ANNUAL REPORT

2005

wapme group
great deals by communication

KEY FIGURES OF THE GROUP (IFRS)

NET RESULT

€	01.01. – 31.12.2005	01.01. – 31.12.2004
Sales revenues	68,179,297	66,318,281
Overall performance	68,648,667	67,257,491
EBITDA	-5,241,667	-4,851,101
EBIT	-9,741,276	-6,092,113
Net loss *(excl. minority interest)*	-10,453,916	-7,350,332
Number of shares incl. convertible bond *(diluted)* *	12,815,959	8,061,938
Average number of shares *(diluted)* *	11,313,291	7,236,938
Earnings per share incl. convertible bond *	-0.82	-0.91

* *including average number of 467,500 stock options issued in 2005*

BALANCE SHEET

€	31.12.2005	31.12.2004
Subscribed capital	11,696,147	9,555,000
Equity	3,405,346	8,740,057
Equity ratio	25.57%	40.49%
Balance sheet total	13,319,482	21,587,273

EMPLOYEES

		2005	2004
Number of employees			
– at end of period		75	101
– on average		96	89
Revenue per employee	€	713,173	749,359
Per capita personnel expenses	€	48,815	37,841
Other operating expenses per employee	€	53,052	57,676

LETTER TO THE SHAREHOLDERS

>>> **Dear Shareholders, Dear Readers,** Even the latest positive developments, such as the capital increase announced on 10 April, which demonstrates the investors' confidence in the future, and the future positioning of the company, cannot belie the fact that 2005 was far from being a satisfactory year for the Wapme Group – or for you. Although the mobile telephone and mobile services market has grown, the Wapme Group did not expand its market position as anticipated.

We would like to explain the reasons for this from our perspective.

After the takeover of the Lawa companies at the end of 2004, it was planned to expand the mobile adult entertainment business, which has been successful in Switzerland, to other European companies, particularly Germany and Austria. In spite of an intensive search for suitable marketing channels and a necessary age verification system, a profitable model did not materialise outside of Switzerland. There was also no successful conclusion to other innovative projects developed in collaboration with partners in the areas of content trading, chat, and satellite TV.

During the summer of 2005, mobile networks providers successively introduced Web billing options, which Internet providers used to invoice their services via mobile phone bills. For user verification, a password sent by SMS was used to register for these Internet services. This forward-looking payment option was technically implemented by Wapme – to a greater extent, even, than our competitors, with the result that very high transaction volumes were already being generated in August 2005.

After intensive and prudent exercise of its monitoring obligations, the Supervisory Board decided in November 2005 to appoint a new Management Board that is not tainted by these factors and can make a fresh start. It is also planned, at the same time, to continue with the integration of the Lawa companies, the restructuring of the Wapme Group and its successful strategic focus.

In light of the financial situation, the primary concern was to ensure liquidity of the company and the group. The sale of more phones GmbH was a first step in this direction. Sustainable reorganisation measures are also being implemented at Wapme Systems AG and the whole group is working on driving forward a new focus.

This has reduced cumulative monthly losses considerably overall at Wapme Systems AG. In addition, the mobile adult entertainment business of Lawa has been focusing on its traditional market, Switzerland, and is now back in the black after a few months of being in deficit in 2005.

In view of the accumulated losses in financial year 2005, the Management Board fulfilled its obligation pursuant to Art. 92 (1) of the German Stock Corporation Act (Aktiengesetz, AktG) and notified the shareholders of the loss of half of the company's share capital at the Extraordinary General Meeting held on 30 March 2006 in Düsseldorf.

Within the scope of this General Meeting, all resolutions put forward by the management were adopted with a clear majority.

The Wapme Group will offset the losses that still exist at Wapme Systems AG with the foundation of Joint Ventures Wapme Telco AG, Switzerland, and the positive result of Lawa. The restructuring concept provides that the company will generate a positive EBITDA in the third quarter on a monthly basis.

We would like to express our sincere thanks for the confidence and support shown to us not only by our employees, but particularly by you, our investors and customers, who continue to follow the company's progress, despite the extensive changes that are taking place. We will continue to work hard today and in the future to earn this trust.

Best regards,

Oswald Ortiz Achim Rottschäfer

CONSOLIDATED MANAGEMENT REPORT

OF WAPME SYSTEMS AG FOR THE FINANCIAL YEAR 2005

1. BUSINESS AND GENERAL CONDITIONS

1.1 Business

Wapme System AG

Wapme Systems AG is a provider of comprehensive mobile solutions and is active in the market segments mobile marketing and mobile entertainment. The company develops and distributes integrated information systems and IT services of all kinds, including mobile application platforms. The company also prepares and implements marketing concepts for advertisement, promotion, publicity and personal sales as well as provides telecommunications services.

Lawa Group

Lawa Group is the leading international mobile service provider in Europe in the business segment value added services for consumers (B2C). This includes offering customers advanced and interactive adult mobile services for their own marketing using their own brand. In addition, Lawa Group provides innovative and competent services in the business-to-business market (B2B) for mobile network solutions.

more phones GmbH

The company’s subsidiary more phones GmbH is active in the segment mobile phone trading and mobile handsets.

1.2 Development of overall economy and the industry sector

››› Growth of the Wapme Group is influenced by factors such as national and international propagation of mobile handsets and market growth for mobile content and value added services.

The worldwide mobile phone market is currently experiencing annual growth of about 25% and sales have reached 244 million handsets in the fourth quarter of 2005. Within the year, the share of smartphones has almost doubled to 15,500 thousand handsets in the fourth quarter of 2005, according to Nokia.

The market segment for mobile content and mobile services is also growing at a strong rate, supported by UMTS, mobile internet flat rates and increasing use of smartphones. According to the European Information Technology Observatory (EITO), the market for mobile content and value added services in Western Europe will grow in the next few years at an average rate of 70%, reaching a total volume of about € 8 billion in 2008.

At the same time, the market for handsets and telephony is exposed to strong competition. Mobile phones with colour display and polyphonic ring tones are available for less than € 100, while prices for smartphones and mobile UMTS phones are falling, in spite of larger memory capacity and more technical features.

Competition in the services sector is fierce as well. Meanwhile, the internet is used more and more for telephony, using VOIP (voice over internet protocol). Some DSL provider even offer comparable flat rates for fixed network free of charge. International internet provider such as Skype offer internet telephony and videophones across the internet, also free of charge. If coupled with such services, Wireless LAN might become a potential competitor for mobile networks. In addition, SIM cards for mobile phones have been offered in 2005, enabling prepaid calls for about € 0.15 per minute at any time into any national network. SMS charges are also falling constantly and are at present being offered for less than € 0.10.

In the summer of 2005, mobile network operators in Germany have introduced the technical feature that users can pay internet services with their mobile phone bill. Such »web billing« payments are a fast and simple way for many internet providers to charge for their services, as many customers are reluctant to disclose their account or credit card details over the internet.

However, another option offered which enables charging for services by way of a subscription has been abused by some internet providers. In combination with not yet perfected control systems, this has forced many mobile network providers to terminate such services quickly. This market is again opening, albeit cautiously, and seems to promise a reasonable option for many internet provider to charge for their services.

1.3 Development of the companies

››› During 2005, Wapme has encountered a positive market environment with growing handset sales and increased revenues in all major markets. Investment climate and stock markets in Germany were both positive. The DAX index increased by almost 30% during 2005.

However, Wapme Systems AG was not able to capitalize on this positive development in the past financial year. The major reasons were: Continued intensive competition in the technical services sector accompanied by considerable pressure on prices and margins, unsuccessful product policy failing to increase the range of services offered by the company as well as a significant delay of the planned integration and synergy leverage. In addition, due to the financial measures required in the financial year 2005, management resources have been inappropriately withheld.

The acquisition of Lawa Group should have realized significant growth of the business model of the company into the more attractive business-to-consumer (B2C) segment. At the same time, a markedly increased share of the added value chain in the market for mobile services was expected. Furthermore, the business-to-consumer (B2C) segment was planned to go international by transferring the successful business model from Switzerland to other European countries. Cost savings and synergies in the areas of technology, distribution and marketing were also expected. However, the preceding management was not able to reach these targets.

Due to continued losses, the company had a permanent financing requirement. Accordingly, during the financial year 2005, several capital increases were initiated and implemented. Management was subjected to significant pressure to succeed, in particular due to the financing measures and the absence of any success as a result of the Lawa acquisition. In spite of missing resources, new product designs and co-operations were initiated. However, in the end, there has been no successful implementation.

One of these new products has been »SIM cash«. This is a »web billing« procedure introducing invoicing of internet content in the mobile phone invoice. Following problems with the web billing business, which also damaged the image of Wapme in the market badly, the members of the Management Board, Alfred Roth and André Borutta, were replaced by Oswald Ortiz and Achim Rottschäfer on 15 November 2005. The Supervisory Board wanted to demonstrate a new beginning for investors, carriers and customers, since the previous Management Board was obviously not able to realize the targeted success and measures. At the same time, the chapter web billing was to be closed.

The first tasks of the new Management Board were the sale of more phones GmbH, securing additional financing for the company and the group, a new company orientation as well as the integration of the affiliated companies.

The business activities of more phones GmbH have been severely restricted by the sales tax claim of the revenue office of € 5,315 thousand. The revenue office, Finanzamt Steinfurt, has refused its approval of input tax registration for more phones GmbH. As a result, paid input taxes could not be claimed for deduction. Due to this cash problem, the business model of more phones GmbH had to be adapted. As the trade transactions had to be pre-financed, revenues were restricted, as the required liquidity was missing. Furthermore, the business model of the company has been adapted to target no/low revenues with foreign customers, in order to mitigate the risks arising from the non-recognition of input tax amounts. Accordingly, sales revenues of this company have decreased drastically in comparison to 2004. As the conflict with the tax authorities has proven to be very time intensive and the outcome difficult to control and the business model of more phones GmbH is not the core activity of Wapme and does not supplement it, the Management Board has decided at the end of 2005, to sell the interest in more phones GmbH. This sale has been concluded at the beginning of 2006.

The company has already recognised that the market position and therefore the financial situation will only increase significantly with access to content. Due to the strong competition and price pressures the company had to acknowledge that a pure focus on technical service provision in the B2B segment is not enough for the future orientation. In particular, the company does not realize chances for high margin revenues in the direct consumer segment. To further this business model, the group has increased its focus on the collaboration with partners having the relevant content and to address consumers through various forms of revenue sharing.

Lawa Holding AG, headquarters in Zurich, was not able to expand its business in the year 2005 outside Switzerland, as planned. Although early activities have been promising in Austria, test runs in Germany have shown that adult entertainment content rated for persons above 16 years of age (FSK 16) are not profitable. The provision of adult content (FSK 18) is subject to age verification systems (AVS), which are, at present, neither legally effective nor implemented. The cash position of the group has prevented significant investments in market development. Therefore, Lawa has focused on its core activities in Switzerland at the end of 2005. As a result, the last months of 2005 showed a profit.

Wapme Group's new Management Board has targeted a fast return to profits and to gain a leading position in mobile services marketing in the German speaking region. For this purpose, new products such as reverse auction and gambling are offered, aside from adult entertainment content.

1.4 Development of revenues and orders

>>> Total group revenues increased by € 1,861 thousand or 2.8% to € 68,179 thousand (previous year: € 66,318 thousand). This increase can be attributed mainly to risen sales of more phones GmbH by € 2,117 thousand to € 52,808 thousand (previous year: € 50,691 thousand). In addition, the Lawa Group has been included for the whole year in 2005, while in the comparative period only the last two months have been included. On the whole, inclusion of the Lawa Group could partly compensate for the strong decline of sales in the B2B sector. Responsible for the strong decline in sales of the segment VAS is the failure to produce revenues in the web billing segment, which in turn had a strong negative impact on overall results.

Compared to last year, revenues of Wapme Systems AG decreased by € 3,103 thousand to € 10,909 thousand (previous year: € 14,012 thousand). This development is mainly caused by continuous competition and price pressures in the technical services market, loss of customers in the core activities, delayed expansion of the business model to B2C content and problems in the sector web billing in the second half of 2005.

The acquisition of Lawa Group in 2004 has enabled the company to offer B2C products and new B2B services. Although this development has not led to increased revenues in the past financial year, management assumes that for 2006 the customer base and gross sales may be expanded significantly with corresponding effect on results.

The operative companies of Lawa Group have realized sales in Switzerland, Austria and Germany of € 4,462 thousand in the B2B sector. Such sales have mainly occurred in Switzerland, whereby Austria contributed a small portion of less than 5%. Due to its large number of mobile network users, the German market is especially of interest. However, the regulations pertaining to age verification have to be strictly complied with. The Austrian market is quite similar to the Swiss market environment; however, the market in Austria has virtually not been served in the last months of 2005, since low resources necessitated a focus on Switzerland.

1.5 Investments/development of fixed assets

››› Further development of the platforms and applications maintained by the company is mainly carried out by own employees. Any further outlays for technology and infrastructure in the past financial year for the operation of the very efficient platform were only very limited.

Only low investments of € 74 thousand (previous year: € 102 thousand) were carried out in property, plant and equipment.

Self-constructed assets were capitalized in the amount of € 227 thousand (previous year: € 131 thousand). Before yearend 2005, all projects were completed. Therefore, due to the shift of development activities to Innovation Factory sp.z.o.o., Wapme Systems AG did not capitalize any further development services. Development and maintenance of customized technical applications are mainly performed by the Polish subsidiary Innovation Factory sp.z.o.o, Krakow. This is another aspect showing the acquisition of Lawa as a major step in expanding market activities for the entire group.

1.6 Financial measures and/or plans

››› In previous financial years, operations could be funded mainly from own capital resources. However, the market environment continuous to prove very difficult and required new funding in the past financial year. Due to continued losses and restructuring within the group and the company as well as the new operative orientation, additional capital increases are required and budgeted for in the financial year 2006.

Accordingly, the company has performed in the financial year 2005 three cash capital increases. For this purpose, par value bearer shares were issued as follows: In January, 156,875, in April, 971,187 and in October, 458,015.

In addition, the company has issued two convertible bonds.

In May 2005, the company has issued the convertible bond 2005/2007. However, due to unfavourable capital market conditions, demand has been rather low (43,407 units). The convertible bond issued with a coupon of 5.25% was placed with institutional and private investors at a price of € 2.60 per share with the aid of Commerzbank as emitting institute.

The placement of the second convertible bond 2005/2010 has been guaranteed by institutional investors. This bond issued with obligatory conversion has a nominal value of up to € 2,500 thousand and is convertible into a maximum of 1,977,023 shares. Upon reaching the agreed upside targets, the institutional investors have agreed to subscribe to a second convertible bond to be issued in the same amount. The total potential commitment is therefore up to € 5,000 thousand. The convertible bond has a term of five years and can be called at any time by Wapme Systems AG.

1.7 Personnel and social costs

››› During the course of the year 2005, total staff of the group decreased from 101 employees by 26 to 75 employees. The number at the balance sheet date includes three employees of more phones GmbH. The personnel reduction of 26 employees is distributed across the group as follows: Wapme Systems AG (5 employees), Lawa AG (1 employee), Innovation Factory sp.z.o.o., Krakow (14 employees) and Lawa sp.z.o.o, Krakow (6 employees).

Total staff expenses increased by 39% to € 4,667 thousand (previous year: € 3,349 thousand). This increase can be attributed mainly to the allocation of Lawa Group over the entire year, while in the previous year only 2 months have been taken into account, and to severance payments due to restructuring actions at Wapme Systems AG.

1.8 Other important events during the financial year

››› Aside from the appointment of new members to the Management Board, the new orientation of the group was accompanied by changes in the Supervisory Board of Wapme Systems AG as well. At the beginning of the year 2005, Mr. Kirn was voted to be chairman of the Supervisory Board and Mr. Bigger as his deputy. Mr. Roth and Mr. Kapell left the Supervisory Board during the course of the year. Mr. Dreyer and Mr. Demuth have been appointed as new members of the Supervisory Board during the course of the year. At the end of the financial year, Dr. Dreyer has been appointed as chairman of the board.

2. PROFITABILITY

››› In comparison to the year 2004, revenues increased by € 1,861 thousand or 2.8% to € 68,179 thousand (previous year: € 66,318 thousand). This increase can be attributed mainly to risen sales of more phones GmbH by € 2,117 thousand to € 52,808 thousand (previous year: € 50,691 thousand).

Revenues of Wapme Systems AG decreased by € 3,103 thousand to € 10,909 thousand. With total revenues of € 4,462 thousand, Lawa Group contributed a higher share in revenues than in the previous year (€ 3,311 thousand). This is due to the fact that in the previous year only two months have been consolidated.

In the past year, the group realized a profit margin of € 4,497 thousand or 6.5% (previous year: € 3,602 thousand and 4.8%). This development can be attributed mostly to the allocation of Lawa Group over the entire year, as Lawa Group achieves higher margins in the consumer segment.

The group’s total personnel expenses increased by € 1,381 thousand to € 4,667 thousand (previous year: € 3,349 thousand). This can be attributed to the full year inclusion of Lawa Group in 2005 and to severance payments. This effect more than compensates the personnel reduction of 26 employees in 2005.

Other operating expenses amounted to € 5,072 thousand (previous year: € 5,104 thousand) and are on a similar level as the previous year. There is, however, a positive trend because of the inclusion of the costs of Lawa Group over the entire year, while in the previous year only 2 months have been consolidated. Altogether, the level of expenses as compared to sales continue to be too high due to the fact, that legal and consulting costs in connection with capital increases and tax payables of more phones GmbH have resulted in high costs.

Due to restructuring costs, the financial year shows an annual result of € -10,454 thousand (previous year: € -7,350 thousand). Adding the accumulated losses brought forward to date (€ 29,956 thousand), the total accumulated deficit to the end of the financial year 2005 is € 40,259 thousand.

2.1 Breakdown into divisions and segments

››› In the year 2005, 62% (previous year: 63%) of all sales originated in Germany. 77% of sales can be allocated to trade, that is more phones GmbH (previous year: 76%).

The segment VAS shows a result for 2005 of € -2,843 thousand. The year 2004 showed already a segment result of € -1,562 thousand due to the separation from Centrium. Aside from a weak base business, the main reason for this negative result is the depreciation of receivables in regards to web billing.

The trade segment, which is carried out exclusively by more phones GmbH, realized in 2005 a segment result of € 97 thousand (previous year: € 328 thousand). The underperformance can be attributed to the limited activity of the company brought upon by the continued non-recognition of input tax receivables.

The software segment plays only a minor role with sales of € 16 thousand (previous year: € 62 thousand) and amounts to less than 1% of total sales.

2.2 Comparison of several periods

››› The losses of Wapme Systems AG had also led to a fall of share prices from € 1.68 at the beginning of 2005 to a low of € 0.58 per share. In February 2005, the expectation of a successful B2C business has resulted in an all-time high of € 2.65 per share. Continued slow business and necessary restructuring measures have again led to falling share prices near the historical lows.

			2002	2003	2004	2005
Sales		€'000	20,447	129,181	66,318	68,179
Investors share in result		€'000	-15,924	-3,580	-7,350	-10,454
Equity		€'000	9,735	9,658	8,740	3,405
Share price	– High	€	4.58	4.65	4.52	2.65
	– Low	€	0.55	0.58	1.37	0.58
	– Closing price	€	0.73	4.50	1.68	0.63

3. LIQUIDITY AND CAPITAL RESOURCES

››› The group's available funds as of 31 December 2004 decreased by € 1,789 thousand to € 481 thousand (previous year: € 2,270 thousand). This can be attributed to operative losses of the companies as well as losses in the segment web billing, which have also used up the cash from the capital increases and convertible bonds. For details, we refer to the annex Cash Flow Statement.

4. NET WORTH POSITION

››› During the financial year 2005, the equity share capital of the group has decreased by € 5,335 thousand to € 3,405 thousand. This corresponds to a percentage of the balance sheet total of 25.6% (previous year: 40.5%).

Total assets decreased by € 8,268 thousand to € 13,319 thousand (previous year: € 21,587 thousand). The contraction of the balance sheet can be attributed to a more cautious assessment of Lawa Group (€ 618 thousand), aside from final consolidation of more phones GmbH (€ 5,500 thousand).

Current assets decreased in total by € 5,497 thousand. This development can be attributed mainly to the disposal of assets of more phones GmbH, in particular, the tax claims.

Current liabilities of the group decreased by € 1,163 thousand to € 5,890 thousand. This is largely the result of the final consolidation of more phones GmbH.

5. SUPPLEMENTARY REPORT

5.1 Significant events after the end of the financial year

››› Wapme Systems AG has formed a Joint Venture with the Swiss telecommunications company, NT Network Telecom Holding AG, to be effective retroactively to 1 January 2006. The Joint Venture was established as the joint enterprise »Wapme Telco AG«, headquarters in Switzerland. Wapme holds 51% and NT Network Telecom Holding holds 49% of the shares in the Joint Venture.

The Joint Venture is targeted to gain access to the European market for phone minute trading across different networks. The European market is experiencing continued growth. The new company will be active in the business segments routing and trading, managed services and outsourcing, voice and VoIP interconnect, calling card services, mobile services (roaming, international calls, mobile innovations).

On 17 January 2006, a cash capital increase of 610,291 par value bearer shares without subscription rights of current shareholders has been effected.

On 1 February 2006, and as required by § 92 section 1 German stock corporation act (Aktiengesetz, AktG), the Management Board has announced a loss as of 31 December 2005 amounting to more than half of the capital stock of Wapme Systems AG. The Obligatory General Meeting took place on 30 March 2006 and the restructuring plans were introduced in this meeting. In this General Meeting, two new members of the Supervisory Board have been appointed: Mr. Zimmermann and Mr. Waneck.

In a notarial recording of the deed of sale on 29 December 2005 and with effect to 31 January 2006, Wapme Systems AG has sold its shares in more phones GmbH, Rheine, to some of the previous partners and/or lenders of the company. The loans granted by Wapme Systems AG to more phones GmbH in the amount of € 2,575 thousand have been assumed by one of the buyers.

The convertible bond 2004/2006 of Wapme Systems AG was due for repayment on 18 January 2006. Agreement has been reached with the major bond creditors holding a total portion of more than 90% of the outstanding partial debentures regards a purchase by Wapme Systems AG.

With approval of the Supervisory Board, the Management Board of Wapme Systems AG has decided on 10 April 2006 to use the capital approved partly for a cash capital increase under exclusion of the subscription rights of the current shareholders with the issue of 1,400 thousand par value bearer shares. The new stocks with an arithmetical portion in the share capital of € 1.00 each and dividend rights as of 1 January 2005 were placed by an institutional investor. This measure has led to an increase of share capital of Wapme Systems AG from € 12,776,696 (in accordance with the adjustment decision of the Supervisory Board on the grounds of conversion from the convertible bond issue 2005/2010) by € 1,400 thousand to € 14,176,696.

The new capital inflow to the company will be invested in the new business segments of Wapme Group and in other areas.

6. RISK MANAGEMENT

››› Wapme Systems AG and its affiliated companies employ effective operation and control systems to detect current and future risks. These include the application of uniform guidelines, the use of reliable software, selection and training of staff as well as permanent controls and reviews. All these measures enable management to recognize possible risks at an early stage and to introduce corresponding countermeasures.

Aside from its own business activities, Wapme Systems AG has also a management and control function within the Wapme Group. Therefore, risk management includes also risk detection and handling, both for affiliated companies and group interests.

The risk policy of Wapme Systems allows taking business opportunities when they arise and if the underlying chances and risks are weighed and judged positively. Risk management is a basic element of the business decisions.

The controlled weighing of both chances and risks is an integral component of the management of Wapme Systems AG and within the Wapme Group. Consequently, the risk detection and risk management system is made up of various modules that are systematically imbedded into the entire organizational structure and organization of the company and/or their concern enterprises. Due to the size of the company and the group, there is no separate risk management department. Risk management is rather seen as an independent duty of the business units and project managers. A risk management teams comprising of the heads of controlling, legal, finance and accounting departments ensures permanent risk detection and assessment across different functions and projects. Major risks and risks with a potential threat to the company as a going concern are documented in a risk matrix that is regularly updated, supplemented and communicated.

The measures planned within the scope of the risk management system of Wapme Group for early recognition, limiting and handling of risks are also regularly reviewed and supplemented. Each risk is then limited and handled on a case to case basis.

We have detailed the major risks currently known to us with a threat potential for Wapme Systems AG and Wapme Group in the next years, as follows.

6.1 Liquidity risks

››› Due to the restructuring and new orientation of Wapme Systems AG, in particular, the loss situation in the mobile entertainment sector, there is a fundamental increased liquidity requirement that must be externally financed.

Up to the present time, the company was able to arrange its funding through the IPO, convertible bond issues, capital increases, short-term loans or factoring. The expected positive business development will continue to provide such financing options. However, if the business development is not as positive as expected, larger risks and risks to the company as a going concern might arise. Risk management has to show a transparent view of the cash position on a day-to-day or week-to-week basis. This is done by regular reporting of all known and expected cash flows. In addition, alternative scenarios are calculated regularly, in order to handle unforeseeable events.

6.2 Competition risks

››› In the past, the services furnished by Wapme Systems AG were limited mainly to give customers technical access to mobile networks and dispatch of value added services to mobile networks. However, such technical services are no longer regarded by customers as a unique value, but rather as exchangeable service, although the underlying infrastructure is highly complex.

In spite of the high degree of competition due to this situation and increasing complexity in the B2B market, the numbers of competitors are relatively manageable. Regular monitoring and analysis of competitor behaviour and the market by internal and external resources shall ensure competitiveness of offered services and prices. Furthermore, market trends are recognized early and the company can introduce corresponding measures.

Constant market monitoring is also necessary in the B2C market, so that trends may be detected early for utilization of potentials and early risk recognition. In particular, legal standards in regards to the distribution of adult content, such as age verification systems, have to be taken into account. Aside from permanent proximity to market conditions, external service providers are contracted. They prepare regular market analyses and report any changes in the legal environment.

6.3 Legal risks

››› In principle, every commercial activity bears legal risks. The companies of the group are currently engaged in a number of litigations with unknown outcome. In addition, the structural changes of the legal structure of the company and the new orientation of the company contain more risk potential.

Therefore, regular reporting covers also this sector. Regular interdisciplinary meetings under the management of the legal department shall ensure appropriate risk assessment at any time.

6.4 Technical availability

››› In the past, the business model of Wapme Systems was based on the provision of technical services. Consequently, technical availability has a high priority in the scope of the risk management system. Corresponding availability of technical personnel as well as emergency plans and action alternatives are available and regularly reviewed for their feasibility and efficiency. In addition, the hardware equipment is of special technical importance and is constantly optimized to the company's targets.

6.5 Loss of key employees

››› Due to its size, Wapme Systems AG is not able to fill key positions with more than one employee. As a result, company climate and management culture are strongly linked to employee loyalty and motivation. In addition to performance-oriented remuneration systems and training courses, regular employee performance reviews are carried out.

6.6 Internal controls

››› Wapme Systems AG and its affiliated companies have flat hierarchies and all transactions are authorized by management. The affiliated companies have the duty to report in regular intervals and the management of the company works in close collaboration with the Management Board of Wapme Systems AG. There are also clear signatory and signing rules which are subject to regular review and are adapted as required.

6.7 Technical innovation

››› Due to the orientation of Wapme Systems AG as technical provider, special focus is given to technical development. Therefore, clear responsibilities have been defined and the responsible employees observe adequate time windows for monitoring innovative evolutions in the market and to analyze their potential usage. Regular training is also carried out and the responsible technicians are requested to visit trade fairs in the sector of IT and telecommunications.

In addition, regular meetings between technical departments and marketing and sales shall review technical developments in the market, in order to recognize potential demand and to verify their technical feasibility.

Technical requirements are also an important factor in the B2C market. The rules mentioned above apply therefore, in particular, also to the technical focused Innovation Factory sp.z.o.o, Krakow.

7. FORECAST REPORT

7.1 Material risks

››› On the one hand, the development of the company depends on the degree of use of SMS and Premium SMS services by consumers and, on the other hand, the level of competition in such markets. If demand for such services proves to be insufficient or if the company is severely affected in its core competences and competitive edges or if the degree of competition intensifies as new competitors enter the market successfully, then there may be a material disadvantageous effect on earnings and as a result, the financial position of the company. The loss of major customers may also become a risk for further business success.

Due to the restructuring measures taken and the new orientation of Wapme Systems AG, the group has suffered continued losses. Also in the first quarter of 2006, losses have occurred. There is continued need for funding. If the required financing requirement is not met, the company as a going concern is at risk.

The pre-financing strategy of disbursement of Premium SMS revenues to customers before receipt of monies by telecommunications companies as well as lending to affiliated companies is also binding liquidity reserves. If forecasted income and repayments of affiliated companies do not materialize and if no other sources of funding are available, the company as a going concern is at risk. Another material risk for the company is present, if the conditions for the special termination right of a convertible bond are fulfilled and such bonds are then called.

7.2 Other material risks

››› The services offered by the company require reliable performance of technical systems at any time. Net worth, financial position and earnings of Wapme Systems AG may be severely at risk, if the security of IT systems is affected and the safeguard measures taken should prove to be insufficient.

7.3 Prospective development

››› In order to return the entire group to profits and to establish long-term earnings, the following product and services development are pursued:

Revenue sharing

Wapme Systems AG shall incorporate its technical know-how in partnerships, where the partner provides content and a customer base. Risks are shared and creativity is contributed in setting up a business in the form of revenue sharing models, whereby a higher margin is likely to be achieved than operating solely as a technical service provider.

SIM cash

Although the first attempt for SIM cash in summer 2005 must be considered as a failure by the participants, both network carriers and service providers are still very much interested in the concept of invoicing internet content in mobile phone bills. At present, Wapme works with network carriers and customers on a technical implementation enabling this promising business to grow again.

Video streaming

Lawa expects that some presently successful business models such as downloading of photographs or videos are replaced in the medium term by video streaming.

The video streaming server of Lawa is going to deliver not only video clips but also live streaming content such as TV formats, interactive live games, live web cams as well as TV ads for various products and services. The solutions in the sector of video streaming address customers, both in the B2C and B2B sectors.

Vertical mobile solutions

Lawa has developed so-called ad-hoc concepts addressing small market niches, in order to offer innovative products to growing mobile markets. One solution is »M-Loyalty«: Retailers are able to bind their customers better than with traditional loyalty programs. »M-Insurance« is another tool targeted to insurance companies. The range of services offered by insurance companies is supposed to be extended with an advanced und user-friendly pay-per-use product.

Reverse auctions

Another creative idea is the »reverse auction«, whereby valuables such as cars may be bought. In a reverse auction, the asking price continues to be lowered until a price is offered by a bidder, who will get the award. Such auctions could be carried out in collaboration with television or radio stations, newspapers, franchise chains or others. Aside from the public effect for the partner, revenues are generated by SMS charges for the bids and the winning bid as well.

Games/gambling

The legislation in Europe allows games or gambling per SMS and varies according to the respective country and culture. There are already many offers available in the internet. Their application for mobile phones requires adaptation or new creation. Revenue sharing models with partners are also an option in this case.

With the products and services mentioned, Wapme Systems AG intends to expand the mobile services offered markedly. At the same time, this development will continue to contribute to the company’s margin improvement and secure future success. In order to open further productive business segments, Wapme reviews at present other options for cooperation and acquisition.

Lawa Group will continue to carry on with its successful B2C model and will support new technical developments with innovative applications such as streaming.

The wholesale sector of the newly established joint venture Wapme Telco AG shall operate its own international telephone network, aside from trading phone traffic, which has started successfully, and pre-paid calling cards with access via toll-free 0-800 numbers. Business customer traffic is handeled by Wapme Telco AG. Special relationships continue to exist with call shops, which are frequented particularly by ethnic groups for international calls.

7.4 Development activities

››› The development activities of the company are in future aimed at the adaptation of applications to customer demand as well as their maintenance. This activity is carried out mainly in Poland by the Lawa subsidiary Innovation Factory.

In the past year, on average 30 employees have been employed by the development department. For 2006, the use of about 20 employees is budgeted. For 2005, total costs of the development departments of the group were € 1,006 thousand.

Düsseldorf, 28 April 2006

Oswald Ortiz Achim Rottschäfer

CONSOLIDATED BALANCE SHEET

WAPME SYSTEMS AG AS OF 31 DECEMBER (IFRS)

ASSETS

€	Notes	31.12.2005	31.12.2004
A. Non-current assets			
I. Property, plant and equipment	7.	533,468.95	754,390.81
II. Intangible assets	8.		
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto		1,384,606.18	2,440,097.53
2. Customer base		1,450,000.00	1,750,000.00
3. Development costs		419,227.95	673,353.71
4. Goodwill		1,069,480.08	1,687,480.08
III. Financial assets	9.	18,206.56	342,959.59
IV. Deferred taxes	10.	2,957,949.88	2,955,014.39
Total non-current assets		**7,832,939.60**	**10,603,296.11**
B. Current assets			
I. Inventories	11.	0.00	127,942.00
II. Trade receivables	12.	2,043,621.23	3,005,524.68
III. Receivables from affiliates	13.	2,197,613.68	6,441.52
IV. Prepaid expenses and other current assets	14.	360,337.94	604,107.03
V. Tax claims	15.	203,679.93	4,970,660.32
VI. Securities	16.	200,603.65	0.00
VII. Cash and cash equivalents	17.	480,685.71	2,269,301.30
Total current assets		**5,486,542.14**	**10,983,976.85**
Total assets		**13,319,481.74**	**21,587,272.96**

LIABILITIES

€	Notes	31.12.2005	31.12.2004
A. Equity	18.		
I. Subscribed capital		11,696,147.00	9,555,000.00
II. Capital reserves		29,865,466.49	28,540,976.90
III. Mandatory convertible bond		2,150,000.00	0.00
IV. Accumulated losses		-40,259,182.04	-29,956,161.21
V. Reconciling item from foreign currency translation		-12,602.44	0.00
VI. Minority interest		-34,483.36	600,241.45
Total equity		**3,405,345.65**	**8,740,057.14**
B. Contribution paid in for the capital increase		**1,348.38**	**0.00**
C. Non-current liabilities			
I. Long-term loans	18.	3,067,770.25	4,560,000.00
II. Deferred taxes		954,677.78	1,234,053.92
Total non-current liabilities		**4,022,448.03**	**5,794,053.92**
D. Current liabilities			
I. Liabilities to banks	19.	560,809.17	371,331.66
II. Short-term loans	20.	688,050.00	1,250,000.00
III. Trade payables	21.	2,413,308.09	2,903,465.15
IV. Other current liabilities	22.	747,357.26	1,252,278.81
V. Provisions for taxes	23.	245,091.40	399,393.59
VI. Other provisions	24.	1,180,130.23	805,060.56
VII. Deferred income		55,593.53	71,632.13
Total current liabilities		**5,890,339.68**	**7,053,161.90**
Total liabilities		**13,319,481.74**	**21,587,272.96**

CONSOLIDATED INCOME STATEMENT

WAPME SYSTEMS AG
FROM 1 JANUARY TO 31 DECEMBER (IFRS)

€		Notes	01.01. – 31.12.2005	01.01. – 31.12.2004
1.	Sales revenues	27.	68,179,297.33	66,318,280.58
2.	Other operating income	28.	242,737.43	808,536.60
3.	Other capitalised self-constructed assets	29.	226,632.32	130,674.26
4.	**Overall performance**		**68,648,667.08**	**67,257,491.44**
5.	Cost of goods held for resale and purchased services	30.	-64,151,866.20	-63,655,398.54
6.	Personnel expenses	31.	-4,666,688.45	-3,348,909.51
7.	Other operating expenses	32.	-5,071,779.66	-5,104,284.21
8.	**EBITDA**		**-5,241,667.23**	**-4,851,100.82**
9.	Depreciation and amortisation	33.		
	a) Depreciation and amortisation of property, plant and equipment, intangible assets and goodwill		-2,757,286.27	-1,111,843.46
	b) Depreciation of current assets		-1,742,322.35	-129,169.09
10.	**EBIT**		**-9,741,275.85**	**-6,092,113.37**
11.	Interest income and expenses	34.	-414,055.67	-827,690.71
12.	Depreciation/write-ups of financial assets and current investments	35.	-545,509.09	-108,905.13
13.	**Profit before tax (and minority interest)**		**-10,700,840.61**	**-7,028,709.21**
14.	Taxes on income and earnings	36.	-27,234.00	-240,326.87
15.	**Net loss for the year**		**-10,728,074.61**	**-7,269,036.08**
16.	Minority interest		274,158.91	-81,295.82
17.	**Profit share equity investors**		**-10,453,915.70**	**-7,350,331.90**
18.	Loss carryforward from previous years		-29,956,161.21	-22,605,829.31
19.	Changes due to deconsolidation		150,894.87	0.00
20.	**Accumulated losses**		**-40,259,182.04**	**-29,956,161.21**
21.	Earnings per share (basic)	37.	-0.96	-1.08
22.	Earnings per share (diluted)	37.	-0.92	-1.02
23.	Earnings per share (diluted incl. convertible bonds 2004)	37.	-0.82	-0.91
24.	Average shares outstanding (basic)	37.	10,845,791	6,822,604
25.	Average shares outstanding (diluted)	37.	11,313,291	7,236,938
26.	Average shares outstanding (diluted incl. convertible bonds)	37.	12,815,959	8,061,938

CONSOLIDATED CASH FLOW STATEMENT

WAPME SYSTEMS AG
FROM 1 JANUARY TO 31 DECEMBER (IFRS)

€'000			Notes	01.01. – 31.12.2005	01.01. – 31.12.2004
1.		Net loss for the year		-10,728	-7,269
2.	+/-	Depreciation/write-up of fixed assets		2,757	1,220
3.	+/-	Increase/decrease in provisions		393	-47
4.	+/-	Income/expenses from stock options		-56	142
5.	-/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities		-2,813	1,076
6.	+/-	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities		4,354	-281
7.	=	**Cash outflow from ordinary activities**	38.	**-6,092**	**-5,159**
8.	+	Cash inflow from disposal of fixed assets		60	10
9.	-	Cash outflow from investments in fixed assets		-77	-102
10.	-	Cash outflow from investments in intangible assets		-249	-394
11.	-	Cash outflow from investments in financial assets		0	-132
12.	-	Disposal of cash and cash equivalents from the deconsolidation/sale of consolidated companies		-288	-54
13.	-	Cash outflow from the acquisition of consolidated companies and other business units		0	130
14.	=	**Cash outflow from investing activities**	38.	**-553**	**-542**
15.		Receipts from appropriations to equity		4,744	817
16.	+	Cash inflow from the redemption of bonds and (financial) loans		112	5,810
17.	=	**Cash outflow from investing activities**	38.	**4,856**	**6,627**
18.		Changes in cash and cash equivalents affecting payment flows (total of lines 7, 14 and 17)		-1,789	926
19.	+	Cash and cash equivalents at the beginning of the period		2,270	1,344
20.	=	**Cash and cash equivalents at the end of the period**	38.	**481**	**2,270**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

WAPME SYSTEMS AG
FROM 1 JANUARY TO 31 DECEMBER (IFRS)

€	As of 31.12.2004	Changes from consolidation measures	Exchange rate effects 2005	Additions 2005 (Cost of purchase)	Disposals 2005	Reclassifications 2005
I. Intangible assets						
Concessions, industrial property rights and similar rights and values, as well as licenses thereto	10,606,235.86	-1,977.99	0.00	22,034.18	852.00	0.00
Goodwill	1,687,480.08	0.00	0.00	0.00	0.00	0.00
Development costs	1,282,804.52	0.00	-1,323.49	226,632.32	0.00	0.00
Total intangible assets	**13,576,520.46**	**-1,977.99**	**-1,323.49**	**248,666.50**	**852.00**	**0.00**
II. Property, plant and equipment						
Office equipment, fixtures and fittings	1,508,700.38	-11,511.69	-1,581.41	74,300.19	112,958.84	0.00
Leasehold improvements	120,929.88	-1,938.40	0.00	0.00	0.00	0.00
Vehicles	859.79	0.00	0.00	0.00	0.00	0.00
Total property, plant and equipment	**1,630,490.05**	**-13,450.09**	**-1,581.41**	**74,300.19**	**112,958.84**	**0.00**
III. Financial assets						
Investments in affiliates	391,712.78	87,650.00	0.00	0.00	0.00	-87,650.00
Notes receivable/loans	591,856.17	0.00	0.00	0.00	0.00	0.00
Other investments	64,766.84	0.00	-602.99	0.00	64,163.85	0.00
Securities held as assets	276,177.90	0.00	0.00	0.00	18,176.40	-258,001.50
Total financial assets	**1,324,513.69**	**87,650.00**	**-602.99**	**0.00**	**82,340.25**	**-345,651.50**
Total assets	**16,531,524.20**	**72,221.92**	**-3,507.89**	**322,966.69**	**196,151.09**	**-345,651.50**

	Depreciation and amortisation					Residual book values	
As of 31.12.2005	As of 31.12.2004	Changes from consolidation measures	Additions 2005	Disposals 2005	As of 31.12.2005	As of 31.12.2004	As of 31.12.2005
10,625,440.05	6,416,138.33	-1,719.10	1,376,414.64	0.00	7,790,833.87	4,190,097.53	2,834,606.18
1,687,480.08	0.00	0.00	618,000.00	0.00	618,000.00	1,687,480.08	1,069,480.08
1,508,113.35	609,450.81	-873.33	480,307.92	0.00	1,088,885.40	673,353.71	419,227.95
13,821,033.48	**7,025,589.14**	**-2,592.43**	**2,474,722.56**	**0.00**	**9,497,719.27**	**6,550,931.32**	**4,323,314.21**
1,456,948.63	823,475.01	-9,136.82	270,853.32	104,257.78	980,933.73	685,225.37	476,014.90
118,991.48	52,096.54	-1,937.40	11,636.83	0.00	61,795.97	68,833.34	57,195.51
859.79	527.69	0.00	73.56	0.00	601.25	332.10	258.54
1,576,799.90	**876,099.24**	**-11,074.22**	**282,563.71**	**104,257.78**	**1,043,330.95**	**754,390.81**	**533,468.95**
391,712.78	373,506.22	0.00	0.00	0.00	373,506.22	18,206.56	18,206.56
591,856.17	591,856.17	0.00	0.00	0.00	591,856.17	0.00	0.00
0.00	16,191.71	-54.45	0.00	16,137.26	0.00	48,575.13	0.00
0.00	0.00	0.00	0.00	0.00	0.00	276,177.90	0.00
983,568.95	**981,554.10**	**-54.45**	**0.00**	**16,137.26**	**965,362.39**	**342,959.59**	**18,206.56**
16,381,402.33	**8,883,242.48**	**-13,721.10**	**2,757,286.27**	**120,395.04**	**11,506,412.61**	**7,648,281.72**	**4,874,989.72**

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS
OF WAPME SYSTEMS AG FOR FINANCIAL YEAR 2005
IN ACCORDANCE WITH IFRS

A. General comments

1. DESCRIPTION OF THE GROUP'S BUSINESS ACTIVITIES

››› Wapme Systems AG has its registered office in Düsseldorf, Vogelsanger Weg 80, Germany, and is entered in the commercial register of Düsseldorf Local Court under HRB 39030.

The purpose of the company is the development and marketing of integrated information systems and IT services of all kinds, as well as mobile application platforms, the preparation of marketing concepts and the implementation of these concepts in the fields of advertising, sales promotion, publicity and personal sales, the provision of telecommunications services, as well as trading in hardware and software.

The purpose of the company is also the management of its own assets, as well as the purchase, management and disposal of shareholdings in other companies.

The purpose of more phones GmbH is trading in telecommunications equipment of all kinds, as well as the import and export of such equipment.

The Lawa Group is a leading European mobile service provider of global stature that operates in the value-added consumer segment (B2C). Under its own brand name it offers consumers advanced, interactive mobile adult services. Lawa is also an innovative and technically competent service provider in the market for mobile telephone solutions for companies (B2B).

2. ACCOUNTING AND VALUATION PRINCIPLES

Basic principles and methods

››› The consolidated financial statements as of 31 December 2005 are prepared in accordance with the International Financial Reporting Standards (IFRS), as they are applicable in the EU. The reporting currency is euros (€) or thousands of euros (€ thousand or €'000) rounded up or down accordingly. The term IFRS also covers the still valid International Accounting Standards (IAS). All binding interpretations of the International Financial Reporting Committee (IFRIC) for financial year 2005 were also applied.

The present version of the consolidated financial statements complies with the provisions of Art. 315a of the German Commercial Code *(Handelsgesetzbuch, HGB)*. It forms the legal basis for the group accounting in accordance with international standards in Germany, in conjunction with the Regulation (EC) No. 1606/2002 of the European Parliament and Council dated 19 July 2002 relating to the application of international accounting standards, and applies for financial years commencing on or after 1 January 2005.

The consolidated financial statements were supplemented with a consolidated management report and further explanatory notes as required by the German Commercial Code *(Handelsgesetzbuch, HGB)* or German Stock Corporation Act *(Aktiengesetz, AktG)*. The financial statements included from all major fully consolidated companies were audited by independent auditors.

The preparation of the consolidated financial statements was based on the assumption that the company is a going concern. Transactions and other events were recorded in the period to which they are to be allocated, deferred accordingly and stated in the consolidated financial statements. Significant items are presented separately in the notes. Items that are not significant enough to warrant separate presentation have been summarised. The fundamental prohibition to net debit with credit balances has been observed. However, a net statement of financial assets and debts has been prepared, as the company is entitled under civil law to offset the recorded sums.

The tables showing the item classifications in the balance sheet and income statement are stated in the notes in thousands of euros (€'000). Any slight deviations or apparent addition errors are due to rounding differences.

The items in the consolidated balance sheet are classified by maturity.

The items in the income statement are classified according to the total cost format. For better clarity of presentation items in the consolidated balance sheet and income statement are summarised and explained separately below.

Pursuant to IAS 7 and the corresponding international standards, cash flows have been classified in the cash flow statement as operating activities, financing activities and investment activities. The segment reporting was prepared in accordance with the provisions of IAS 14.

The accounting and valuation principles were applied uniformly by the individual subsidiaries within the group.

In principle, the accounts of the individual subsidiaries and the annual financial statements were prepared in accordance with national German accounting regulations as set forth in the German Commercial Code (HGB). The financial statements of foreign subsidiaries were prepared in accordance with the respective national accounting regulations. These principles differ considerably in certain aspects from the IFRSs. For this reason, certain adjustments were made when preparing the IFRS annual financial statements. The effects of these adjustments are mainly seen in the capitalisation of development costs, the elimination of costs of raising equity capital without affecting net income, the recognition of personnel expenses in connection with the granting of stock options, the recognition of deferred taxes for the resulting differences between IFRS and tax bases of assets and liabilities and in the recording of deferred tax assets for existing loss carryforwards.

New accounting standards

Accounting standards applied for the first time in financial year 2005

The following standards, which were revised within the scope of the IASB's »Improvement Project«, are applied in full for the first time in the consolidated financial statements as of 31 December 2005:

- IAS 1 (»Presentation of Financial Statements«)
- IAS 2 (»Inventories«)
- IAS 8 (»Accounting Policies, Changes in Accounting Estimates and Errors«)
- IAS 10 (»Events after the Balance Sheet Date«)
- IAS 16 (»Property, Plant and Equipment«)
- IAS 17 (»Leases«)
- IAS 21 (»The Effects of Changes in Foreign Exchange Rates«)
- IAS 24 (»Related Party Disclosures«)
- IAS 27 (»Consolidated and Separate Financial Statements«)
- IAS 28 (»Investments in Associates«)
- IAS 31 (»Interests in Joint Ventures«)
- IAS 32 (»Financial Instruments – Disclosure and Presentation«)
- IAS 33 (»Earnings per Share«)
- IAS 39 (»Financial Instruments – Recognition and Measurement«)
- IAS 40 (»Investment Property«)

The following new or revised standards of the IASB were also applied in full for the first time:

- IFRS 2 (»Share-based Payment«)
- IFRS 3 (»Business Combinations«)
- IFRS 4 (»Insurance Contracts«)
- IFRS 5 (»Non-current Assets Held for Sale and Discontinued Operations«)
- IAS 36 (»Impairment of Assets«)

- IAS 38 (»Intangible Assets«)
- Amendment to IAS 19 (»Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosure«)
- Amendment to IAS 39 (»Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk«)
- Amendment to IAS 39 (»Financial Instruments: Transition and Initial Recognition of Financial Assets and Financial Liabilities«)
- Amendment to IAS 39 (»Cash Flow Hedge Accounting of Forecast Intragroup Transactions«)

IFRS 3 is to be applied in conjunction with the relevant provisions of IAS 36 and IAS 38 for all business combinations for which the agreement date falls on or after 31 March 2004. The other provisions of IFRS 3 and IAS 36 and IAS 38 will be applied from 1 January 2005. The following interpretations or amendments to existing interpretations of the IFRIC will also be applied for the first time:

- IFRIC 1 (»Changes in Existing Decommissioning, Restoration and Similar Liabilities«)
- IFRIC 2 (»Members' Shares in Cooperative Entities and Similar Instruments«)
- IFRIC (»Amendment to SIC-12: Scope of SIC-12 Consolidation – special Purpose Entities«)

Newly published accounting standards in financial year 2005

The IASB and the IFRIC published the following new or revised standards and interpretations in 2005:

- IFRS 7 (»Financial Instruments: Disclosures«) und ein Amendment to IAS 1 (»Presentation of Financial Statements: Capital Disclosures«)
- Amendments to IFRS 1 & IFRS 6 (»First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources«)
- Amendment to IAS 21 (»Effects of Changes in Foreign Exchange Rates«)
- Amendment to IAS 39 (»Cash Flow Hedge Accounting of Forecast Intragroup Transactions«)

– Amendment to IAS 39 (»The Fair Value Option«)

– Amendments to IAS 39 & IFRS 4 (»Financial Guarantee Contracts«)

– IFRIC 6 (»Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment«)

– IFRIC 7 (»Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economics«)

IFRS 7 and the corresponding amendments to IAS 1 are binding from 1 January 2007. These new provisions will lead to an extension of the notes with respect to financial instruments.

The amendments to IFRS 1 and IFRS 6 apply exclusively to new users. They are therefore of no significance for the company's annual financial statements. The revision of IAS 21 is binding from 1 January 2006, but is also of no major significance for the company.

The provisions regarding the fair value option will be binding from 1 January 2006. No cases for application are expected. The amendments to IAS 39 with respect to »Financial Guarantee Contracts« and IFRS 4 apply with effect from 1 January 2006. No significant cases for application are expected for this provision either.

IFRIC 6 is binding from 1 January 2006; IFRIC 7 is binding from 1 January 2007. These new interpretations are of no major significance for the company's annual financial statements.

Adjustment of previous year's figures

Adjustments due to the IASB Improvement Project

The main changes for the company arising from the Improvement Project relate to the application of the revised IAS 1 (»Presentation of Financial Statements«). This standard requires a classified balance sheet separating current and non-current assets and liabilities, thus amending the presentation of the consolidated balance sheet accordingly. Assets, liabilities and provisions are essentially split into current and non-current items according to their residual terms or their integration in the company's normal operating cycle. In the course of the reclassification of the balance sheet by maturity, the content of individual balance sheet items was deferred or accrued more explicitly and adjusted accordingly. The changes in the reporting arising from the reclassification of the balance sheet have no effect on net income.

In accordance with the obligatory application of IFRS 2 in financial year 2005, all share-based payment transactions settled with equity instruments must be applied retrospectively to the equity instruments granted after 7 November 2002. Accordingly, the fair values calculated at the issuing date of the stock options of Wapme Systems AG issued after 7 November 2002 were distributed according to the holding periods stated, although fluctuation was not considered in the calculation of fair value. Rather, the fluctuation during the holding periods was taken into consideration with the number of options expected after the end of the holding periods, and corrected if necessary. The comparative information for financial year 2004 regarding the opening balance sheet value for the accumulated losses and the capital reserves for the stock options granted on 30 May and 30 August, respectively, was adjusted as follows:

€	31.12.2004 after	31.12.2004 before
Capital reserves	28,540,977	28,322,932
Accumulated losses	-29,956,161	-29,738,116

In terms of the income statement for financial year 2004, this results in adjusted personnel expenses of the company totalling € 3,348,910 (previously: € 3,207,344).

Adjustment of previous year's figures due to an error correction

The previous year's figures in the company's consolidated financial statements have been adjusted due to the following facts as follows:

When acquiring the shares in Lawa International Holding AG in November 2004 the company failed to recognise deferred taxes on the uncovered hidden reserves as liabilities. The comparative figures in the balance sheet as of 31 December 2004 were corrected accordingly as follows:

€	31.12.2004 after	31.12.2004 before
Goodwill	1,687,480	706,480
Deferred tax liabilities	1,234,054	253,054

This correction has no effect on the previous year's consolidated net income or on consolidated equity.

Notes on accounting and valuation principles

››› The main accounting and valuation methods that were applied for the preparation of the present consolidated financial statements, are as follows:

Property, plant and equipment

Tangible assets (property, plant and equipment) which are used in business operations for more than one year are stated at cost less scheduled straight-line depreciation. The underlying useful life corresponds to the asset's expected useful life within the group. Depreciation exclusively based on tax regulations is not taken into account.

Buildings and fixtures on leased land are depreciated in accordance with the term of the lease agreement or any lower useful economic life. Depreciation rates are generally between 10 and 25% per year. Office equipment, fixtures and fittings are depreciated over three to ten years based on general normal wear and tear.

Within the scope of a suitable presentation method, in the event of a change in the reporting entity the consistency of the accounting is affected and the historical costs are stated as gross amounts in the consolidated statement of changes in fixed assets. The accumulated depreciation is corrected analogously.

IAS 17 contains accounting principles for leases. It requires that a distinction be made as to whether the beneficial ownership of the leased asset is with the lessee (finance lease) or lessor (operate lease). Wapme acts only as a lessee in operating lease agreements. Consequently, assets which are the subject of an operating lease agreement may not be shown in Wapme's balance sheet. Lease payments are thus recognised as expenses on a straight-line basis in the consolidated income statement over the term of the lease.

Intangible assets (including goodwill)

Purchased intangible assets are valued at cost minus scheduled straight-line amortisation. The underlying useful life corresponds to the assets expected useful life within the group.

Development costs are capitalised at cost, provided that the expenses can be clearly allocated and that both technical feasibility and successful marketing are guaranteed. Development activities must also be reasonably likely to produce a future economic benefit. Capitalised development costs cover all expenses directly attributable to the development process as well as a reasonable portion of development-related overheads. Financing costs are not capitalised. Capitalised development costs are subject to scheduled straight-line depreciation over a useful life of 4 years.

Non-capitalisable development costs are reflected in net income.

In conformance with IFRS 3, scheduled amortisation is no longer calculated on goodwill from business combinations after 31 March 2004. IFRS 3.54 f. permits only extraordinary amortisation on remaining goodwill pursuant to IAS 36. Impairment tests must be performed annually.

Financial assets

Holdings in non-consolidated affiliates recorded in financial assets are carried at cost, because they do not have a quoted market price in an active market and their fair value cannot be reliably determined.

The accounts of associated companies are always prepared by the equity method and shown with their share of equity capital.

Holdings in financial assets are shown at their quoted market price or fair value. If these values are not available or cannot be reliably determined, the holdings must be stated at cost.

Investments held as financial assets and loans are shown according to the category of financial assets they belong to. No financial assets held for trading are shown under this item.

Deferred taxes

Deferred taxes are formed in accordance with IAS 12 for the differences in value between the tax balance sheets of the individual companies and the consolidated financial statements. Tax loss carryforwards that are likely to be utilisable in the future are capitalised to the amount of the anticipated utilisable deferred tax claim.

Inventories

The item inventories include purchased goods and payments on account for stocks. The valuation as of the balance sheet date is always at the lower of cost or net market value, minus any expected costs. The net market value of the end product is generally used as a basis for this.

Receivables

Receivables are stated at their nominal value as of the balance sheet date less any individual valuation adjustments. If there are any doubts as to the collectability of receivables, these are stated at the lowest recoverable amount.

Current financial assets

Current financial assets include receivables, securities, bank balances and cash on hand. All current financial assets are initially stated at cost on the settlement date, i.e. the point in time the receivables came into existence or when beneficial ownership was transferred. The cost of long-term, non- or low-interest monetary claims are shown at their present value on the date of origin.

Following initial recognition, financial assets available for sale and financial assets held for trading must be stated at their net fair value. Insofar as no market price is available, the fair value of the financial assets available for sale is calculated using suitable assessment methods and based on market data available on the balance sheet date.

Originated loans and receivables that are not held for trading, financial investments to be held to maturity and all financial assets with no quoted market price, for which there is no reliable method of determining their fair value, are – insofar as they have a fixed term – measured at amortised cost using the effective interest method. If these financial assets have no fixed term, they must be valued at cost.

Pursuant to IAS 39 it must be determined at regular intervals whether there is substantial objective evidence of impairment to a financial asset or portfolio of assets. If there is such evidence, the impairment expense is recognised in net income. Gains and losses from an available-for-sale financial asset are posted directly to equity until the financial asset is retired or an impairment is determined. In the case of impairment, the accumulated net loss is removed from equity and shown in net income.

Bank balances and cash on hand

Cash and cash equivalents are stated at their nominal value.

Provisions

Provisions for taxes and other provisions are formed if an obligation to a third party resulting from previous earnings is likely to lead to a future cash outflow and if this financial charge can be reliably estimated. If a provision cannot be formed because one of the above criteria is not fulfilled, the respective obligations are stated as contingent liabilities. The value of the provisions is reviewed as of each balance sheet date.

Liabilities

Liabilities are stated at amortised cost.

Realisation of income and expenses

Sales revenues and other operating income are realised when a service is rendered or when the risk is transferred to the customer.

Operating expenses affect net income when the service is utilised or as they arise. Interest income and expenses are recorded on an accrual basis. External financing costs are recorded as expenditure in accordance with the IAS 23.7 benchmark method.

Extraordinary write-downs

The capitalised book value of intangible assets (including capitalised development costs and goodwill) and property, plant and equipment is regularly tested for impairment pursuant to IAS 36 (»Impairment of Assets«) on the basis of »cash generating units«. Insofar as the recoverable amount of the asset, which corresponds to the higher of the net selling price and the utilisable value, falls below the book value, a valuation adjustment will be made. If the reason for a previous valuation has lapsed, the amortised cost will be written up.

Assumptions and estimates

The preparation of the consolidated financial statements in accordance with IASB guidelines requires the use of certain assumptions and estimates that affect the measurement and recognition of assets and liabilities, income and expenses, and the extent of contingent liabilities. The assumptions and estimates mainly relate to the determination of useful life, the accounting and valuation of provisions, as well as the certainty of realising future tax relief. Actual values may vary in individual cases from the assumptions and estimates made. Changes are recognised in income at the time the true values become known.

3. REPORTING ENTITY

>>> The subsidiaries listed in the following overview were included in the consolidated financial statements of Wapme Systems AG as of 31 December 2005 according to the principle of full consolidation:

	Interest held in 2005	Interest held in 2004
more phones GmbH, Rheine (until 31 December 2005)	59.63%	59.63%
Lawa International Holding AG, Switzerland (acquired November 2004)	75.00%	75.00%
Lawa AG, Switzerland, indirectly as a subsidiary of Lawa International Holding AG, Switzerland	100.00%	100.00%
Lawa Entertainment GmbH, Switzerland, indirectly as a subsidiary of Lawa International Holding AG, Switzerland	100.00%	100.00%
Lawa sp.z.o.o., Poland, indirectly as a subsidiary of Lawa International Holding AG, Switzerland	100.00%	100.00%
Innovation Factory sp.z.o.o., Poland, indirectly as a subsidiary of Lawa International Holding AG, Switzerland	100.00%	100.00%
I-factory GmbH, Switzerland, indirectly as a subsidiary of Lawa International Holding AG, Switzerland	100.00%	100.00%

For reasons of materiality the following subsidiaries were not consolidated:

	Interest held in 2005	Interest held in 2004
Wapme Systems Inc., Miami, USA	100.00%	100.00%
Wireless Fire LP, Miami, USA (wholly owned subsidiary of Wapme Systems Inc.), indirectly	100.00%	100.00%
Goodsoft Holding srl., Timisoara, Romania	51.00%	51.00%
Goodsoft srl., Timisoara, Romania (as wholly owned subsidiary of Goodsoft Holding srl.), indirectly	100.00%	100.00%
Lawa Content GmbH, Switzerland, indirectly as a subsidiary of Lawa International Holding AG, Switzerland	100.00%	100.00%
Lovers TV GmbH, Switzerland, indirectly as a subsidiary of Lawa International Holding, Switzerland	50.00%	50.00%

The balance sheet date for all companies in the reporting entity is 31 December 2005.

Lawa International Holding AG was acquired in November 2004. The income statement for financial year 2005 thus also contains the income and expenses of this sub-group of companies for the first time over the full 12 months. A direct comparison of the financial position and earnings with the previous year is thus only possible to a limited extent.

Goodsoft Holding srl., Timisoara, Romania, was sold on 19 April 2005. The company also sold its shares in Wireless Fire LP, Miami, USA, and Wapme Systems Inc., Miami, USA, in financial year 2005.

4. CHANGES IN THE REPORTING ENTITY

››› More phones GmbH, Rheine, was deconsolidated on 31 December 2005 due to a transfer of control. This is essentially based on the legal conclusion of the share purchase agreement dated 29 December 2005. Due to the company's intention to sell as of the balance sheet date, instead of being included under assets and liabilities, the holding in more phones GmbH, Rheine, is reported under securities; loans granted and other receivables are reported under receivables from affiliates. The deconsolidation resulted in neither a gain nor a loss on the disposal. Due to the deconsolidation on 31 December 2005, the income and expenses of more phones GmbH, Rheine, are still included in their full amounts in the consolidated income statement. A direct comparison of the financial position is not possible, however. Had more phones GmbH, Rheine, already been deconsolidated as of 31 December 2004, this would have given the following pro forma consolidated balance sheet as of 31 December 2004:

PRO FORMA CONSOLIDATED BALANCE SHEET WITHOUT MORE PHONES

ASSETS €	31.12.2005	31.12.2004
A. Non-current assets		
I. Property, plant and equipment	533,469	750,564
II. Intangible assets		
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	1,384,606	2,439,645
2. Customer base	1,450,000	1,750,000
3. Capitalised self-constructed assets	419,228	673,354
4. Goodwill	1,069,480	1,687,480
III. Financial assets	18,207	430,610
IV. Loans	0	0
V. Deferred taxes	2,957,950	2,955,014
Total non-current assets	**7,832,940**	**10,686,666**
B. Current assets		
I. Trade receivables	2,043,621	2,507,944
II. Receivables from affiliates	2,197,614	2,701,100
III. Inventories	0	0
IV. Prepaid expenses and other current assets	360,338	555,262
V. Tax claims	203,680	297,130
VI. Securities	200,604	0
VII. Cash and cash equivalents	480,686	1,721,421
Total current assets	**5,486,542**	**7,782,857**
Total assets	**13,319,482**	**18,469,524**

LIABILITIES

€	31.12.2005	31.12.2004
A. Equity		
I. Subscribed capital	11,696,147	9,555,000
II. Capital reserves	29,865,466	28,540,977
III. Mandatory convertible bond	2,150,000	0
IV. Accumulated losses	-40,259,182	-29,763,591
V. Reconciliation item from currency translation	-12,602	0
VI. Minority interest	-34,483	242,759
Total equity	**3,405,346**	**8,575,145**
B. Contribution paid in for the capital increase	**1,348**	**0**
C. Non-current liabilities		
I. Deferred taxes	954,678	1,234,054
II. Long-term loans	3,067,770	4,560,000
Total non-current liabilities	**4,022,448**	**5,794,054**
D. Current liabilities		
I. Liabilities to banks	560,809	371,332
II. Short-term loans	688,050	0
III. Trade payables	2,413,308	2,217,812
IV. Provisions for taxes	245,091	245,466
V. Other provisions	1,180,130	744,248
VI. Deferred income	55,594	71,632
VII. Other current liabilities	747,357	449,836
Total current liabilities	**5,890,340**	**4,100,326**
Total liabilities	**13,319,482**	**18,469,524**

The effects of the deconsolidation of more phones GmbH, Rheine, on the consolidated financial statements are as follows:

Deconsolidation of subsidiaries	
€	
Deconsolidation	
Cash and cash equivalents	-287,926
Trade receivables	-870,647
Inventories	-1,610,204
Prepaid expenses and other current assets	-35,658
Tax claims	-5,114,790
Property, plant and equipment	-2,398
Intangible assets	-3
Trade payables	805,678
Liabilities to affiliates	2,686,502
Other provisions	171,892
Other liabilities	3,969,628
Cash and cash equivalents of the deconsolidated company	**-287,926**

5. CONSOLIDATION METHODS

››› Business acquisitions are treated in accordance with IFRS 3.36 ff. The goodwill that accrues within the scope of the consolidation represents the positive difference of the business acquisition costs over the group share in the fair value of the identifiable assets and liabilities of a subsidiary or jointly run company at the time of acquisition. The differential of € 4,307 thousand as of 1 November 2004 resulting from the capital consolidation with the sub-group of Lawa International Holding AG, Zurich, Switzerland, was distributed in amounts of € 1,800 thousand among the customer base and self-constructed technical platforms. The recognition of hidden reserves led to an increase in deferred tax liabilities of € 981 thousand. The residual amount of € 1,688 thousand calculated in this way was appropriated to goodwill, which is subject to regular impairment tests.

Intragroup profits, losses, sales, expenses and income, together with the receivables and liabilities between group companies, were offset against each other.

6. CURRENCY TRANSLATION IN ACCORDANCE WITH IAS 21

››› Trade receivables and liabilities denominated in foreign currencies are translated to euros using the exchange rate as of the balance sheet date. Exchange rate gains and losses are recognised in income in the income statement.

To minimise foreign currency risks, the group processes financial transactions outside the European Monetary Union in euros whenever possible.

In addition to transactions in euros in the financial year there were also transactions in US dollars. Transactions in US dollars include a portion of the sales revenues with other countries, as well as capital measures. No derivative financial instruments were used to hedge against currency fluctuation.

In the annual financial statements of foreign subsidiaries foreign currency was converted in compliance with the functional theory of foreign currency conversion. This form of conversion and its treatment with respect to profits depends on the economic independence of the part liable to consolidation. A distinction must be made here between economically independent entities whose business operations are not an integral part of the group’s activities and dependent foreign entities which are an integral part of the parent company.

The Lawa Group is classifiable as an independent entity whose business operations are not an integral part of the group’s activities. Expenses and income are thus translated at the average exchange rate for the year; assets and liabilities are translated at the rate prevailing as of the balance sheet date. The currency difference arising from the translation of equity is reported separately as a reconciling item under foreign currency translation. Currency differences resulting from deviating exchange rates in the income statement are also disclosed under this item with no effect on net income.

B. Notes to the consolidated balance sheet and income statement

7. PROPERTY, PLANT AND EQUIPMENT

››› This item includes office equipment, fixtures and fittings, particularly computer hardware, leasehold improvements and vehicles. They are valued at cost minus scheduled straight-line depreciation.

The depreciation is based on the following useful economic lives:

Office equipment, fixtures and fittings:	3 – 10 years
Vehicles:	5 years
Leasehold improvements:	term of lease

The following list shows the composition of property, plant and equipment for the financial year and the previous year:

Property, plant and equipment

€	Office equipment, fixtures and fittings	Leasehold improvements	Vehicles	31.12.2005	31.12.2004
Historical costs					
At the beginning of the financial year	1,508,700	120,930	860	1,630,490	1,336,459
Change in the reporting entity	-11,512	-1,938	0	-13,450	237,409
Additions in the financial year	74,300	0	0	74,300	101,553
Currency effects	-1,581	0	0	-1,581	0
Disposals in the financial year	-112,959	0	0	-112,959	-44,930
At the end of the financial year	**1,456,949**	**118,991**	**860**	**1,576,800**	**1,630,490**
Cumulative depreciation					
At the beginning of the financial year	823,475	52,097	528	876,099	796,163
Changes in the reporting entity	-9,115	-1,937	0	-11,052	-83,585
Depreciation in the financial year	270,853	11,637	74	282,564	202,474
Currency effects	-22	0	0	-22	0
Disposals in the financial year	-104,258	0	0	-104,258	-38,952
At the end of the financial year	**980,934**	**61,796**	**601**	**1,043,331**	**876,099**
Book value at the beginning of the financial year	**685,225**	**68,833**	**332**	**754,391**	**540,297**
Book value at the end of the financial year	**476,015**	**57,196**	**259**	**533,469**	**754,391**

8. INTANGIBLE ASSETS

Concessions, industrial property rights and similar rights and values, as well as licenses thereto and customer base

››› Purchased intangible assets were valued at cost minus scheduled straight-line depreciation. They include purchased software products and licenses, whose cost and depreciation developed as follows in the financial year and previous year:

Concessions, industrial property rights
and similar rights and values,
as well as licences thereto and customer base

€	31.12.2005	31.12.2004
Historical costs		
At the beginning of the financial year	10,606,236	6,779,974
Change in the reporting entity	-1,978	3,579,703
Additions in the financial year	22,034	250,445
Transfers in the financial year	0	0
Currency effects	0	0
Disposals in the financial year	-852	-3,886
At the end of the financial year	**10,625,440**	**10,606,236**
Cumulative depreciation and amortisation		
At the beginning of the financial year	6,416,138	5,842,124
Changes in the reporting entity	-1,975	-55,041
Scheduled depreciation in the financial year	974,041	373,409
Extraordinary depreciation in the financial year	402,374	255,646
Transfers in the financial year	0	0
Currency effects	256	0
Disposals in the financial year	0	0
At the end of the financial year	**7,790,834**	**6,416,138**
Book value at the beginning of the financial year	**4,190,098**	**937,849**
Book value at the end of the financial year	**2,834,606**	**4,190,098**

This item primarily contains the assets allocated within the scope of the purchase price allocation as part of the initial consolidation with Lawa International Holding AG, Zurich, Switzerland, relating to self-developed technical platforms (historical cost: € 1,800 thousand; useful life: 4 years; residual book value: € 1,275 thousand) and the customer base (historical cost: € 1,800 thousand; useful life: 6 years; residual book value: € 1,450 thousand), which were amortised on a scheduled basis by a total of € 750 thousand in the financial year. The extraordinary write-down of € 402 thousand relates to the SMS Suite which was written off in full in financial year 2005.

Development costs

››› The group's development activities include Internet applications for commercial vendors and the development of a platform for various applications on the mobile Internet and in the field of SMS services. In 2005, Wapme Systems AG mainly developed or enhanced server software (€ 119 thousand) and other SMS software (€ 83 thousand).The expected useful life of all self-constructed software solutions is 4 years. Straight-line depreciation is calculated during the course of their use.

Development costs

€	31.12.2005	31.12.2004
Historical costs		
At the beginning of the financial year	1,282,805	1,377,009
Change in the reporting entity	0	-238,081
Additions in the financial year	226,632	143,876
Transfers in the financial year	0	0
Currency effects	-1,323	0
Disposals in the financial year	0	0
At the end of the financial year	**1,508,113**	**1,282,805**
Cumulative depreciation and amortisation		
At the beginning of the financial year	609,451	343,442
Change in the reporting entity	0	-14,307
Depreciation and amortisation in the financial year	480,308	280,316
Transfers in the financial year	0	0
Currency effects	-873	0
Disposals in the financial year	0	0
At the end of the financial year	**1,088,885**	**609,451**
Book value at the beginning of the financial year	**673,354**	**1,033,568**
Book value at the end of the financial year	**419,228**	**673,354**

The group does not perform any research activities. Development costs which cannot be capitalised include expenses that do not fulfil the criteria for capitalising self-constructed assets.

Development costs recognised as expenses

€'000	31.12.2005	31.12.2004
Non-capitalisable development costs	779	467
Write-downs of development costs	480	280
Total	**1,259**	**747**

In 2005 a higher percentage of development costs was expensed, since proportionally more time was invested in the integration and porting of systems, particularly at the subsidiaries, and the corresponding project management resources were invested.

Goodwill

Goodwill €'000	31.12.2005	31.12.2004
Historical costs		
At the beginning of the financial year	1,687,480	551,843
Change in the reporting entity	0	1,135,637
Additions in the financial year	0	0
Transfers in the financial year	0	0
Disposals in the financial year	0	0
At the end of the financial year	**1,687,480**	**1,687,480**
Cumulative depreciation and amortisation		
At the beginning of the financial year	0	300,410
Change in the reporting entity	0	-300,410
Depreciation and amortisation in the financial year	618,000	0
Transfers in the financial year	0	0
Disposals in the financial year	0	0
At the end of the financial year	**618,000**	**0**
Book value at the beginning of the financial year	**1,687,480**	**251,433**
Book value at the end of the financial year	**1,069,480**	**1,687,480**

Goodwill in financial year 2005 results exclusively from the acquisition of the equity holding in Lawa International Holding AG in November 2004.

Due to the negative development of the Lawa sub-group an impairment test was carried out on goodwill pursuant to IAS 36. The goodwill was allocated to the entire Lawa sub-group as a cash generating unit. This also corresponds to the lowest level within the company, on the basis of which goodwill is monitored for internal management purposes.

As a result of the impairment test, there is a need for a valuation adjustment of € 618 thousand. This is calculated from the difference between the book values of the assets and liabilities of the sub-group of Lawa International Holding AG and the achievable amount (€ 4,711 thousand). The achievable amount here was calculated on the basis of a capitalisation interest rate of 10.9% and represents the utility value.

This utility value is based particularly on the management's assumptions that the streaming business will, as in Austria, also reach the anticipated growth rates in Germany and Switzerland. These assumptions are based on internal estimates, but are also supported by objective market expectations. Due to the technological change that is taking place and future uncertainty, detailed plans were laid down within a period of one year. A weighted growth rate of 7% was assumed for the streaming business and a rate of 3% for the other business segments for the years 2007 to 2010. A growth rate of 2% was assumed from the year 2011.

9. FINANCIAL ASSETS

››› Financial assets only contain investments in affiliates as of 31 December 2005. Investments in affiliates comprise the holding of Lawa AG in Lovers TV GmbH (€ 12 thousand or 50%) and Lawa Content GmbH (€ 6 thousand or 100%).

The holding in EUTEX European Telco Exchange AG of € 276 thousand, which was carried the previous year under investment securities was reclassified to current investments due to the planned intention to sell and the respective short term of the investment.

10. DEFERRED TAX ASSETS

››› Deferred taxes are formed in accordance with IAS 12 for differences in value between the tax balance sheets of the individual companies and the consolidated financial statements. Tax loss carryforwards are capitalised to the amount of their probable future benefit. In doing so, the hitherto deferred tax assets not yet shown in the balance sheet were reassessed in accordance with IAS 12.37. In view of the company's poor performance in the past and allowing for a positive business forecast, no further loss carryforwards were capitalised. Accordingly, domestic tax loss carryforwards of € 33,029 thousand (previous year: € 24,278 thousand), which can be claimed for an unlimited period, as well as tax loss carryforwards from Switzerland and Poland amounting to € 1,299 thousand and € 268 thousand, respectively, were not recorded in the balance sheet. As shown in the corporate budget, the deferred tax assets are expected to be amortisable over the next three years.

Deferred tax assets and liabilities in Germany have been valued using a domestic deferred tax rate of 38.65%. Foreign deferred tax assets and liabilities were accordingly calculated using the respective tax rates prevailing or expected in line with the current legal situation in the individual countries at the time of realisation.

11. INVENTORIES

››› Due to the deconsolidation of more phones GmbH, Rheine, there were no inventories as of the balance sheet date.

12. TRADE RECEIVABLES

››› Trade receivables are stated at their nominal value minus any individual valuation adjustments. Individual valuation adjustments on the receivables disclosed as of 31 December 2005 amount to € 413 thousand (previous year: € 1,024 thousand). All the trade receivables have a residual term of less than one year. The decline in valuation adjustments by € 611 thousand is mainly attributable to the utilisation of valuation items set up by Wapme Systems AG (€ 405 thousand) and Lawa AG (€ 179 thousand).

In satisfaction of all claims against the issuer by holders of the convertible bond issued in February 2004, the issuer assigned all current and future claims for payment from Premium SMS service agreements with the telecommunications companies after deduction of payments due from the telephone service providers ensuing from these agreements to bond holders.

13. RECEIVABLES FROM AFFILIATES

››› Receivables from affiliates mainly consist of the loans to more phones GmbH, Rheine, amounting to € 2,175 thousand. As of 31 December 2005 these loans were adjusted by € 400 thousand.

14. PREPAID EXPENSES AND OTHER CURRENT ASSETS

››› Other current assets to the value of € 360 thousand (previous year: € 604 thousand) consist for the main part of receivables from factoring sales to T-Mobile Deutschland in the amount of € 196 thousand (previous year: € 330 thousand) and claims against employees amounting to € 60 thousand (previous year: € 107 thousand).

As of the balance sheet date prepaid expenses amounted to € 46 thousand and mainly consisted of deferred insurance premiums and lease instalments.

15. TAX CLAIMS

››› The tax rebate claims of € 204 thousand (previous year: € 4,986 thousand) declined mainly as a result of the deconsolidation of more phones GmbH, Rheine.

16. SECURITIES

››› Securities in the reporting year 2005 include the shares in EUTEX European Telco Exchange AG (€ 113 thousand) and the shares in more phones GmbH, Rheine.

The shares in EUTEX European Telco Exchange AG were reclassified from financial assets due to the planned intention to sell and the respective short term of the investment. In compliance with IAS 39 these securities are stated at their fair value, as they are classified from now on as »available for sale«. The corresponding loss arising from the change in the fair value of the available-for-sale financial assets of € 145 thousand was reflected in net income due to the valuation adjustment pursuant to IAS 39.58. The determination of the fair value already takes into account the intended selling price of EUTEX European Telco Exchange AG in the following financial year.

After deconsolidation the shares in more phones GmbH, Rheine, were entered in the balance sheet under the acquisition costs of € 88 thousand.

17. CASH AND CASH EQUIVALENTS

››› The sum stated comprises current bank balances and cash on hand, as well as fixed-term deposits to the amount of € 481 thousand (previous year: € 2,270 thousand). These have all been stated at their nominal value.

18. EQUITY CAPITAL ITEMS AND LONG-TERM LOANS

››› The subscribed capital of the group as of the balance sheet date comprises 11,696,147 ordinary bearer shares each with an arithmetical value of € 1.

Statement of changes in equity according to IAS 1.96 f.:

Equity reconciliation statement

€	Subscribed capital	Capital reserves	Mandatory convertible bond	Profit reserves
As of 31.12.2003	**6,113,750**	**26,307,462**	**0**	**-18,949,653**
Transfers				-3,656,176
Costs of raising equity		-125,133		
Change in equity not affecting net income through reacquisition of treasury shares (SIC 16)		27,044		
Capital increase	541,250	276,038		
Share purchase Lawa International Holding AG	2,900,000	1,914,000		
Consolidated net loss for the year				
Change not affecting net income through application of IAS 39				
Stock option plan		141,566		
Minority interest				
As of 31.12.2004	**9,555,000**	**28,540,977**	**0**	**-22,605,829**
Transfers				-7,350,332
Capital increase	1,586,077	1,336,688		
Conversion of convertible bond	555,070	360,796		
Cost of raising equity		-317,286		
Reconciling item from foreign currency translation				
Consolidated net loss for the year				
Stock option plan		-55,708		
Mandatory convertible bond			2,150,000	
Deconsolidation more phones				150,895
Minority interest				
As of 31.12.2005	**11,696,147**	**29,865,467**	**2,150,000**	**-29,805,266**

Net change in value not affecting net income	Reconciling item from foreign currency translation	Profit share equity investors	Minority interest	Total
-157,678	**0**	**-3,656,176**	**324,758**	**9,982,463**
		3,656,176		0
				-125,133
				27,044
				817,288
				4,814,000
		-7,350,332		-7,350,332
157,678				157,678
				141,566
			275,483	275,483
0	**0**	**-7,350,332**	**600,241**	**8,740,057**
		7,350,332		0
				2,922,765
				915,866
				-317,286
	-12,602			-12,602
		-10,453,917		-10,453,917
				-55,708
				2,150,000
			-360,566	-209,671
			-274,159	-274,159
0	**-12,602**	**-10,453,917**	**-34,483**	**3,405,345**

Capital reserves contain the premium from capital increases and offsetting against equity with no effect on net income, as well as the changes arising from the issue of stock options from 7 November 2002. Deferred taxes of € 200 thousand (previous year: € 83 thousand) were deducted from the € 517 thousand in costs for raising equity capital (previous year: € 208 thousand).

Stock options

››› As of the balance sheet date a total of 529,500 stock options (previous year: 335,500) had been issued on the basis of authorisations resolved by the General Meeting to implement stock option programmes. Of these options, none were assigned to the Management Board (previous year: 12,000), 285,000 options (previous year: 110,000) were assigned to former members of the Management Board, 15,000 options (previous year: 15,000) were assigned to members of the management of subsidiaries, and 229,500 options (previous year: 198,500) were assigned to employees of the parent company and its subsidiaries. The issue of the stock options was recorded in the balance sheet and income statement pursuant to IFRS 2, section 53, to the extent to which the stock options were granted after 7 November 2002. All stock options allocated up until 7 November 2002, inclusive, were omitted from the balance sheet and income statement.

In the reporting period 2005 the share-based payment forms resulted in personnel income of € 56 thousand. This income is solely attributable to the adjustment of personnel expenses in financial years 2002 to 2004, previously offset in expenses, using the new fluctuation rates.

The calculation of the fair value of the stock options issued in August 2003 was based on the following assumptions:

Market price of the company share on the issuing date:	€ 3.48
Calculation method:	Monte Carlo method
Exercise strategy:	Earliest possible exercise
Holding periods:	2 years/3 years/4 years
Term:	8 years
Volatility:	209.73%
Risk-free interest:	5.50% p.a.
Exercise price:	€ 3.48
Fair value of one option:	€ 3.45

The calculation of the fair value of the stock options issued in May 2003 was based on the following assumptions:

Market price of the company share on the issuing date:	€ 1.70
Calculation method:	Monte Carlo method
Exercise strategy:	Earliest possible exercise
Holding periods:	2 years/3 years/4 years
Term:	8 years
Volatility:	198.06%
Risk-free interest:	5.50% p.a.
Exercise price:	€ 1.70
Fair value of one option:	€ 1.652

The calculation of the fair value of the stock options issued in June 2005 was based on the following assumptions:

Market price of the company share on the issuing date:	€ 1.61
Calculation method:	Black/Scholes model
Exercise strategy:	Latest possible exercise
Holding periods:	2 years
Term:	8 years
Volatility:	96.05%
Risk-free interest:	5.50% p.a.
Exercise price:	€ 1.61
Fair value of one option:	€ 1.08

The expected volatility was calculated retrospectively in each case over a period of two years from the date of issue based on relevant monthly returns and monthly variances calculated from the latter.

The total stock options, which were forfeitable upon issue, were issued at various points in time in the number applicable as of the balance sheet date 31 December 2005 at the following strike prices:

Date of issue	Strike price in €	No. of stock options
05.07.2000	20.00	14,000
13.07.2001	4.95	23,000
29.07.2002	1.08	50,000
29.08.2002	1.35	95,000
30.05.2003	1.70	7,500
29.08.2003	3.48	119,000
27.06.2005	1.61	221,000

The option agreements for all options issued can be summarised as follows:

The term of each option agreement is a maximum of eight years from the respective date of issue of the options. After expiry of a holding period of two years 1/3 of the options may be exercised; a further 2/3 may be exercised after another year and all options may be exercised after a holding period of four years.

Subscription rights may only be exercised twice a year, and exercising is restricted to two time windows, one of which begins on the day after the company's AGM and the other on the day after the publication of the interim results for the third quarter. Both of these periods last four weeks (»exercise window«). The options remain intact if the beneficiary does not exercise his/her options in an exercise window or does not exercise them in full. In this case, the beneficiary may exercise the unexercised options within the following exercise windows.

After exercise of the respective holding period, the options may be exercised in any of the exercise windows, if the average price of the company's ordinary shares on the last five days before the start of the exercise window in which the beneficiary wishes to exercise his/her options, does not exceed the basic price by

- *30% – calculated from the balance sheet date – for an exercise of two years*
- *40% – calculated from the balance sheet date – for an exercise of three years*

- *50% – calculated from the balance sheet date – for an exercise of four years*
- *60% – calculated from the balance sheet date – for an exercise of five of more years*

(»exercise hurdle«).

With the exception of the subscription rights (110,000) issued to members of the company's Management Board in 2002 and a portion of the subscription rights (75,000) issued in 2005, the subscription rights lapse if the company or the beneficiary terminate the employment contract, or if the contract of employment is terminated in any other way, provided that the respective waiting period has not yet expired by the date the employment contract is terminated.

No subscription rights were exercised in the year under review. A total of 20,000 options (previous year: 86,000) had expired by 31 December 2005 due to termination of contracts of employment.

Convertible bonds

››› Pursuant to Art. 4 (9) of the Articles of Association there is contingent capital of € 2 million insofar as the holders of conversion rights or options – arising from convertible bonds or debentures issued until 27 August 2008 by the company or its affiliates based on the authorisation resolved by the Ordinary General Meeting on 28 August 2003 – make use of their conversion or subscription right, or the conversion obligation resulting from such convertible bonds is fulfilled.

With partial utilisation of the above-mentioned authorisation, the company issued the convertible bond of 2004/2007 in February 2004, composed of 600,000 equal-ranking fractional bearer debentures, each with an arithmetical nominal value of € 4.85 per share and a total nominal value of € 2,910,000.00. The term of the convertible bond began on 15 February 2004 and ends on 14 February 2007. The convertible bond bears an interest rate of 5% p.a. on its nominal amount for its entire term, provided it has not been paid back or the conversion right legally exercised beforehand. Subject to the conditions for this convertible bond, each bond holder has the right to exchange all or some of the fractional debentures he or she holds, at any time during the exercise periods, for Wapme no-par value bearer shares.

As security for a partial amount of € 1,386 thousand of the convertible bonds 2004/2007, the input tax refund claims of € 5,315 thousand ceded by more phones GmbH, Rheine, to Wapme Systems AG were assigned in the amount of € 1,386 thousand to the secured party of Wapme Systems AG.

Furthermore, the General Meeting on 31 August 2004 resolved to supplement the Articles of Association by an Art. 4 (11) and to create additional contingent capital of € 445,000. The contingent capital increase is only performed insofar as the holders of conversion rights or options – arising from convertible bonds or debentures issued until 30 August 2009 by the company or its affiliates based on the authorisation resolved by the Ordinary General Meeting on 31 August 2004 – make use of their conversion or subscription right or the conversion obligation resulting from such convertible bonds is fulfilled.

With partial exercise of the above-mentioned contingent capital the company issued the convertible bond 2004/2006 of Wapme Systems AG, divided into 1,000,000 equal-ranking fractional bearer debentures, each with an arithmetical nominal value of € 1.65 per share and a total nominal value of € 1,650,000.00. The holders of fractional debentures have specific rights as set forth in the bond indenture.

The convertible bond has a term from 29 November 2004 until 15 January 2006. During its term it bears interest of 5% p.a. on its nominal value. Interest payments are discontinued in the event of premature prepayment or termination. Unless the right of conversion has been exercised or repaid prematurely, the convertible bond is due to be repaid at its nominal value on 18 January 2006.

In June 2005 the holders of the convertible bond 2004/2006 partially utilised their conversion right. This increases the share capital of the company by € 348,454 from € 10,683,062 to € 11,031,516. Capital reserves increased by € 226,000.00. In August 2005 other holders of the convertible bond 2004/2006 also partially utilised their conversion right. This increases the share capital of the company by € 206,616 from € 11,031,516 to € 11,238,132. Capital reserves increased by € 134,300.40.

Pursuant to Art. 4 (13) of the Articles of Association there is contingent capital of € 1.4 million insofar as the holders of conversion rights or options – arising from convertible bonds or debentures issued until 14 March 2010 by the company or its affiliates based on the authorisation resolved by the Ordinary General Meeting on 15 March 2005 – make use of their conversion or subscription right, or the conversion obligation resulting from such convertible bonds is fulfilled.

With partial utilisation of the above-mentioned authorisation, the company issued the convertible bond 2004/2007 on 21 April 2005, composed of 43,407 equal-ranking fractional bearer debentures, each with an arithmetical nominal value of € 2.60 and a total nominal value of € 112,858.20. The term of the convertible bond began on 12 May 2005 and ends on 31 October 2007. The nominal amount of the convertible loan is charged interest at a rate of 5.25% p.a. during its entire term, provided it has not been paid back or the conversion privilege legally exercised beforehand. Subject to the conditions for this convertible bond, each bond holder has the right to exchange all or some of the fractional debentures he or she holds, at any time during the exercise periods, for Wapme no-par value bearer shares.

Capital increases

››› By way of a resolution on 14 January 2005, the Management Board resolved, with the approval of the Supervisory Board of 15 January 2005, to increase the share capital by € 156,875 against cash contribution. The company's share capital was thus increased by € 156,875 from € 9,555,000 to € 9,711,875 by the issue of 156,875 new no-par value bearer shares each with a arithmetical nominal value of € 1. The new shares were issued at a price of € 1.62 each, i.e. closely based on the market value of the share with an issuing premium. The share premium of € 97,262.50 was transferred to capital reserves. The new shareholder's contribution was furnished by deposit to the company's capital increase account. The new shares are endowed with full dividend rights as of financial year 2005.

By way of a resolution dated 4 April 2005, the Management Board resolved, with the approval of the Supervisory Board of 4 April 2005, to increase the share capital by € 971,187 against cash contribution. This increased the company's share capital by € 971,187 from € 9,711,875 to € 10,683,062 by the issue of 971,187 new no-par value bearer shares each with an arithmetical nominal value of € 1. The new shares were issued at a price of € 2.13 each, i.e. closely based on the market value of the share with an issuing premium. The share premium of € 1,097,441.31 was transferred to capital reserves. The new shareholder's contribution was furnished by deposit to the company's capital increase account. The new shares are endowed with full dividend rights as of financial year 2005.

By way of a resolution dated 21 September 2005, the Management Board resolved, with the approval of the Supervisory Board of 21 September 2005, to increase the share capital by € 458,015 against cash contribution. This increased the company's share capital by € 458,015 from € 11,238,132 to € 11,696,147 by the issue of 458,015 new no-par value bearer shares each with an arithmetical nominal value of € 1. The new shares were issued at a price of € 1.31 each, i.e. closely based on the market value of the share with an issuing premium. The share premium of € 141,984.65 was transferred to capital reserves. The new shareholder's contribution was furnished by deposit to the company's capital increase account. The new shares are endowed with full dividend rights as of financial year 2005.

The General Meeting on 30 August 2005 resolved to authorise the Management Board, subject to the approval of the Supervisory Board, to increase the company's share capital on one or several occasions by up to a total of € 5,619,066 until 29 August 2010 by issuing no-par-value bearer shares against cash and/or contributions in kind (authorised capital).

Mandatory convertible bond

››› The company also made partial use of its authorisation granted by the Extraordinary General Meeting on 15 March 2005 and issued, on 4 August 2005, the convertible bond 2005/2010, composed of 25,000 equal-ranking fractional bearer debentures, each with an arithmetical nominal value of € 100 and a total nominal value of € 2,500,000. The term of the convertible bond began on 24 August 2005 and ends on 24 August 2010. The convertible bond is issued at 86% of its nominal value and interest is compounded over the entire term, unless it is paid back or the conversion privilege is legally exercised beforehand. Subject to the conditions for this convertible bond, each bond holder has the right to exchange all or some of the fractional debentures he or she holds, at any time during the exercise periods, for Wapme no-par value bearer shares. The conditions of the mandatory convertible bonds do not contain any regular right of termination by the bond holders. Bond holders therefore have no right to claim repayment of the mandatory convertible bond.

The mandatory convertible bond was entered in the balance sheet at 86% of its nominal amount, the issuing price (€ 2,150,000), and allocated to equity.

19. LIABILITIES TO BANKS

››› The liabilities to banks of € 561 thousand relate exclusively to working capital loans to Lawa AG, Switzerland.

20. CURRENT LOANS

››› The remaining portions of the convertible bond 2004/2006 amounting to € 688 thousand were reclassified to current loans due to the existing maturity of 18 January 2006. The short-term loan reported the previous year was payable in its full amount by more phones GmbH and has been disposed of due to the deconsolidation.

21. TRADE PAYABLES

››› Of the trade payables reported € 1,885 thousand is attributable to customers in Germany (previous year: € 2,549 thousand) and € 528 thousand to foreign customers (previous year: € 355 thousand). All the trade payables have a term of less than 12 months.

22. OTHER CURRENT LIABILITIES AND DEFERRED INCOME

››› Other current liabilities mainly relate to tax liabilities of € 306 thousand (previous year: € 678 thousand), liabilities arising from interest payments on convertible bonds of € 194 thousand (previous year: € 136 thousand), liabilities to employees and minority shareholders of € 9 thousand (previous year: € 218 thousand) as well as social security contributions of € 239 thousand (previous year: € 164 thousand).

23. PROVISIONS FOR TAXES

Provisions for taxes

€'000	As of 01.01.2005	Utilisation 2005	Value as of 31.12.2005
Provision for trade tax	301	66	235
Provision for corporation tax	99	89	10
Total	**400**	**155**	**245**

A provision of € 239 thousand for actual income tax liabilities of Lawa AG was reported as of 31 December 2005; provisions totalling € 6 thousand were set up for the Polish subsidiaries.

24. OTHER PROVISIONS

››› Other provisions take into account all discernible risks and uncertain liabilities, and were valued at the amount likely to be utilised.

Statement of provisions

€'000	As of 01.01.2005	Change in the reporting entity	Utilisation	Reversal	Appropriation	As of 31.12.2005
Annual financial statements and audit	124	0	118	6	72	72
Outstanding invoices	120	0	120	0	117	117
Contingent losses	0	0	0	0	0	0
Vacation	74	0	38	12	17	41
Supervisory Board remuneration	32	0	32	0	34	34
Litigation	201	0	14	3	172	356
Employers' Liability Insurance Associations *(Berufsgenossenschaft)*	15	0	8	7	10	10
Warranties	0	0	0	0	0	0
Personnel expenses	0	0	0	0	152	152
Other	239	-43	189	29	420	398
Total	**805**	**-43**	**519**	**57**	**994**	**1,180**

Provisions were formed for pending litigation proceedings; these provisions were determined on the basis of the amounts involved in the case and the lawyer and court fees. The provision for outstanding vacation covers vacation not yet taken by employees as of the balance sheet date. This provision includes gross salaries and the employer's statutory social security contributions. Outstanding vacation must be taken by the end of March 2005 or it is forfeited without compensation. The provision for Supervisory Board remuneration was formed on the basis of the obligations laid down in the Articles of Association. The provision for contributions to professional associations was estimated on the basis of the previous year's contribution. Other provisions include provisions for the Web billing business, anticipated back payments of incidental costs and estimated costs for publications in the Bundesanzeiger (Federal Gazette).

Provisions for personnel expenses relate to severance payments due to the restructuring plan.

On the whole, other provisions are expected to be utilised in financial year 2006.

25. OTHER FINANCIAL OBLIGATIONS

››› All the lease agreements are operating leases.

Financial obligations within the group from rental and lease agreements total € 1,482 thousand (previous year: € 1,683 thousand). These comprise the following:

Lease obligations €'000	up to 1 year	1 – 5 years	more than 5 years	Total 31.12.2005	Total 31.12.2004
Leased office space	246	753	47	1,046	1,434
Car leasing	90	103	0	192	199
Other lease obligations	126	118	0	244	50
Total	**461**	**974**	**47**	**1,482**	**1,683**

No purchase options are associated with any of the lease agreements.

Leases are only extended if the agreements are not terminated within a certain period of notice to the end of the respective term.

Income of € 0 (previous year: € 20 thousand) was generated in the reporting period from the sub-letting of leased premises.

26. CONTINGENT LIABILITIES

››› The company has surety liabilities of € 68 thousand to Volksbank Düsseldorf Neuss eG (previous year: € 69 thousand). These are surety credits (e.g. for rental payments). Wapme Systems AG also holds a bond for the term of the leasing contract of more phones GmbH for rent payments, as well as a fixed liability guarantee to the amount of € 1,400 for a leased object.

27. SALES REVENUES

››› Sales revenues in the VAS segment, business to business (B2B) sector:

The B2B sector is mainly served by Wapme Systems AG. Sales revenues from Premium SMS services in the B2B sector consist almost entirely of the proceeds from value-added services generated by the transmission of chargeable content, information, services and applications on demand in the form of short and multimedia messages. The technical connection to the consumer is provided by telecommunications companies, the content of short and multimedia messages is mostly purchased from content providers. Since Wapme Systems AG assumes all opportunities and risks from the value-added services, in particular the responsibility for consumer creditworthiness and for the transmitted content to the consumer, gross sales revenues are shown, i.e. including the portion passed on to the content provider. However, total sales revenues do not include the service charges paid to the telecommunications companies, since the risks and opportunities ensuing from the provision of technical infrastructure remain largely with the telecommunications companies. The revenue thus pertains to the generation of sales. Compared to the previous year the sales structure in the current financial year for Wapme Systems AG developed as follows:

€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Sales revenues from consumers	7,571	11,139
Sales revenues from content providers	3,321	2,760
Sales revenues (other)	17	113
Total sales revenues	**10,909**	**14,012**

Sales revenues in the VAS segment, business to consumer (B2C) sector:

The B2C sector is mainly served by the Lawa Group. Revenues in the B2C sector relate to dividends paid by telecommunications companies to the respective company. These dividends are calculated on the basis of the amounts billed to consumers. In this case, the share of sales claimed by the telecommunications companies is deducted. Costs related to the transmission of short and multimedia messages are charged separately to the respective company and are shown under expenses for purchased services. The resulting sales revenues from telecommunications companies totalled € 4,462 thousand (previous year: € 1,151 thousand for 2 months) due to the incorporation of the Lawa Group.

For an itemisation of sales revenues of the whole group, please refer to the segment reporting.

28. OTHER OPERATING INCOME

››› The other operating income is comprised as follows:

Other operating income

€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Income from the reversal of provisions	45	181
Proceeds from the disposal of assets	22	0
Offsetting of benefits in kind for employees	20	51
Income from insurance compensations	3	0
Leasing of office equipment and office space	2	20
Income Turkey	0	150
Income from investments and participations	0	101
Currency gains	0	30
Income from the write-down of valuation adjustments	0	9
Deconsolidation result	0	0
Other income	152	266
Total	**243**	**808**

For the main part other operating income includes earnings from the Lawa Group (€ 74 thousand).

29. OTHER CAPITALISED SELF-CONSTRUCTED ASSETS

››› Other capitalised self-constructed assets in the financial year consist exclusively of self-constructed intangible assets, provided they fulfil the requirements of IAS 38.45 ff.

30. COST OF GOODS HELD FOR RESALE AND PURCHASED SERVICES

››› This item comprises the following:

Cost of goods held for resale and purchased services		
€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Cost of goods held for resale	51,450	50,534
Cost of purchases services	12,702	13,121
Total	**64,152**	**63,655**

The cost of goods held for resale and purchased services increased year-on-year. The cost of purchased services primarily consists of fees for advertising services, transmitted content, data transmission and communication costs.

31. PERSONNEL EXPENSES

››› This item comprises the following:

Personnel expenses		
€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Wages and salaries	4,152	2,982
Social security and pension costs	515	367
Total	**4,667**	**3,349**

Personnel expenses increased by € 1,318 thousand in 2005 compared to 2004. This is attributable to the inclusion of the Lawa Group's personnel expenses for 12 months (previous year: 2 months). In addition, severance agreements were concluded with employees of Wapme Systems AG, which placed an extraordinary burden (€ 152 thousand) on earnings.

Number of employees

(annual average)	01.01. – 31.12.2005	01.01. – 31.12.2004
Wapme Systems AG	36	37
Consolidated participations	60	52
Total	**96**	**89**

32. OTHER OPERATING EXPENSES

Other operating expenses

€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Consulting, outsourcing and outside services	2,248	1,430
Facilities/communication	867	928
Valuation adjustments of receivables	772	186
Travel expenses/cars	305	425
Marketing/sales	294	267
Stock exchange/events	291	152
Other expenses	294	1,716
Total	**5,072**	**5,104**

The costs for facilities/communication mainly consist of rental costs and related ancillary costs. The costs for consulting, outsourcing and outside services include expenses for legal and tax advice, auditing and management consultation. Expenses for the stock exchange and events mainly consist of costs incurred for the Annual General Meeting and stock exchange monitoring and fees charged by the Deutsche Börse AG. The increase in valuation adjustments is primarily attributable to the revisions of receivables in more phones GmbH, Rheine.

33. DEPRECIATION AND AMORTISATION

››› A breakdown of depreciation and amortisation on property, plant and equipment, intangible assets and goodwill can be found in the notes to the respective items. These notes also explain extraordinary valuation adjustments.

The item »depreciation on current assets and inventories« mainly consists of the full write-down of the receivables from the Web billing business.

34. INTEREST INCOME AND EXPENSES

››› Interest income comprises the following:

Interest income €'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Income from securities	0	6
Interest income from term accounts and time deposits	7	20
Other interest and similar income	251	15
Total	**258**	**41**

The increase in interest income is attributable to the partial reversal of the risk-based discounting of VAT claims of more phones GmbH (€ 230 thousand) set up in financial year 2004.

Interest expenses are subdivided as follows:

Interest expense €'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Interest expense from factoring	169	154
Interest expense from current and non-current liabilities	374	219
Other interest and similar expenses	128	495
Total	**672**	**868**

All interest payments on borrowed capital in the financial year were treated as expenses. The discounting of the VAT claims of more phones GmbH (€ 461 thousand) put an extraordinary burden on the previous year's interest expense.

35. DEPRECIATION ON FINANCIAL ASSETS AND CURRENT INVESTMENTS

››› This item primarily consists of the write-down of the holding in EUTEX European Telco Exchange AG of € 145 thousand, as well as the write-down of the loan granted to more phones GmbH, Rheine, after deconsolidation on 31 December 2005 (€ 400 thousand).

36. TAXES ON INCOME AND EARNINGS

››› Depending on their origin, taxes on income and earnings are classified as follows:

Breakdown of taxes on income and earnings

€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Current tax expenses	109	117
Deferred tax expenses/income	-82	123
Total	**27**	**240**

The deferred tax item comprises the following:

Deferred tax assets and liabilities

€'000	31.12.2005	31.12.2004
Assets		
Loss carryforward	2,955	2,955
Receivables	3	0
Total assets	**2,958**	**2,955**
Liabilities		
Intangible assets	948	1,200
Receivables	7	0
Provisions	0	34
Total liabilities	**955**	**1,234**
Total assets	2,958	2,955
Netting pursuant to IAS 12.71	0	0
Balance sheet item	**2,958**	**2,955**
Total liabilities	955	1,234
Netting pursuant to IAS 12.71	0	0
Balance sheet item	**955**	**1,234**

The relationship between actual tax expenditure and anticipated tax result can be summarised as follows:

Tax reconciliation statement

€'000	01.01. – 31.12.2005	01.01. – 31.12.2004
Consolidated profit before tax	-10,701	-6,888
Tax rate	38.65%	38.65%
Expected tax result	**-4,136**	**-2,662**
Amortisation of goodwill	0	24
Depreciation of hidden reserves	0	48
Tax effect of expenses which are not deductible when determining taxable profits	56	36
Discounting on receivables	0	178
Tax-free income		-61
Non-disclosure of deferred taxes on loss carryforwards	4,107	2,677
Actual income tax result	**27**	**240**

37. EARNINGS PER SHARE

››› The average basic number of shares in 2005 was 10,845,791 (previous year: 6,822,604). The basic earnings per share are thus € -0.96 per share (previous year: € -1.08). Taking into consideration the average number of 467,500 stock options (previous year: 414,333) issued to employees and members of the Management Board, the diluted number of shares is 11,313,291 (previous year: 7,236,938), and the diluted earnings per share amount to € -0.92 (previous year: € -1.02). Taking into account the convertible bonds issued in 2005, all the capital measures until that time and the issued stock options, the average diluted number of shares in 2005 is 12,815,959 (previous year: 8,061,938) and diluted earnings per share amount to € -0.82 (previous year: € -0.91).

C. Explanatory notes to the cash flow statement and the segment reporting

38. NOTES TO THE CASH FLOW STATEMENT

››› In accordance with IAS 7 the change in cash and cash equivalents has been divided into operating activities, investing activities and financing activities. The cash flow statement was prepared using the indirect method. The cash and cash equivalents stated in the cash flow statement include the balance sheet item bank balances and cash on hand. The sums at the beginning and end of the period as posted in the cash flow statement correspond to the balance sheet item »Cash and cash equivalents«. Cash flows for interest income plus interest expenses amounted to € -414 thousand (previous year: € -231 thousand). The net loss for the year includes a sum of € 110 thousand (previous year: € 71 thousand) for taxes on income.

Cash and cash equivalents at the end of the reporting period amounted to € 481 thousand (previous year: € 2,270 thousand). The group has a cash outflow of € 6,092 thousand (previous year: € 5,159 thousand) from operating activities. During the reporting period, software and licenses were purchased for € 249 thousand (previous year: € 250 thousand); office equipment, fixtures and fittings were purchased for a total of € 77 thousand (previous year: € 102 thousand). A sum of € 227 thousand (previous year: € 131 thousand) is attributable to capitalised development costs. Cash inflow from financing activities increased by € 4,856 thousand (previous year: € 6,627 thousand) as a result of inpayments following the issue of cash capital increases and convertible bonds.

As explained under point 4, in the course of the disposal of consolidated companies, the following assets and debts were disposed of.

39. SEGMENT REPORTING

››› In 2005, the Wapme Systems Group was active in the fields of VAS, trading and software.

VAS: *Creation and provision of value-added services through cooperation partners and the group's own communication platforms, as well as SMS services.*

Software: *Sale of proprietary software in the mobile Internet sectors.*

Trading: *Trading (wholesale) in hardware and software.*

Income, expenses, assets and liabilities that cannot be directly allocated to the segment are stated in the reconciliation statement. This also includes effects from consolidation activities.

The segment reporting by business segment is as follows:

Consolidated segment reporting

€'000	VAS 2005	VAS 2004	Trading 2005	Trading 2004
Segment income				
– with third parties	15,354	15,565	52,808	50,691
Income	**15,354**	**15,565**	**52,808**	**50,691**
Other income	205	0	37	8
Capitalised self-constructed assets	227	131	0	0
Overall segment performance	**15,786**	**15,696**	**52,846**	**50,699**
Cost of materials/purchased services	-12,702	-13,649	-51,450	-49,932
Sub-total	**3,084**	**2,047**	**1,395**	**768**
Personnel expenses	-2,148	-2,067	-257	-218
Other operating expenses	-739	-976	-1,043	-217
EBITDA	**197**	**-996**	**96**	**333**
Depreciation of capitalised self-constructed assets	-363	-99	0	0
Write-down of intangible fixed assets	-798	-296	0	-1
Depreciation of property, plant and equipment	-244	-171	-3	-4
Depreciation of current assets	-1,631	0	0	0
Segment result (EBIT)	**-2,840**	**-1,562**	**93**	**328**
including:				
– scheduled depreciation	-3,036	-566	-3	-5
Book value of segment assets	**5,304**	**9,034**	**7,402**	**6,348**
Investments in property, plant and equipment and intangible assets	323	496	0	0
Segment liabilities	2,850	3,074	6,705	4,833

Software 2005	Software 2004	Total 2005	Total 2004
17	62	68,179	66,318
17	**62**	**68,179**	**66,318**
0	0	243	9
0	0	227	131
17	**62**	**68,649**	**66,457**
0	-75	-64,152	-63,656
17	**-13**	**4,497**	**2,802**
0	0	-2,405	-2,285
0	0	-1,782	-1,193
17	**-13**	**310**	**-676**
-117	-181	-480	-280
0	0	-798	-297
0	0	-247	-175
0	0	-1,631	0
-100	**-194**	**-2,846**	**-1,428**
-97	-181	-3,136	-752
74	**0**	**12,779**	**15,382**
0	0	323	496
0	0	9,555	7,906

Reconciliation

€'000	2005	2004
Total segment income	**68,179**	**66,318**
Reconciliation	0	0
Consolidated income	**68,179**	**66,318**
Total segment results	**-2,846**	**-1,428**
Unallocated items:		
– Income from core business	0	800
– Expenses of core business	-6,895	-5,464
Consolidated operating result	**-9,741**	**-6,092**
Total segment assets	**12,779**	**15,382**
Other assets	540	6,205
Consolidated assets	**13,319**	**21,587**
Investments in property, plant and equipment and intangible assets	**323**	**496**
Other investments	0	0
Consolidated investments	**323**	**496**
Total segment liabilities	**9,555**	**7,906**
Other liabilities	358	3,960
Consolidated liabilities	**9,913**	**11,866**

Consolidated segment reporting by region

€'000	2005	2004
Segment income		
Germany	42,148	41,727
EU countries	12,236	13,968
Rest of world	13,795	10,623
Segment income	**68,179**	**66,318**
Book value of segment assets		
Germany	10,538	12,186
Rest of world	2,242	3,196
Book value	**12,779**	**15,382**
Investments in property, plant and equipment and intangible assets		
Germany	265	417
Rest of world	58	79
Acquisition costs	**323**	**496**

In 2005, 62% of sales were generated in Germany (previous year: 63%). Sales in EU countries amounted to 18%.

The VAS segment, which recorded a negative segment result of € 1,562 thousand in 2004 due to the disposal of Centrium and losses on investments in Turkey, had to take an even greater loss in 2005 as a result of write-downs on receivables and intangible assets in connection with the Web billing business. Due to the Lawa Group, however, which was fully consolidated in 2005 (previous year: 2 months) and is allocated in its entirety to the VAS segment, the EBITDA of the VAS segment was positive at € 193 thousand (previous year: € -996 thousand).

The trading business segment, which consists exclusively of more phones GmbH, Rheine, achieved a segment result of € 93 thousand (previous year: € 328 thousand). In spite of a substantial increase in the margin to € 1,395 thousand (previous year: € 768 thousand), the previous year's result could not be achieved due to high consultancy costs in connection with the VAT claim and thus high other operating expenses of € 1,043 thousand (previous year: € 217 thousand). The volumes and margins of this business are still heavily impacted by the retained tax claims as liquidity is restricted.

With sales revenues of € 17 thousand (previous year: € 62 thousand) the software segment is no longer of significance.

D. Other disclosures

40. COMPOSITION OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

››› The Management Board of Wapme Systems AG has the following members:

André Borutta (until 15 November 2005)
Alfred Roth (until 15 November 2005)
Achim Rottschäfer (since 15 November 2005)
Oswald Ortiz (since 15 November 2005)

The emoluments of the Management Board for financial year 2005 include fixed remuneration, severance payments, benefits in kind, and insurances totalling € 394 thousand (previous year: € 613 thousand), as well as variable remuneration totalling € 23 thousand (previous year: € 0).

This sum is divided as follows:

André Borutta	€ 108,949.79
Alfred Roth	€ 232,668.49
Achim Rottschäfer	€ 34,800.00
Oswald Ortiz	€ 17,662.34

In addition to a fixed basic remuneration, the board members receive variable salary components, the amount of which is dependent upon the achievement of individual targets set by the Supervisory Board for the respective financial year. Furthermore, the members of the Management Board participate in the success of the entire enterprise, measured in terms of the EBT recorded in the balance sheet. Variable remuneration of € 23 thousand was paid in financial year 2005. The members of the Management Board also receive benefits in kind through the use of company vehicles.

The members of the Management Board have no legal claim to stock options or any special stock option plan.

Pension commitments have been made to the Management Board within the scope of a deferred compensation plan; the contributions are paid into a term life insurance policy. Wapme Systems AG is the policy holder, the beneficiary is the insured person. Pension commitments were made in the amount of the maturity payment of the term life insurance policy, i.e. the risk of interest changes is borne by the beneficiary. The pension commitment is geared to the beneficiary reaching the age of 60. The claims from the term life insurance policy have been pledged to the beneficiaries.

The total number of shares held by the new Management Board as of 31 December 2005 is 288,150. This corresponds to a reduction of 1,304,556 shares year-on-year.

Directors' Dealings

The following transactions have to be declared in accordance with Art. 15a of the Securities Trading Act *(Wertpapierhandelsgesetz, WpHG)* and published accordingly:

21.01.05	Securities purchase 15,000 Roger Bigger
26.01.05	Securities purchase 10,000 Roger Bigger
27.01.05	Securities purchase 10,000 Peter Kirn
25.02.05	Securities borrowing 45,454 André Borutta
16.03.05	Securities purchase 10,000 Peter Kirn
24.03.05	Securities borrowing 520,000 Willi Kapell
29.03.05	Securities borrowing 451,187 André Borutta
30.06.05	Reflux from securities loan 45,454 André Borutta
18.07.05	Reflux from securities loan 151,500 André Borutta
20.07.05	Securities disposal 140,000 Oswald Ortiz
25.07.05	Reflux from securities loan 100,000 Willi Kapell
21.09.05	Securities disposal 6,850 Oswald Ortiz
26.09.05	Securities borrowing 225,000 André Borutta

Number of shares and options held by executive board members	Shares 31.12.2005	Shares 31.12.2004	Options 31.12.2005	Options 31.12.2004
André Borutta	n/a	870,583	75,000	12,000
Alfred Roth	n/a	20,000	100,000	0
Willi Kapell	n/a	701,583	0	0
Achim Rottschäfer	0	0	0	0
Oswald Ortiz	288,150	0	0	0
	288,150	**1,592,166**	**175,000**	**12,000**

The Supervisory Board of Wapme Systems AG has four members:

Willi Kapell (until 31 August 2005)
Freelance Management Consultant

Peter Kirn (since 1 January 2005)
Freelance Management Consultant

Other mandates:

- Chairman of the Supervisory Board of ATOSS Software AG, Munich
- Chairman of the Supervisory Board of NIIT Technologies AG, Baden-Baden
- Vice Chairman of the Supervisory Board of businessMart AG, Stuttgart
- Member of the Supervisory Board of Unilog Integrata Training AG, Tübingen

Roger Bigger (since 1 January 2005)
Investment-Banker

Other mandates:

- President of the Administrative Board of azemos partner ag, Elsau, Switzerland
- Administrative Board of Softinvest AG, Wil, Switzerland
- Administrative Board of Softident AG, Wil, Switzerland

Dr. Joachim Dreyer (since 15 March 2005)
Freelance Management Consultant

Other mandates:

- Member of the Supervisory Board of telegate AG, Munich
- Advisory Board of EnBW Energie Baden-Württemberg AG, Karlsruhe

41. EVENTS AFTER THE BALANCE SHEET DATE

››› By way of the notarisation of the purchase agreement on 29 December 2005, Wapme Systems AG sold its shares in more phones GmbH, Rheine, effective 31 January 2006, to individual existing co-partners or lenders of the company. The loans granted to more phones GmbH, Rheine, by Wapme Systems AG, totalling € 2,575 thousand have been assumed by one of the buyers.

The convertible bond 2004/2006 of Wapme Systems AG fell due on 18 January 2006. Agreements concerning the purchase of the securities by Wapme AG were concluded with the main bond holders, who together hold more than 90% of the outstanding fractional debentures.

Based on the authorisation granted by the General Meeting on 30 August 2005 and with the approval of the Supervisory Board on 3 February, the Management Board of Wapme Systems AG performed another capital measure with the exclusion of subscription rights: utilising the still existing authorised capital, 610,291 bearer shares were placed with institutional investors at the issuing price of € 1. This increases the current share capital of Wapme Systems AG by € 610,291 from € 11,696,147 to € 12,306,438.

Due to the conversion by other bond holders of the convertible bond 2004/2006 or the mandatory convertible bond 2005/2010, subscribed capital increased by a total of € 1,017 to € 12,307,455.

Pursuant to Art. 92 (1) of the German Stock Corporations Act (Aktiengesetz, AktG), Wapme Systems AG held an extraordinary general meeting in Düsseldorf on 30 March 2006 due to the loss of half of the share capital of Wapme Systems AG. The following resolutions were passed at this extraordinary general meeting:

– Supervisory Board elections: Marius Zimmermann and Peter Waneck were elected into the Supervisory Board of Wapme Systems AG

– Resolution on an amendment to the Articles of Association in accordance with the German Law on Corporate Integrity and Modernisation of the Right of Rescission *(Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts, UMAG)*

– Reversal of the existing authorised capital and creation of a new authorised capital and amendment to the Articles of Association with the exclusion of subscription rights

– Creation of a new contingent capital and amendment to the Articles of Association; authorisation to issue convertible bonds/debentures

Furthermore, the Supervisory Board of Wapme Systems AG has given its consent for the company to enter into a joint venture with the Swiss telecommunications company NT Network Telecom Holding AG, backdated to 1 January 2006. This joint venture foresees the co-founding of a jointly-owned company, »Wapme Telco AG«, to be based in Switzerland. Wapme shall own a 51% stake in the jointly held company, with NT Network Telecom Holding AG owning the remaining 49%.

On 10 April 2005 the Management Board of Wapme Systems AG resolved, with the approval of the Supervisory Board, to partially utilise the authorised capital and perform a cash capital increase with the exclusion of subscription rights of existing shareholders by issuing 1,400,000 no-par value bearer shares. The new shares, each with an arithmetical interest in the share capital of € 1 and bearing dividend rights from 1 January 2005, were assumed by an institutional investor. This increases the share capital of Wapme Systems AG by € 1,400,000 from € 12,776,696 to € 14,176,696.

42. RELATED PARTY DISCLOSURES

>>> Pursuant to IAS 24 (Related Party Disclosures) persons or companies who control or are controlled by Wapme must be disclosed insofar as they are not already included as an affiliate in Wapme's consolidated financial statements. Control exists when a shareholder holds more than half the voting rights in Wapme or has a significant influence over the business policy of the Wapme management by virtue of provisions of the Articles of Association or contractual agreements.

In addition, the disclosure obligation pursuant to IAS 24 includes transactions with associated companies, businesses and persons who have a significant influence on Wapme's financial and business policy, including close members of the family or companies acting as intermediaries. A shareholding of 20% or more in the company, a seat on Wapme's Management Board or Supervisory Board or any other key position in its management constitute a significant influence on Wapme's financial and business policy.

Wapme subsidiaries with members of the Wapme Management Board or Supervisory Board, as well as other key management personnel or companies in whose management or supervisory bodies these persons hold positions have not transacted business which is subject to disclosure requirements. This also applies to close relatives of this group of persons.

43. DECLARATION OF CONFORMITY IN ACCORDANCE WITH ART. 161 AKTG

››› The declaration of conformity to the German Corporate Governance Code required under Art. 161 of the German Stock Corporation Act (AktG) has been submitted by the Management Board and the Supervisory Board and has been made permanently available to the shareholders.

44. RELEASE OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005 FOR PUBLICATION

››› The financial statements were released for publication on 26 April 2006 following acceptance by the Supervisory Board.

45. AUDITOR'S FEE

››› RSM Haarmann Hemmelrath GmbH has been paid a fee of € 112 thousand for auditing activities, € 101 thousand for other certification and evaluation services, € 4 thousand for tax consultancy services and € 121 thousand for other services.

Düsseldorf, 28 April 2006

Achim Rottschäfer Oswald Ortiz

REPORT OF THE SUPERVISORY BOARD

Focus of the consultations

››› The Supervisory Board regularly monitored the work and decisions in financial year 2005 and acted in an advisory capacity. The reports of the Management Board were received and discussed with some controversy during the meetings of the Supervisory Board.

The subject of the consultations was the business plan of Wapme Systems AG. The Supervisory Board focused extensively on the company's liquidity, particularly the issue of three capital increases, the issue of two convertible bonds, the disposal of group shareholdings, investor relations, the interim reports and the general meetings, as well as other activities of the company.

Due to the substantial deviations of the monthly operating results from those stated in the corporate budget, an increased number of Supervisory Board meetings were held in the financial year; these focused on the restructuring of all business segments and in November 2005 ultimately resulted in the dismissal of the existing Management Board and the appointment of two new Management Board members.

The clear demand of the Supervisory Board to reach a level in terms of costs that allows the new business segments to generate profitable results was tackled with great enthusiasm by the new Management Board.

Whenever approval or a formal resolution from the Supervisory Board was required either by law or the procedural rules for decisions or measures to be taken by the Management Board, the members of the Supervisory Board debated it exhaustively before passing a resolution. The Supervisory Board followed the further development of the market for value-added services, SMS and mobile entertainment very closely. The differentiated expectations of the financial markets, together with the generally difficult economic situation, were countered with constructive business measures.

Composition of the Supervisory Board, meetings

››› The membership of the Supervisory Board changed in financial year 2005 as follows:

Mr Peter Kirn was elected Chairman of the Supervisory Board on 13 January 2005. On the same day, Roger Bigger was appointed Vice Chairman of the Supervisory Board.

On 15 March 2005 the General Meeting appointed Dr. Joachim Dreyer as a new member of the Supervisory Board. Dr. Dreyer, who was managing director and CEO of Debitel for many years, has a wealth of experience in the field of telecommunications and an excellent network. His appointment brings the company substantial market expertise.

Oswald Ortiz Torres was also appointed as a member of the Supervisory Board on 15 March 2005. He did not exercise his mandate as a member of the company's Supervisory Board, continuing instead to carry out various managerial functions in group subsidiaries.

Alfred Roth resigned from his dormant Supervisory Board mandate on 24 May 2005 due to his continuing activities as Chairman of the company's Management Board.

On 30 August 2005, Wilhelm Kapell retired from the Supervisory Board.

The General Meeting on 30 August 2005 appointed Walter Demuth as a new member of the Supervisory Board. Mr. Demuth is a lawyer who specialises in telecommunications and energy law.

The Supervisory Board held a total of 14 regular meetings in the past financial year.

The Supervisory Board would like to thank the Management Board and the employees of the group for their excellent work over the past financial year.

Düsseldorf, 28 April 2006

Peter Kirn

Chairman of the Supervisory Board

FINANCIAL CALENDAR

Financial reports 2006

31.05.2006	Three-month report 2006
15.08.2006	Half-year report 2006
15.11.2006	Nine-month report 2006

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