share options is calculated in line with IFRS 2. This is for "Asian options" that, in contrast to "European options", are not valued at one balance-sheet date, but on the basis of the average market value over a period of time. For two "European options", fair value was calculated at the grant date using the average value determined via the Black-Scholes method.

Fair value, calculated at the grant date using the Black-Scholes method, was €0.80 per share for virtual options share granted in 2006, and €0.31 for those granted in 2005.

The following weighted-average assumptions were made for virtual share options granted in 2006: Share price €2.84, exercise price €2.44, average dividend yield 0 percent, risk-free interest rate of 3.71 percent, volatility 34.0 percent, and a term of 23.3 months.

The following weighted-average assumptions were made for virtual share options granted in 2005: Share price €2.06, exercise price €2.33, average dividend yield 0 percent, risk-free interest rate of 2.80 percent, volatility 37.45 percent, and a term of 18.5 months.

Amounts are added to other liabilities on the basis of fair value up to the date when bonuses are paid. At December 31, 2006, liabilities for share-price based bonuses amounted to €45 thousand (€2 thousand in 2005).

32 Derivative financial instruments

	Market value	Nominal value			
€ thousands	December 31, 2006	Term less than one year	Term more than one year	Term more than five years	Total at December 31, 2006
Interest-rate cap II	3	3,000			3,000
Interest-rate swap I	56			5,000	5,000
Interest-rate swap II	-43		5,000		5,000
Total	16	3,000	5,000	5,000	13,000

	Market value	Nominal value			
€ thousands	December 31, 2005	Term less than one year	Term more than one year	Term more than five years	Total at December 31, 2005
Interest-rate cap I	0	5,000			5,000
Interest-rate cap II	0		3,000		3,000
Interest-rate swap I	-57			5,000	5,000
Total	-57	5,000	3,000	5,000	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 performed at balance-sheet date using recognized mathematical models. The positive market value of interest-rate swap I, in the amount of €56 thousand, and the positive market value of interest-rate cap II, in the amount of €3 thousand, are included under cash and cash equivalents. The negative market value of interest-rate swap II amounting to €43 thousand (interest-rate swap I had a negative market value of €57 thousand in 2005) was included under amounts due to banks. In fiscal 2006, hedge-accounting principles according to IAS 39 were not applied. As a result, changes in market values were recognized as financial income in profit or loss.

For interest-rate swap I, the interest-rate risk of the 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.

For interest-rate swap II, the interest-rate risk of the base rate (Euro-Euribor-Telerate) for a reference amount of €5,000 thousand is limited to a corridor between 2.90 and 5.10 percent per annum.

For interest-rate cap II, and interest-rate cap I which expired in 2006, the interest-rate risk of the base rate (3-month Euribor rate) for a reference amount of €3,000 thousand (interest-rate cap II) or €5,000 thousand (interest-rate cap I) is limited to 3.5 percent per annum.

Maximum potential loss for derivative financial instruments is based on their total positive market value. At December 31, 2006, total positive market value of derivative financial instruments was €59 thousand (€0 thousand in 2005). Financial losses can be incurred by the Group if individual business partners fail to meet their obligations under derivative contracts.

33 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. Relationships between parent companies and subsidiaries must be disclosed. Relationships with related parties must only be disclosed if transactions have taken place. 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.

Prices and terms for independent business partners also apply to transactions with related persons and entities.

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

	Value of services provided € thousands		Value of services received € thousands	
	2006	2005	**2006**	2005
ROSEA Trendpark Objektverwaltungsgesellschaft mbH & Co. KG, Neckarsulm	0	0	2,340	2,112
Villa Rosa gGmbH, Heilbronn	0	0	27	26

€27 thousand was contributed to Villa Rosa gGmbH in 2006 for day care for TDS employees' children (€26 thousand 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 in the amount of €1,349 thousand in fiscal 2006 (€1,349 thousand in 2005). 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 2005) resulted from a lease agreement with CommerzLeasing Anlagen-Vermietungsgesellschaft mbH, Düsseldorf.

At December 31, 2006, receivables and liabilities for related parties were as follows:

	Receivables € thousands		Liabilities € thousands	
	December 31, 2006	December 31, 2005	**December 31, 2006**	December 31, 2005
ROSEA Trendpark Objektverwaltungsgesellschaft mbH & Co. KG, Neckarsulm	2	181	0	1
Villa Rosa gGmbH, Heilbronn	0	7	6	7
VisionOne Consulting AG, Neuss	0	19	0	0
- davon wertberichtigt		19		-

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

TDS holds a 50 percent stake in Rosea KG. The remaining 50 percent is held by BHG X GmbH & Co. KG (BHGX), which is not a related party of TDS AG. BHGX and TDS lease approximately equal shares 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. TDS Supervisory Board member Mr. Günter Steffen was CEO of Rosea KG until this point.

Related persons
In fiscal 2006, there were no expenses for the consulting services provided by Supervisory Board member Günter Steffen (€89 thousand in 2005).

For details of other business relationships with TDS Executive and Supervisory Board members, see note 41 "Further relevant information concerning the Executive and Supervisory Board".

In 2006, no revenues of a material nature were generated from transactions with shareholders, members of management, or with companies controlled by these persons.

34 Contingent liabilities

Contingent liabilities comprise solely of purchase obligations totaling €3,025 thousand (€711 thousand in 2005).

35 Other financial obligations

Future financial obligations at December 31, 2006, break down as follows:

	€ thousands
Due in less than 1 year	5,380
Due in 1 to 5 years	8,249
Due in more than 5 years	13,493
	27,122

This item primarily consists of rental/lease expenses.

36 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.

37 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.

38 Disclosures according to Section 25, Subsection 1 of the German Securities Trading Act (WpHG)

In January 2007, TDS was informed of the following transactions in accordance with Section 21 of the German Securities Trading Act (WpHG). These were then disclosed pursuant to Section 25 of the German Securities Trading Act (WpHG):

On January 18, 2007, General Atlantic GmbH, Düsseldorf, Germany, made the following disclosures in accordance with Section 21, Subsection 1 of the German Securities Trading Act (WpHG):

With regard to the complete sale of our shares in TDS Informationstechnologie AG, Neckarsulm, ISIN DE0005085609 (hereinafter "TDS"), we disclose the following:

1. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of General Atlantic Partners (TERN), L.P., Clarendon House, Church Street, Hamilton, HM 11, Bermuda, that on January 18, 2007 its share of voting rights in TDS in accordance with Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), and its share of voting rights in TDS assigned in accordance with Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

2. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of GAP-W International, LLC, c/o National Corporate Research, Ltd., 615 South Dupont Highway, Dover, Delaware 19901, USA, that on January 18, 2007 its share of voting rights in TDS according to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), and its share of voting rights in TDS assigned in accordance with Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

3. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of GAP (Bermuda) Ltd, Clarendon House, Church Street, Hamilton, HM 11, Bermuda, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) and Section 22, Subsection 1, Sentence 1(1) of the German Securities Trading Act (WpHG) in conjunction with Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

4. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of GAP 1 SARL, 3, Boulevard Royal, 2449 Luxembourg, Luxembourg, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1(1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) in conjunction with Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

5. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of GAP 2 SARL, 3, Boulevard Royal, 2449 Luxembourg, Luxembourg, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

6. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of GAP 3 SARL, 3, Boulevard Royal, 2449 Luxembourg, Luxembourg, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

7. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of GAP-W International SARL, 3, Boulevard Royal, L-2449, Luxembourg, Luxembourg, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

8. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of Woodbridge International Holdings S.A., 3, Boulevard Royal, L-2449, Luxembourg, Luxembourg, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

9. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of WISHA Holdings S.A., 3, Boulevard Royal, L-2449, Luxembourg, Luxembourg that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

10. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of Woodbridge International Holdings Limited, 65 Queen Street West, Suite 2400, Toronto, Ontario, Canada M5H 2M8, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

11. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of The Woodbridge Company Limited, 65 Queen Street West, Suite 2400, Toronto, Ontario, Canada M5H 2M8, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 and Section 22, Subsection 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent.

12. We hereby declare pursuant to Section 21, Subsection 1, Sentence 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of Mr. Peter L. Bloom, Mr. Peter Currie, Mr. Steven A. Denning, Mr. Mark F. Dzialga, Mr. Erik Engstrom, Dr. Klaus Esser, Mr. William E. Ford, Mr. William O. Grabe, Mr. David C. Hodgson, Mr. Braden R. Kelly, Mr. René M. Kern, Mr. William J. Lansing, Mr. Matthew Nimetz, Mr. Clifton S. Robbins, Mr. Franchon M. Smithson, Mr. Tom C. Tinsley, Mr. Florian Wendelstadt and Mr. John Wong, that on January 18, 2007 its share of voting rights in TDS assigned according to Section 22, Subsection 1, Sentence 1 (1) in conjunction with Section 22, Subsection 1, Sentence 2 of the German Securities Trading Act (WpHG) fell below the 50, 25, 10, and 5 percent thresholds. Its holding is now 0 percent. The address of Mr. Peter L. Bloom, Mr. Steven A. Denning, Mr. Mark F. Dzialga, Mr. Erik Engstrom, Mr. William E. Ford, Mr. William O. Grabe, Mr. David C. Hodgson, Mr. René M. Kern, Mr. Matthew Nimetz, Mr. Clifton S. Robbins, Mr. Franchon M. Smithson and Mr. Tom C. Tinsley is c/o General Atlantic Service Corporation, 3 Pickwick Plaza, Greenwich, Connecticut 06830, US. The address of Dr. Klaus Esser is c/o General Atlantic Partners GmbH, Königsallee 62, 40212 Düsseldorf, Germany. The adress of Mr. Florian Wendelstadt is c/o General Atlantic Partners Limited, 83 Pall Mall, Sixth Floor, London SW1Y 5ES, UK. The address of Mr. Peter Currie, Mr. Braden R. Kelly and Mr. William J. Lansing is c/o General Atlantic Service Corporation, 228 Hamilton Avenue, Palo Alto, California 94301, US. The address of Mr. John Wong is c/o General Atlantic Service Corporation, 24 Raffles Place, 29-04 Clifford Center, Singapore 048621.

On January 18, 2007, Mayer, Brown, Rowe & Maw LLP legal practice in Frankfurt, Germany, issued the following disclosures pursuant to Section 21, Subsection 1 of the German Securities Trading Act (WpHG):

We hereby declare pursuant to Section 21, Subsection 1 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of our client, Fujitsu Limited, Shiodome City Center, 1-5-2 Higashi-Shimbashi, Minatoku, Tokyo 105-7123, Japan, that its share of voting rights in TDS Informationstechnologie Aktiengesellschaft exceeded the 75, 50, 25, 10, and 5 percent thresholds on January 18, 2007. Its holding is now 79.42 percent. This corresponds to 23,263,951 votes. All voting rights are to be assigned to Fujitsu Limited pursuant to Section 22, Subsection 1, Sentence 1 (1) of the German Securities Trading Act (WpHG).

We hereby declare pursuant to Section 21, Subsection 1 and Section 24 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of our client, that the share of voting rights of Fujitsu Services Holdings PLC, 22 Baker Street, London W1U 2BW, UK in TDS Informationstechnologie Aktiengesellschaft exceeded the 75, 50, 25, 10, and 5 percent thresholds on January 18, 2007. Its holding is now 79.42 percent. This corresponds to 23,263,951 votes. All voting rights are to be assigned to Fujitsu Services Holdings PLC pursuant to Section 22, Subsection 1, Sentence 1 (1) of the German Securities Trading Act (WpHG).

We hereby declare pursuant to Section 21, Subsection 1 and Section 24 of the German Securities Trading Act (WpHG), on behalf of and with the explicit authorization of our client, that the share of voting rights of Fujitsu Services Overseas Holdings Limited, 22 Baker Street, London W1U 2BW, UK in TDS Informationstechnologie Aktiengesellschaft exceeded the 75, 50, 25, 10, and 5 percent thresholds on January 18, 2007. Its holding is now 79.42 percent. This corresponds to 23,263,951 votes.

39 Events after the balance-sheet date

In accordance with the purchase contract of December 11, 2006, Fujitsu Services Overseas Holdings Limited, London, UK (Fujitsu Services) became the majority shareholder of TDS on January 18, 2007.

At February 26, 2007, Fujitsu Services issued a mandatory offer to all remaining shareholders pursuant to the German Securities Acquisition and Takeover Act (WpÜG), at a price of €2.80 per share.

There were no transactions of particular significance that may negatively impact the Company's assets, financial position, or earnings.

40 Other information

The following auditors' fees were posted in fiscal 2006:

	2006 **€ thousands**	2005 **€ thousands**
Audit of year-end financial statements	153	293
Tax consulting services	101	138
Other valuation, analysis and certification activities	32	46
Legal advice	15	0
	301	**477**

41 Further relevant information concerning the Executive and Supervisory Board

Compensation
The total compensation package for members of the TDS AG Executive Board totaled €1,867 thousand in 2006 (€1,021 thousand in 2005), including a fixed-rate component of €528 thousand (€726 thousand in 2005) and a performance-related component of €1,258 thousand (€250 thousand in 2005). Supervisory Board compensation totaled €171 thousand (€114 thousand in 2005).

Executive Board compensation broke down as follows for individual members:

Name	Fixed-rate € thousands	Performance-related € thousands	Compensation based on share-options € thousands	Compensation based on virtual share-options € thousands	Total € thousands
Michael Eberhardt (CEO)	315	700	25	26	1,066
Dr. Heiner Diefenbach	213	558	0	17	788
Ralf Klemisch (former Executive Board member)	0	0	13	0	13
Total	**528**	**1,258**	**38**	**43**	**1,867**

Supervisory Board compensation broke down as follows for individual members:

Name	Fixed-rate	Perform-ance-related	Meeting attendance fee	Total
	€ thousands	€ thousands	€ thousands	€ thousands
Dr. Klaus Esser (Chairman)	16	10	12	38
Bernhard Dorn (Deputy Chairman)	12	8	14	34
Karl Heinz Achinger	10	6	9	25
Andreas Barth	10	6	9	25
Dr. Martin Schütte	8	5	7	20
Günter Steffen	10	6	13	29
Total	**66**	**41**	**64**	**171**

Director's Dealings
As of December 31, 2006, there were no outstanding advance payments or loans to members of the TDS AG Executive Board or Supervisory Board.

There were no disclosures pursuant to Section 21 and Section 25 of the German Securities Trading Act (WpHG) in fiscal 2006.

The following transactions by directors of the Company during fiscal 2006 required disclosure pursuant to Section 15a of the German Securities Trading Act (WpHG):

Date	Name	Position	Type	Number	Price	Value
	GS Holding GmbH	**Günter Steffen, Supervisory Board member**				
June 30, 2006			Purchase	13,000	2.45	32,650.00
June 30, 2006			Purchase	7,000	2.49	17,430.00
June 30, 2006			Purchase	10,000	2.50	25,000.00
	Bernhard Dorn	**Deputy Chairman of the Supervisory Board**				
January 2, 2006			Purchase	20,000	2.10	42,000.00
February 8, 2006			Purchase	5,960	2.10	12,516.00
February 17, 2006			Purchase	3,150	2.08	6,552.00
July 11, 2006			Purchase	15,000	2.41	36,201.00
	Michael Eberhardt	**Chairman of the Executive Board**				
July 7, 2006			Purchase (share options)	50,000	1.66	83,000.00

Shareholdings
As of December 31, 2006, Executive Board members held 118,200 shares in the Company. (Michael Eberhardt: 103,200, Dr. Heiner Diefenbach: 15,000).

Pension obligations
A total of €1,079 thousand (€945 thousand in 2005) was set aside to fulfill pension obligations for former members of the Executive Board and their dependents.

Share-based payment
At December 31, 2006, CEO Michael Eberhardt held 100,000 options under the 2002 plan (tranche 2004); former Executive Board member Ralph Klemisch held 50,000 options under the 2002 plan (tranche 2004).

As in 2005, the Supervisory Board granted the Executive Board 125,000 virtual share options in fiscal 2006. Of these, Michael Eberhradt, the Chairman of the Executive Board, received 75,000, and Executive Board member Dr. Heiner Diefenbach 50,000. For virtual share options granted in 2006, Executive Board members will receive a cash bonus in 2008 based on the difference between the average prices of TDS shares at June 2006 and at June 2008. Apart from these virtual share options, no other options were granted to Executive Board members in fiscal 2006. For virtual share options granted in 2005, 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.

Fair value at grant date of virtual share options granted in 2006 was €100 thousand, of which Michael E-berhardt, the Chairman of the Executive Board, received €60 thousand, and Executive Board member Dr. Heiner Diefenbach €40 thousand.

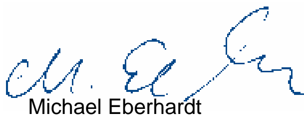
The increase in value is multiplied by the number of options granted, and paid by the Company in cash. Advanced calculation and payment of the bonus is possible if, for example, there is an offer made to acquire all TDS shares, or if TDS shares are de-listed.

42 Publication date for the financial statements

On March 30, 2007, the Executive Board approved publication of the financial statements for the fiscal year ending December 31, 2006.

Neckarsulm, Germany, March 1, 2007

The Executive Board



Michael Eberhardt Dr. Heiner Diefenbach

SCHEDULE OF CONSOLIDATED ASSETS

	Cost of acquisition/manufacture						
	Jan 1, 2006	Währungs-einfluss	As a result of acquisition	Additions	Changes	Disposals	Dec 31, 2006
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Intangible assets							
Concessions, intellectual property and similar rights and assets and licenses to such rights and assets	24,810	0		1,857	-943	2,726	22,998
In-house developed software including software in development	2,788	0	0	1,620	1,298	173	5,533
Rented software	1,459	0	0	796	74	0	2,329
Downpayments made on intangible assets	350	0	0	0	-350	0	0
Goodwill	42,484	0		50	0	33	42,501
	71,891	**0**	**0**	**4,323**	**79**	**2,932**	**73,361**
Property, plant and equipment							
Leasehold buildings	2,622	0	0	119	-28	59	2,654
Computer and similar equipment	32,022	-3	0	1,744	151	1,618	32,296
Leased computer equipment, office equipment, etc.	8,805	1	0	3,029	-230	983	10,622
Other computer equipment and office equipment, etc.	8,840	-1		362	0	733	8,468
Downpayments, plant and equipment under construction	0	0		13	0	0	13
	52,289	**-3**	**0**	**5,267**	**-107**	**3,393**	**54,053**
Investment property	**2,463**	**0**	**0**	**0**	**28**	**0**	**2,491**
Investments							
Investments in associated companies	0	0		24	0	24	0
Investments	1,320	0	0	0	0	0	1,320
Lendings due from other group companies	77	0	0	293	0	113	257
Securities	16	0	0	0	0	0	16
Other lendings	2,480	0	0	0	0	91	2,389
	3,893	**0**	**0**	**317**	**0**	**228**	**3,982**
	130,536	**-3**	**0**	**9,907**	**0**	**6,553**	**133,887**

	Amortization and depreciation							Book value	
	Jan 1, 2006	Current translation effect	Current fiscal year	Additions	Changes	Disposals	Dec 31, 2006	Dec 31, 2006	Dec 31, 2005
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
Intangible assets									
Concessions, intellectual property and similar rights and assets and licenses to such rights and assets	16,285	0	1,979	0	-570	2,753	14,941	8,057	8,525
In-house developed software including software in development	1,747	0	857	0	573	58	3,119	2,414	1,041
Rented software	736	0	546	0	25	0	1,307	1,022	723
Downpayments made on intangible assets	0	0	0	0	0	0	0	0	350
Goodwill	17,901	0	0	0	0	0	17,901	24,600	24,583
	36,669	**0**	**3,382**	**0**	**28**	**2,811**	**37,268**	**36,093**	**35,222**
Property, plant and equipment									
Leasehold buildings	1,324	1	125	0	-28	52	1,370	1,284	1,298
Computer and similar equipment	27,840	4	2,036	0	152	1,618	28,414	3,882	4,182
Leased computer equipment, office equipment, etc.	4,417	3	2,590	0	-180	881	5,949	4,673	4,388
Other computer equipment and office equipment, etc.	6,898	0	916	0	0	653	7,161	1,307	1,942
Downpayments, plant and equipment under construction	0	0	0	0	0	0	0	13	0
	40,479	**8**	**5,667**	**0**	**-56**	**3,204**	**42,894**	**11,159**	**11,810**
Investment property	**1,843**	**0**	**21**	**292**	**28**	**0**	**1,600**	**891**	**620**
Investments									
Investments in associated companies	0	0	0	0	0	0	0	0	0
Investments	1,093	0	0	0	0	0	1,093	227	227
Lendings due from other group companies	77	0	0	0	0	0	77	180	0
Securities	4	0	0	0	0	0	4	12	12
Other lendings	734	0	0	0	0	0	734	1,655	1,746
	1,908	**0**	**0**	**0**	**0**	**0**	**1,908**	**2,074**	**1,985**
	80,899	**8**	**9,070**	**292**	**0**	**6,015**	**83,670**	**50,217**	**49,637**

TDS INFORMATIONSTECHNOLOGIE AG SUBSIDIARIES AND HOLDINGS AT DECEMBER 31, 2006

	Holding as a % of equity	Shareholders' equity at Dec 31,2006 (€ thousands)	Net income for fiscal 2006 (€ thousands)	
1. Consolidated companies				
Germany				
TDS HR Services & Solutions GmbH, Neckarsulm	100 %	3,715.0	0	3)
TDS IT Consulting GmbH, Neckarsulm [6]	100 %	426.8	0	3)
Outside Germany				
effect Personalmanagement GmbH, Pasching, Austria	100 %	17.4	125.9	1)
TDS MultiVision AG, St. Gallen, Switzerland	100 %	56.0	-168.2	
TDS Systemhouse plc., Chesterfield, UK	100 %	-715.8	145.5	
2. Affiliated companies valuated at cost				
BFL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn	0.32 %	12,402.4	2.2	8)
ROSEA Trendpark Objektverwaltungsgesellschaft GmbH & Co. KG, Neckarsulm	50 %	27.0	2.8	
ROSEA Trendpark Objektverwaltung Beteiligungs-GmbH, Neckarsulm	50 %	25.5	2.2	
RATIODATA Rechenzentrum AG, Oberengstingen, Switzerland	100 %	29.8	0.0	1), 2) , 7)
Villa Rosa gGmbH, Heilbronn	30 %	38.4	13.4	2)
VisionOne Consulting AG, Neuss	8.55 %	933.8	-444.6	4), 5)

1) Indirect stake
2) At December 31, 2005
3) Zero earnings due to a profit-transfer agreement
4) Company is insolvent, 2006 financial statements not prepared to date
5) At December 31, 2003
6) Formerly TDS IS GmbH, including assets formerly held by TDS Deutschland AG & Co. OHG
7) Company in liquidation
8) At December 31, 2004

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 2006, income from other fiscal years totaled €2,643 thousand (€1,722 thousand in 2005, including €2,249 thousand for the reversal of provisions, €85 thousand for the reversal of write-downs, and €23 thousand for proceeds from the disposal of assets, €223 thousand in tax refunds from previous years, and €63 thousand for other items. Expenses from other fiscal years totaled €156 thousand (€300 thousand in 2005), including €8 thousand for back taxes for previous years, €22 thousand for losses from the disposal of assets, and €126 thousand for other items not attributable to fiscal 2006.

Application of the provisions of Section 264, Subsection 3 of the German Commercial Code (HGB)
TDS HR Services & Solutions, GmbH, Neckarsulm, Germany, a subsidiary of TDS Informationstechnologie AG as defined by Section 290 of HGB, 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. In addition, TDS IT Consulting GmbH, Neckarsulm, Germany makes 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.

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 2006, and therefore remains unchanged over 2005.

Capital consolidation
The capital consolidation of investments led to differences between book value and share of equity in the amount of €22,418 thousand (€32,140 thousand in 2005).

Consolidation of debt
During fiscal 2006, lendings to related parties of €4,000 thousand (€0 thousand in 2005) and internal Group receivables totaling €8,947 thousand (€12,635 thousand in 2005) were netted against external liabilities in the amount of €13,380 thousand (€13,048 thousand in 2005); of this amount, €3 thousand (€597 thousand in 2005) were eliminated and recognized in net income for the period.

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. In fiscal 2006, there was no elimination of intercompany profits (€46 thousand in 2005).

Elimination of income and expense
During fiscal 2006, intercompany revenues of €5,866 thousand (€5,799 thousand in 2005) were netted against intercompany expenses, and intercompany interest income of €515 thousand (€753 thousand in 2005) was netted against intercompany interest expense. In addition, income from investments totaling €0 thousand (€7 thousand in 2005) and expenses and income from the transfer of losses totaling €1,501 thousand (€1,744 thousand in 2005) were eliminated.

Deferred taxes
The calculation of deferred taxes for temporary differences led to a net increase in deferred tax assets – excluding tax loss carryforwards – of €517 thousand (increase of €152 thousand in 2005).

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 fiscal year January 1 to December 31, 2006. Preparation of the consolidated financial statements and management report in line with International Financial Reporting Standards (IFRS), 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), 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.

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 a, Subsection 1 of the German Commercial Code (HGB), 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 2, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

T. Kern
Auditor

C. Hamann
Auditor

FINANCIAL CALENDAR

2007 Financial calendar

May 10, 2007	Publication of three-month interim report
July 24, 2007	Annual shareholders' meeting
August 9, 2007	Publication of six-month interim report
November 8, 2007	Publication of nine-month interim report

ABOUT THIS PUBLICATION

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