spirit[1]

(Net sales: + 15,5%) (Profit for the period: + 33,3%)


# Annual report 2006

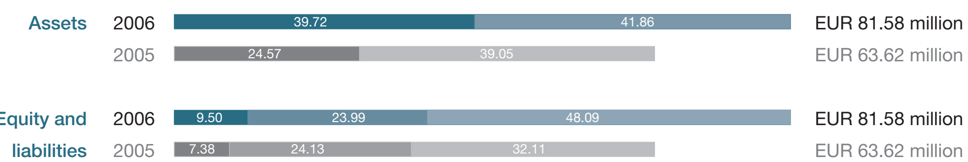
# BRAIN FORCE HOLDING AG – at a glance

## Key figures for the BRAIN FORCE Group according to IFRS

| | | 2006 | 2005 | Change in % |
|---|---|---|---|---|
| **Balance sheet figures** | | | | |
| Balance sheet total | in EUR million | 81.58 | 63.62 | 28.2 |
| Non-current assets | in EUR million | 39.72 | 24.57 | 61.7 |
| Current assets | in EUR million | 41.86 | 39.05 | 7.2 |
| Equity [1] | in EUR million | 48.09 | 32.11 | 49.8 |
| Non-current liabilities | in EUR million | 9.50 | 7.38 | 28.7 |
| Current liabilities | in EUR million | 23.99 | 24.13 | -0.6 |
| | | | | |
| Equity ratio | in % | 58.9 | 50.5 | - |
| Working capital | in EUR million | 17.87 | 14.92 | 19.8 |
| | | | | |
| **Earnings** | | | | |
| Net sales | in EUR million | 88.53 | 76.62 | 15.5 |
| EBITDA | in EUR million | 6.51 | 6.05 | 7.6 |
| EBIT | in EUR million | 2.92 | 3.58 | -18.4 |
| Profit before taxes | in EUR million | 3.23 | 3.68 | -12.2 |
| Profit for the period | in EUR million | 4.17 | 3.13 | 33.3 |
| | | | | |
| Earnings per share [2] | in EUR | 0.30 | 0.30 | 0.0 |
| EBITDA margin | in % | 7.4 | 7.9 | - |
| EBIT margin | in % | 3.3 | 4.7 | - |
| Return on sales (ROS) [3] | in % | 3.6 | 4.8 | - |
| Return on equity (ROE) [4] | in % | 8.1 | 11.9 | - |

1) Equity including minority interest
2) Not including shares held in treasury
3) Result from ordinary activities in relation to net sales
4) Result from ordinary activities in relation to average equity

## Balance sheet structure




**Assets**
- Non-current assets
- Current assets

**Equity and liabilities**
- Non-current liabilities
- Current liabilities
- Equity

## Ratios by segment 2006

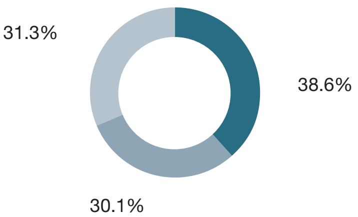
| | Enterprise Services | Business Solutions | Technology and Infrastructure | Unallocated | Total |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| Segment net sales (consolidated) | 34,146,917.82 | 26,701,501.14 | 27,682,757.86 | 0.00 | **88,531,176.82** |
| Segment operating result before segment depreciation and amortisation (EBITDA) | 1,019,868.04 | 5,021,065.98 | 3,031,380.22 | -2,558,399.92 | **6,513,914.32** |
| Segment depreciation and amortisation | -205,404.72 | -1,682,040.61 | -1,614,180.09 | -94,176.93 | **-3,595,802.35** |
| Segment operating result | 814,463.32 | 3,339,025.37 | 1,417,200.13 | -2,652,576.85 | **2,918,111.97** |
| Financial result | | | | | **-94,702.06** |
| Share in profit of associates | | 446,590.93 | -40,036.55 | | **406,554.38** |
| Result before income taxes | | | | | **3,229,964.29** |
| Income taxes | | | | | **942,883.04** |
| Result for the period | | | | | **4,172,847.33** |
| Segment assets | 16,499,534.76 | 25,476,037.51 | 30,338,958.27 | 9,265,022.29 | **81,579,552.83** |
| Segment liabilities | 6,144,648.25 | 10,464,173.48 | 10,927,454.34 | 5,950,775.38 | **33,487,051.45** |
| Segment capital expenditure | 6,747,392.33 | 1,597,226.27 | 8,809,482.23 | 67,197.33 | **17,221,298.16** |

## Geographical segments 2006

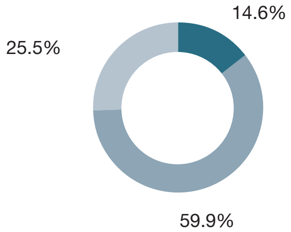
| | Segment net sales | Segment assets | Segment capital expenditure |
|---|---|---|---|
| | EUR | EUR | EUR |
| Austria | 10,272,372.28 | 7,731,560.08 | 210,240.29 |
| Germany | 42,339,347.83 | 39,355,857.28 | 10,219,711.58 |
| Italy | 26,096,907.80 | 18,196,113.77 | 629,259.16 |
| Netherlands | 8,837,709.65 | 15,217,968.03 | 6,157,465.52 |
| Other regions | 984,839.26 | 1,078,053.67 | 4,621.61 |

## Breakdown by segment

**Net sales**




**Profit**




Enterprise Services
Business Solutions
Technology and Infrastructure

# spirit[1]

Annual report 2006 – BRAIN FORCE HOLDING AG

# striving to be number 1

The formula of success Motor sports is competition at the highest level. To be among the best requires high tech, courage and determination: high tech to be able to operate at the highest level; courage to take fast, sometimes even risky decisions; and the determination to be among the best in one's industry.

These are the values we are pursuing; racing sports and BRAIN FORCE, therefore, go together perfectly. With our commitment to motor sports we are trying to express this attitude.

Our clients are companies to which innovation comes naturally. Their objective is to be the leading edge ahead of competitors. To achieve this aim, we provide them with the necessary products and solutions.

But neither technology by itself nor the pilot alone can decide the race. From strategy to pit stop every victory is the result of perfect team work. Only true professionals can achieve this, each of whom prepared to demonstrate absolute commitment to the cause.

"Winning" always starts in the head – another parallel that links BRAIN FORCE to motor sports. Our success proves us right. So let's take off again in the coming season – to achieve our aims, and to achieve the aims of our customers.

# spi

(success)

(passion)

(innovation)

# rit[1]

(risk)

(identification)

(team)

## (success)

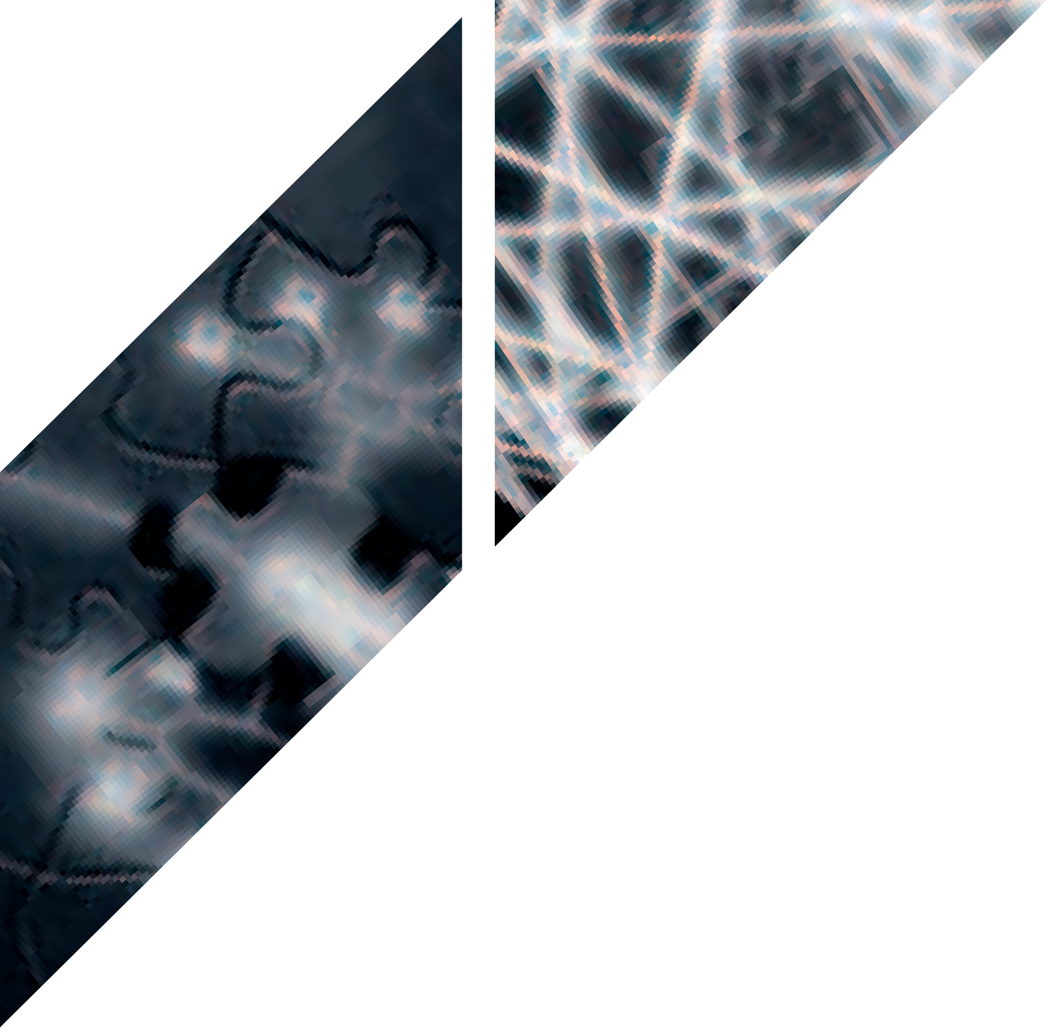
Success to us means always being one step ahead. Just like a fast pit stop is decisive for winning or losing a race, fast and effective services decide who will win on the market. Our customers have been benefiting from customised BRAIN FORCE high tech solutions and services for more than 23 years. Drawing on their profound experience and perfect know-how our highly qualified experts are prepared to face the greatest challenges.

...always be one step ahead...

## (passion)

Our main motivation is to boost companies to the top. Our range of products and solutions puts us on an equal footing with the market leaders in the IT industry. Performance, however, is recognised only when you get it out to customers. That's why we focus our thoughts and actions completely on the benefit our customers derive from information technology. To this end, BRAIN FORCE offers highly efficient solutions – customised and tailored to all needs.

...be among the number one players...



# (innovation)

Our thinking is visionary, our actions are innovative. We are developing components, applications or entire systems – tailored to the specific needs of our customers. Keeping a distinct profile is very important to us. One who just follows the path taken by others will himself not leave his mark. Groundbreaking solutions, on the contrary, create decisive competitive advantages for our customers and greatly contribute to their future success.

...turning the key screws...

# (risk)

Success starts in the head – with an enterprising idea and the willingness to take risks. Only those prepared to take risks will be ahead of competitors in the long run. Security and diligence are guiding principles in motor sports as well as in IT. But to succeed in competition, fast decisions and absolute confidence in one's own performance is required. That's fine with anyone who, like BRAIN FORCE, can be confident based on his profound experience.

...the courage, to believe in oneself...

# (identification)

One of our main features is that we fully identify with our customers' objectives. At BRAIN FORCE you aren't just a number. We approach every assignment from a personal and entrepreneurial perspective. Mutual trust is of the utmost importance to us – as a certain degree of freedom enables us to develop unconventional solutions. We use this freedom and leeway in a very responsible way. We love our work – and that's why our customers love us.

...putting one's thoughts and heart into it...

# (team)

At a pit stop every single move has to be coordinated. Nowhere is teamwork more essential. The BRAIN FORCE team combines the best brains from all countries – highly qualified experts, each of whom a master of his trade. In doing so, we create synergies Europe-wide. This includes asking for and understanding the viewpoint of others; sharing knowledge and information; across boundaries; not just among each other, but also with our customers. By applying this partnership approach, we turn obstacles into milestones of success.

...coping with challenges as a team...

# Contents

# Foreword by the Board of Management

Dear shareholders and stakeholders, ladies and gentlemen,

BRAIN FORCE looks back on an eventful year 2006. We have achieved key milestones in our expansion strategy and laid the foundations for future growth.

At the beginning of the year the Group managed to successfully complete a capital increase of 50 percent of the share capital and, with the proceeds from the share issue, continued its Buy-and-Build strategy. We have taken over SYSTEAM GmbH, an expert for managed services, and not only consolidated our position in an absolute growth market, but even strengthened it. Excellent references attest to our ability to manage comprehensive outsourcing projects even for international groups of companies and thus operate on an equal footing with the big players of the IT industry.

By combining software products and managed services offers we are able to provide our customers with customised one-stop-shop solutions and thus meet the increased market requirements for IT service providers. Synergy effects and cross-selling potentials from past company acquisitions enhance our competence and contribute to our ability to service future trends already today. At the same time, we have brought numerous solutions and products to the market that give rise to enormous growth perspectives in 2007 and beyond.

Another pillar of our growth programme is the establishment of an extensive distribution partner network. At present BRAIN FORCE has a wide network of partners who distribute our services and product solutions all over Europe. Nevertheless, we will significantly expand this pool and will also be represented in the fast-growing markets of Northern and Eastern Europe in the future.

In the past financial year, BRAIN FORCE generated net sales of EUR 88.53 million, which is the highest figure in its company history. However, the year was also characterized by the unexpected insolvency of the long-term customer BenQ Mobile. Increased scheduled depreciation/amortization on the prior year from the purchase price allocation of company acquisitions also had a negative impact on the result. Excluding these special items, earnings before interest and taxes (EBIT) amounted to EUR 4.67 million, which is roughly a 30 percent increase over the prior-year figure. Including the items, the result amounted to EUR 2.92 million. Another great success was the favourable development of the operating cash flow, which rose to EUR 7.22 million and clearly proves the strong financial standing of the Company. In combination with our solid financial basis it guarantees the continuation of our Buy-and-Build strategy, which we will pursue also in the new year.

The positioning as managed services provider with its optimally coordinated product portfolio and the excellent growth potentials were decisive for numerous investors to buy the Group’s shares and to benefit from the favourable assessment of the BRAIN FORCE share. That’s what many conversations with investors and capital market conferences conveyed to us at year-end.

Due to the clear strategy and the excellent possibilities for the Group’s development we are convinced that our objectives will be achieved in 2007 and the company value will increase in the sustainable future.

Vienna, March 14, 2007

Board of Management

Helmut Fleischmann
Chief Executive Officer

Wolfgang Lippert
Chief Financial Officer


Fördern statt

## spirit one – means victory

Markets are constantly changing. New trends come up, old structures disappear. Only those who have the courage and the willingness to adapt stand out from the crowd and will be among the future winners.

BRAIN FORCE is a dynamic company. We know the markets of tomorrow and are prepared to take the risk to operate also on an international scale. That's why we encourage new ideas. And this is our potential to succeed in international competition and to be among the winners of our industry.

# Report of the Supervisory Board

In performing its duties as stipulated by law and in the Company's memorandum and articles, the Supervisory Board held nine supervisory board meetings and one committee meeting during the course of 2006.

The Board of Management regularly informed the Supervisory Board, orally and in writing, about the operating activities and situation of the Company and its associates.

The financial statements of BRAIN FORCE HOLDING AG including the management report and the consolidated financial statements including the management report for the group as at December 31, 2006, compiled pursuant to Section 245a HGB (Austrian Commercial Code) in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, were audited by PwC INTER-TREUHAND GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, appointed pursuant to Section 270 HGB.

The audit confirmed that the accounting, the financial statements and the consolidated financial statements are in accordance with the statutory requirements and that the provisions of the Company's memorandum and articles have been observed. The audit's findings did not highlight any discrepancies, and the auditor therefore issued an unqualified opinion. The management report is in accordance with the financial statements and the consolidated financial statements.

The Supervisory Board has approved the 2006 financial statements and the management report. It agrees with the proposal of the Board of Management to distribute a dividend of 10 cent per share minus own shares from the balance sheet profit of the separate financial statements of EUR 3,693,799.88 on share capital and to carry forward the remainder. The financial statements have thus been adopted in accordance with Section 125 AktG (Austrian Stock Corporation Act). The Supervisory Board has also approved the consolidated financial statements and the management report for the group.

Vienna, March 26, 2007

Supervisory Board

Dr. Christoph Senft
Chairman of the Supervisory Board

# Corporate Governance Code

We, as BRAIN FORCE HOLDING AG support the Austrian Code of Corporate Governance (ÖCGK). We are committed to its objectives and will continue to observe them in the future. We have complied with the ÖCGK as amended in January 2006 in the past financial year. We have selected the following important points that illustrate how we live this Code in our Company. In addition to the "L regulations" that must be complied with, we have listed explanations to the "C regulations (comply or explain)" in 2006.

**Commitment to transparency**
Due to the capital increase carried out in March/April 2006 the number of shareholders in BRAIN FORCE HOLDING AG continued to increase. This is why the Company feels even more committed to transparency. We publish all relevant information in a detailed annual report, in quarterly reports, at conferences for analysts and through our ongoing public relations work.

**Equal treatment of all shareholders**
Point 1 ÖCGK
BRAIN FORCE HOLDING AG informs its shareholders by providing a vast number of publications – such as ad-hoc info on preliminary results. We point out important events in advance in our company diary. All information is published on our website under "Investor Relations" and ".../publications". This is available to all shareholders and analysts in real time and may be used long-term by any interested parties.

**All shares carry the same rights**
Point 2 ÖCGK
All shares in the Company are ordinary shares and therefore carry the same rights. We are committed to the principle of "one share – one vote".

**Convening the annual general meeting**
Point 4 ÖCGK
The annual general meeting is announced at least 30 days prior to the date. This is longer than the minimum period of three weeks stipulated in the ÖCGK.

**Supervisory and Management Boards**

Points 9 to 11 ÖCGK

The Board of Management updates the Supervisory Board at regular meetings (at least once a quarter). Additional meetings are called as required: for example, to prepare an annual shareholders' meeting, to consult on the budget and to discuss current strategic decisions. The Supervisory Board therefore has all the information it needs to perform its supervisory function.

**Additional disclosures in the annual report**

Point 30 ÖCGK (deviation)

The total remuneration of the Board of Management is disclosed in the annual report, including the variable portion. Furthermore, the expenses for severance payments and pensions for members of the Board of Management are disclosed in the annual report. Due to the informative value of these disclosures no further details are presented.

**Supervisory Board committees**

Points 41 and 43 ÖCGK

The audit committee required pursuant to Section 92 (4a) AktG was set up in the financial year 2006. The following members of the Supervisory Board were elected to serve on the audit committee: Dr. Christoph Senft as chairman, Günter Pridt as deputy chairman and Mag. Christian Schamburek as member of the audit committee. As the number of Supervisory Board members does not exceed 6, the Supervisory Board did not form any additional committees; all tasks are fully performed by the Supervisory Board as a whole.

**No Supervisory Board member serves on a competitor's board**

Point 45 and 58 ÖCGK (Deviation)

BRAIN FORCE HOLDING AG declares that Prof. Ing. Peter Kotauczek, who was elected to the Supervisory Board on December 22, 2006, serves on the Management Board of BEKO HOLDING AG and on the Supervisory Board of BEKO Engineering & Informatik AG, as well as on the Supervisory Board of TeleTrader Software AG. The companies of the BEKO Group represent competitors of BRAIN FORCE exclusively in Austria, where it is limited to the area of IT services. BRAIN FORCE is not competing with TeleTrader AG, but these two companies are working together as partners on the market.

**Remuneration scheme for members of the Supervisory Board**

Point 51 ÖCGK

At the ordinary general meeting in 2007 the following remuneration scheme will be proposed for the Supervisory Board members for 2006: Graded according to function as chairman, deputy chairman and member, the Supervisory Board members receive attendance fees and an annual remuneration in addition to expenses and reimbursements of costs. Committee members also receive attendance fees for committee meetings graded according to their function.

**Supervisory Board represents all shareholders**

Points 53 and 54 ÖCGK (Deviation)

The Supervisory Board's main task is to monitor management in accordance with Section 95 AktG. This task is fully performed by the appointed members of the Supervisory Board. Except for the new Supervisory Board member Prof. Ing. Peter Kotauczek, the Company is not aware of any other appointed member representing a specific group of shareholders. The supervisory function is performed by all members independently in keeping with statutory requirements. For these reasons, a corresponding declaration of the individual Supervisory Board members and a presentation in the annual report or on the homepage are not provided.

**Employee representation**

Point 59 ÖCGK

The statutory provisions relating to employee representation are fully applied in our company. To date, our employees have not elected a shop steward for BRAIN FORCE HOLDING AG. For this reason, there is no employee representative on the Supervisory Board.

**Corporate Governance**

Point 60 ÖCGK

Each year, BRAIN FORCE HOLDING AG renews its pledge to adhere to the Corporate Governance Code, including any deviations. This document can be accessed online at www.brainforce.com under "Investor Relations".

**Comprehensive information to shareholders**

Pointe 63 to 67 ÖCGK

The shareholders of BRAIN FORCE HOLDING AG are given regular and timely information within the required deadlines through regular publications. The reports are compiled in accordance with International Financial Reporting Standards (IFRS). All documents are accessible via the Internet. This means that private shareholders also have full access to all information. This includes annual reports and much more – details on our strategic direction, for example – extending far beyond the minimum requirements. Our financial diary of important events is an additional source of information. This can be found on page 132 at the end of the annual report.

**Group management report**

Point 67 ÖCGK

The Company is exposed to financial and non-financial risks. So that the Board of Management is always well placed to recognise and react to risks, a systematic reporting system has been set up and is operated by members of the Support and Control Center. These risks and risk management instruments are described in the management report.

**Controlling and risk management**

Point 80 ÖCGK (Deviation)

Due to the size of the Company, controlling and risk management of the BRAIN FORCE Group is carried out by the Support and Control Center within the Company, which reports regularly and directly to the Board of Management on the results of its audits. The Company's Board of Management is therefore confident that it has adequate information on the feasibility of its risk management. Therefore it has not specifically commissioned a review of its risk management.

# Events in 2006

01 02 03 04 05 06

January 10: The new BRAIN FORCE solutions – *BRAIN FORCE Migration out of the Box*, *BRAIN FORCE Packaging Robot* and *BRAIN FORCE Net Organizer* – for optimizing the IT infrastructure are also available in Austria.

January 23: Announcement of a cash capital increase from the Company's authorised capital to finance additional acquisitions.

February 6: According to preliminary calculations for the financial year ended December 31, 2005, BRAIN FORCE generated net sales of EUR 76.62 million and an EBIT of EUR 3.52 million. This is the best result in its company history.

March 9: At the CeBIT in Hanover BRAIN FORCE presents the new version of *BRAIN FORCE CRM* for financial service providers.

March 21: BRAIN FORCE releases final earnings figures and announces further acquisitions for 2006.

April 7: BRAIN FORCE raises the capital increase to 50 percent of its share capital and issues 5,128,914 new shares. The proceeds from the issue amount to a total of EUR 15.9 million.

April 8: BRAIN FORCE sponsors the GP2 race series and with Alexandre Prémat of the ART Grand Prix team supports an absolute winner. The season starts on April 8 in Valencia, Spain.

April 25: Holborn Europa Raffinerie, Hamburg, is the first company to implement the *BRAIN FORCE Net Organizer* network management solution.

May 9: BRAIN FORCE significantly raised net sales in the first quarter at EUR 22.14 million by 34.7 percent year-on-year. EBIT even rose by 185.4 percent to EUR 1.17 million.

June 13: BRAIN FORCE has further strengthened its US business and raised its investment in KEMP Technologies Inc. to 20 percent.

June 22: BRAIN FORCE announces the takeover of SYSTEAM GmbH. This acquisition complements the Group's service range and strengthens its position in the growth market of managed services.

07 08 09 10 11 12

July 4: Baden-Württembergische Bank opted for *BRAIN FORCE Vorsorgeoptimierung*.

July 7: BRAIN FORCE HOLDING AG successfully completes the takeover of Brain Force Financial Solutions AG. This clears the way for the merger with BRAIN FORCE Software GmbH. As a result, the GmbH has tax loss carryforwards in the amount of approx. EUR 60 million.

August 24: BRAIN FORCE enters into a strategic distribution partnership with the Austrian IT service provider S&T. With this move, BRAIN FORCE strengthens its market position in the growth markets of Eastern Europe.

August 28: BRAIN FORCE significantly raised net sales year-on-year in the first six months by 26.7 percent to EUR 42.9 million. EBIT increased by approximately 92 percent to EUR 1.61 million and earnings per share even rose 400 percent to EUR 0.15.

September 9: This year's GP2 race series ends on the legendary circuit in Monza, Italy. The driver Alexandre Prémat, sponsored by BRAIN FORCE, finishes the season with an excellent overall 3rd place; he repeatedly ranked among the first three and even won the race in Barcelona.

September 29: Due to the insolvency of BenQ Mobile GmbH & Co. OHG, BRAIN FORCE expects a write-down of receivables.

September 29: BRAIN FORCE HOLDING AG has formally completed the takeover of SYSTEAM GmbH. The initial consolidation takes place as at September 30, 2006.

October 20: At the "Entrepreneur of the year" award of the consulting company Ernst & Young in the Museumsquartier in Vienna Helmut Fleischmann, founder and CEO of BRAIN FORCE HOLDING AG, is among the three finalists in the category service and trade.

October 25: In the ranking of the association Europe's 500 for sustainable growth and job creation BRAIN FORCE managed to be ranked among the Top Ten in Europe.

November 21: RheinLand Versicherungsgruppe has opted for the *BRAIN FORCE Finanzanalyse Center* and thus is able to provide its customers with optimal and integrated consulting services relating to the hedging of risks and wealth protection.

November 27: BRAIN FORCE raises net sales for the first three quarters by 15.7 percent to EUR 63.18 million. Due to special items, EBIT decreased slightly year-on-year. Excluding these items, the Group managed to again significantly raise its performance ratios year-on-year.

December 1: With the global launch of Microsoft Vista BRAIN FORCE B.V. completed the migration of the new operating system at the healthcare company Vanboeijen.

December 18: BRAIN FORCE HOLDING AG starts a share repurchase programme of up 10 percent of the share capital, which ends on November 9, 2007.

December 22: Professor Peter Kotauczek, CEO of BEKO HOLDING AG, is elected to the Supervisory Board of BRAIN FORCE HOLDING AG.

# Share performance

| | 2006 | 2005 |
|---|---:|---:|
| Share capital in EUR | 15,386,742 | 10,257,828 |
| Number of shares | 15,386,742 | 10,257,828 |
| Average number of shares traded daily* | 51,753 | 60,215 |
| Closing price (year-end) on XETRA in EUR | 3.15 | 3.45 |
| Market capitalisation (year-end) | 48,468,237 | 35,389,507 |
| Annual high in EUR | 3.72 | 4.27 |
| Annual low in EUR | 2.75 | 2.71 |
| Earnings per share in EUR | 0.30 | 0.30 |
| Distribution per share in EUR | 0.10** | 0.08 |

* at XETRA, Frankfurt and Vienna stock exchange

** proposed

## Share performance

BRAIN FORCE managed to sustain the good share performance of the year 2005 in the first few months and in May 2006 for the first time at EUR 3.72 reached an annual peak on XETRA basis. This development was characterized by an excellent 2005 result and by the pre-announcement of further acquisitions planned for the first half of the year 2006. In addition, intensified public relations work led to heightened public attention, which had a positive effect on the performance of the BRAIN FORCE share.

Due to the capital increase of 50 percent at the beginning of April, the share came under selling pressure for a short time, the impact of which could in some cases be felt until the fourth quarter. Follow-up purchases, however, contributed to a fast recovery. The takeover of the managed services provider SYSTEAM GmbH in June, which was considered reasonable from a strategic point of view and a new milestone in the company history by the capital market, further boosted the share price.

Later on in the year, the share price moved within a narrow corridor between EUR 2.85 and EUR 3.22. The good earnings figures at mid-year 2006, in which BRAIN FORCE announced that earnings per share increased fivefold year-on-year, and the successful completion of the takeover of Brain Force Financial Solutions AG and the resulting tax advantages for the Group were not able to provide the necessary boost for a further rise in share price. The insolvency of the long-term customer BenQ Mobile in the third quarter and the resulting write-down of receivables, however, did not adversely impact on the share price.

At year-end, the BRAIN FORCE share was again sought-after by investors, which was reflected mainly in the rising volume in XETRA trading and on the Vienna Stock Exchange. Responsible for this was a much-noticed presentation given to numerous analysts at the equity forum in Frankfurt and various conversations with investors and analysts in the fourth quarter. By the announcement to repurchase up to 10 percent of own shares via the stock exchange, the Company managed to provide an additional boost to its share, which was reflected in an increased demand by investors in the new year.

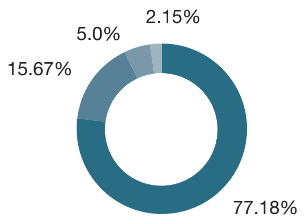
Through these measures BRAIN FORCE could win quite a few new shareholders, which had an impact on the share performance at the beginning of the year 2007 and on the significantly increased trading volume of the share. Thus, at the end of January, at 500,000 traded shares the Group had the highest trading volume on any single day since its initial public offering.

## Share data

| | |
|---|---|
| ISIN | AT0000820659 |
| Stock Exchange Code | BFC |
| Reuters Instrument Code | BFCG.DE |
| AType of share | No-par bearer shares |
| | |
| Stock Exchanges | |
| XETRA | Prime Standard |
| Frankfurt | Regulated Market<br>Prime Standard |
| Vienna | Prime Standard |
| Munich | Regulated Unofficial Market |
| Stuttgart | Regulated Unofficial Market |
| Hamburg | Regulated Unofficial Market |
| Berlin-Bremen | Regulated Unofficial Market |
| Dusseldorf | Regulated Unofficial Market |

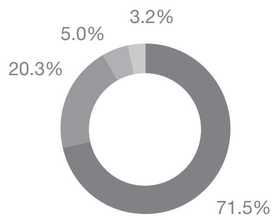
## Shareholders

2006




Free Float
Helmut Fleischmann private foundation
BEKO Holding AG
Helmut Fleischmann

2005




Free Float
Helmut Fleischmann private foundation
BEKO Holding AG
Helmut Fleischmann

## Own shares

On January 23, 2006 BRAIN FORCE HOLDING AG announced to carry out a capital increase at a ratio of 3:1. Due to the great interest, the Group's management, backed by the approval of the Supervisory Board dated March 16, 2006, decided to raise the subscription ratio to 2:1 and thus issue a total of 5,128,914 new no-par value ordinary bearer shares against cash contribution. The capital increase was placed in full. The proceeds from the issue amounted to EUR 15.9 million and serve to finance the Company's expansion projects.

Furthermore, the Board of Management on December 13, 2006 passed the resolution, based on the authorisation granted by the annual general meeting on May 11, 2006, to start a share repurchase programme. The share repurchase programme started on December 18, 2006 and ends on November 9, 2007 and, according to the resolution, shall amount to a maximum of 1,538,674 shares, or 10 percent of the share capital. This measure is taken in accordance with the continued expansion strategy of the Company, as the acquired shares are used for future acquisitions.

By December 31, 2006, the Company had acquired 33,600 own shares.

## Dividend announcement

The Board of Management plans to propose a dividend payment of EUR 0.10 per share at the annual general meeting on May 9, 2007.

**Share performance**


BFS TDX
DAX ATPX

## Overview of events relevant to investors

1. **January 23:** Announcement of a cash capital contribution from the Company's authorised capital in the amount of EUR 10.6 million.

2. **March 21:** Publication of final figures for 2005: highest net sales and best result since the foundation of the Company.

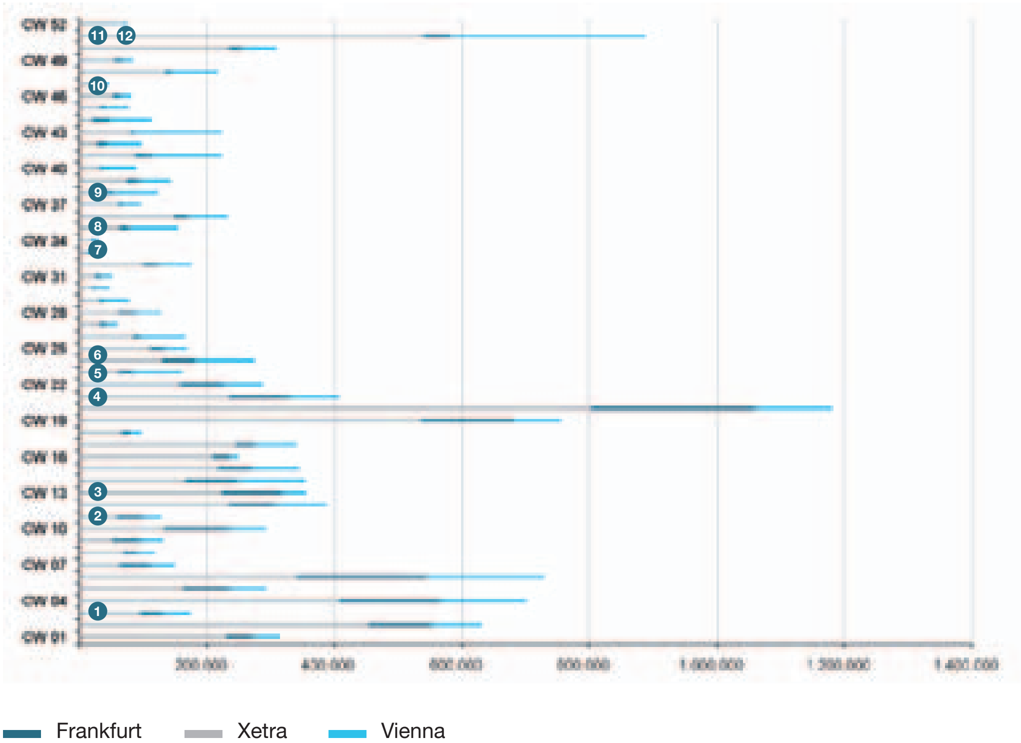
3. **April 7:** First day of trading of the new shares from the capital increase.

4. **May 29:** Disclosure of final figures for the first quarter of 2006: net sales up 34.7 percent to EUR 22.14 million, EBIT up 185.4 percent to EUR 1.17 million.

5. **June 13:** Increase in investment share in KEMP Technologies Inc. to 20 percent.

6. **June 22:** Takeover of SYSTEAM GmbH.

**Development of trading volume**




7 **August 24:** Strategic distribution partnership with the Austrian S&T AG.

8 **August 28:** Disclosure of final figures for the first half-year of 2006: earnings per share up 400 percent to EUR 0.15.

9 **September 29:** As a result of the insolvency of the customer BenQ Mobile, write-downs of receivables are expected.

10 **November 27:** Disclosure of final figures for the first three quarters 2006: net sales up 15.7 percent to EUR 63.18 million.

11 **December 18:** Start of share repurchase programme, which ends November 9, 2007.

12 **December 22:** Professor Ing. Peter Kotauczek, CEO of BEKO HOLDING AG, is appointed member of the Supervisory Board.

# (management report)

To recognise trends and seize growth opportunities – that's the recipe of successful companies. BRAIN FORCE is always on the look for the markets of the future. With an organised company structure it is possible to turn visions into reality and perspectives into success.

...transparent and up-to-date...

# Group Management Report

## Economic Climate

Favourable economic development

In their joint analysis published in autumn the analysts of six leading German economic research institutes observed a noticeable economic recovery in the Euro zone. After a fairly moderate development in the year 2005, the economy significantly recovered in 2006 and the capacity utilisation increased noticeably across all industries. In particular, countries whose performance had been far below average in the previous years, like Germany or Italy, could contribute to the positive development. Central events in this context were the decline in oil prices in the previous weeks and the moderate increase in wages, which had a positive effect on the economic development.

According to the experts' assessment, the economic growth will remain strong in the Euro zone in 2007, however, the peak in growth rates, compared to the prior year, has probably already been reached. The increase in real GDP will subsequently fall from 2.6 percent in 2006 to 2.1 percent in the following year.

In Germany – the most important market for BRAIN FORCE – the economic upward trend will continue. However, a slight slowdown is expected, and the good 2006 growth rates will probably not be reached. According to its 2007 economic report, the Federation of German Industries ("Bundesverband der Deutschen Industrie" or BDI) therefore expects an increase of just under 2 percent after 2.5 percent in 2006. Reasons for that include high taxes and charges, which could result in an economic slowdown within the first few months of the new financial year. They should be overcome in the course of the year.

Driving forces information technology and telecommunications industry

The information and telecommunications industry continues to drive the growth of the economy as a whole. According to the European Information Technology Observatory (EITO) the industry in the European Union will experience a growth of 3.1 percent in 2006 and will generate total net sales of around EUR 644 billion. For 2007 the EITO experts expect a slight decline to then 2.9 percent. The information technology sector will show an increase in net sales of 4.2 percent, after 3.8 percent in 2006. Within this segment the software market will gain the greatest momentum at 6.3 percent, with the service sector at 5.3 percent only slightly behind this development. In particular issues such as outsourcing, consulting and systems integration, which are part of the core activities of BRAIN FORCE, take centre stage, as many companies want to further improve their efficiency and productivity with the support of IT service providers.

In Germany around three quarters of small and medium-sized high-tech companies expect rising sales figures for 2007. This is the result of a poll conducted by the industry association BITKOM (federal association information technology, telecommunications and new media). It identifies a high propensity of companies to invest – of smaller companies as well as groups. Customised digital solutions would be indispensable for a successful corporate strategy, therefore the managers' readiness to spend on high-tech investments is rising considerably. In doing so, they focus on small and medium-sized providers, which are supposed to be much more flexible and to offer more reasonable prices.

## Group structure

In the financial year 2006 the following changes were made to the group structure:

- INDIS S.p.A., Milan, Italy, which was acquired in the financial year 2005, was merged with BRAIN FORCE SOFTWARE S.p.A., Milan, Italy, with retroactive effect as of January 1, 2006 by registration in the commercial register dated January 12, 2006. Subsequently, BRAIN FORCE SOFTWARE S.p.A. was renamed to BRAIN FORCE S.p.A. by registration in the commercial register dated February 6, 2006.
- With purchase agreement dated April 21, 2006 BRAIN FORCE HOLDING AG acquired additional shares in Brain Force Software a.s., Prague, Czech Republic. As a result of the acquisition of the 15 percent previously held by minority shareholders the investment now amounts to 100 percent.
- On June 22, 2006 a purchase and transfer agreement concerning all shares in SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH was concluded. In accordance with the agreement the shares were transferred under conditions precedent. Upon occurrence of all stipulated conditions the shares of SYSTEAM GmbH were transferred to BRAIN FORCE HOLDING AG on September 29, 2006. The initial consolidation was performed as of September 30, 2006. SYSTEAM GmbH was renamed to BRAIN FORCE Frankfurt GmbH by registration in the commercial register dated January 23, 2007.
- In the third quarter 2006, the 4.85 percent in Brain Force Financial Solutions AG, Munich, Germany, previously held by minority shareholders, were taken over. The transfer of all shares of the remaining shareholders was made by registration in the commercial register on July 17, 2006.
- Subsequently, Brain Force Financial Solutions AG, based on a merger agreement dated August 7, 2006 and a resolution passed by the general meeting dated August 7, 2006, was merged with BRAIN FORCE Software GmbH, Unterschleißheim, Germany. The merger became effective with the registration in the commercial register of the receiving company. This registration in the register of BRAIN FORCE Software GmbH was made on August 30, 2006.
- In the financial year 2006 BRAIN FORCE HOLDING AG acquired additional shares in KEMP Technologies Inc., New York, USA, and holds 30 percent in the company at the balance sheet date.
- VAI B.V., Veenendaal, Netherlands, which was acquired in the financial year 2005, was renamed to BRAIN FORCE B.V. by registration in the commercial register dated August 23, 2006.
- As of December 21, 2006 a purchase agreement was concluded with BHW Gesellschaft für Wohnungswirtschaft mbH, a subsidiary of the Postbank Group, to acquire the remaining 51 percent of SFP Software für FinanzPartner GmbH with economic effect as of December 31, 2006. As a result, the interest now amounts to 100 percent. Subsequently, SFP was merged with BRAIN FORCE Software GmbH by merger agreement dated February 14, 2007 and tax effective as of July 1, 2006. The filings for registration in the respective commercial registers have already been made, the registrations, however, have not yet been effected.

The following graph shows the existing group structure at the balance sheet date:

**BRAIN FORCE HOLDING AG (shares in percent)**

| | | |
|---|---|---|
| 100% | BRAIN FORCE SOFTWARE GmbH | Austria |
| 100% | BRAIN FORCE Software GmbH | Germany |
| 100% | BRAIN FORCE Hamburg GmbH | Germany |
| 100% | NSE Capital Venture GmbH | Germany |
| 100% | SFP GmbH | Germany |
| 100% | SYSTEAM GmbH | Germany |
| 100% | BRAIN FORCE S.p.A. | Italy |
| 25% | CONSULTING CUBE s.r.l. | Italy |
| 100% | BRAIN FORCE Network Solutions B.V. | Netherlands |
| 100% | BRAIN FORCE B.V. | Netherlands |
| 100% | Brain Force Software a.s. | Czech Republic |
| 100% | Brain Force Software s.r.o. | Slowakian Republic |
| 100% | BFS Brain Force Software AG | Switzerland |
| 100% | BRAIN FORCE SOFTWARE Ltd. | Great Britain |
| 30% | KEMP Technologies Inc. | USA |

BRAIN FORCE HOLDING AG

## Net sales and earnings

Highest net sales in corporate history

In 2006 the BRAIN FORCE Group generated net sales of EUR 88.53 million, exceeding the prior year's figure of EUR 76.62 million by 15.5 percent and representing the highest figure in its corporate history.

**Net sales by quarter and year**

| | | | |
|---|---|---|---|
| 01/06 | EUR 22.14 million | 2000 | EUR 61.36 million |
| 01/05 | EUR 16.44 million | 2001 | EUR 65.78 million |
| 02/06 | EUR 20.77 million | 2002 | EUR 58.97 million |
| 02/05 | EUR 17.42 million | 2003 | EUR 60.10 million |
| 03/06 | EUR 20.28 million | 2004 | EUR 64.42 million |
| 03/05 | EUR 20.76 million | 2005 | EUR 76.62 million |
| 04/06 | EUR 25.34 million | 2006 | EUR 88.53 million |
| 04/05 | EUR 22.00 million | | |

The 2006 performance ratios were affected by special items, most notably by the insolvency of the long-term customer BenQ Mobile at the end of the third quarter. Despite these items EBITDA (operating result before depreciation and amortisation) rose by 7.6 percent to EUR 6.51 million (prior year: EUR 6.05 million), whereas EBIT (earnings before interest and taxes) at EUR 2.92 million was down 18.4 percent year-on-year, further reduced by higher scheduled depreciation/amortisation from the purchase price allocation in accordance with IFRS 3.

**EBITDA by quarter and year**

| | | | |
|---|---|---|---|
| 01/06 | EUR 1.98 million | 2000 | EUR 4.37 million |
| 01/05 | EUR 0.88 million | 2001 | EUR 2.85 million |
| 02/06 | EUR 1.28 million | 2002 | EUR 1.90 million |
| 02/05 | EUR 0.90 million | 2003 | EUR 3.01 million |
| 03/06 | EUR 0.51 million | 2004 | EUR 4.13 million |
| 03/05 | EUR 2.45 million | 2005 | EUR 6.05 million |
| 04/06 | EUR 2.74 million | 2006 | EUR 6.51 million |
| 04/05 | EUR 1.82 million | | |

The EBITDA margin amounts to 7.4 percent (prior year: 7.9 percent) and the EBIT margin to 3.3 percent (prior year: 4.7 percent).

Excellent fourth quarter

The Group showed an extremely strong performance particularly in the fourth quarter of the financial year 2006. In this period, net sales rose by 15.2 percent to EUR 25.35 million and was therefore higher than ever before. EBITDA increased by 50.5 percent to EUR 2.74 million, and EBIT, rising by 58.1 percent to EUR 1.66 million, was also clearly positive.

**EBIT by quarter and year**

| | | | |
|---|---|---|---|
| 01/06 | EUR 1.17 million | 2000 | EUR 2.52 million |
| 01/05 | EUR 0.41 million | 2001 | EUR -9.10 million |
| 02/06 | EUR 0.44 million | 2002 | EUR 0.07 million |
| 02/05 | EUR 0.43 million | 2003 | EUR 0.18 million |
| 03/06 | EUR -0.35 million | 2004 | EUR 2.39 million |
| 03/05 | EUR 1.69 million | 2005 | EUR 3.58 million |
| 04/06 | EUR 1.66 million | 2006 | EUR 2.92 million |
| 04/05 | EUR 1.05 million | | |

**Positive effect of loss carryforwards**

After the merger of Brain Force Financial Solutions AG with BRAIN FORCE Software GmbH loss carryforwards in the amount of up to EUR 60 million can be used for BRAIN FORCE Software GmbH as well as for BRAIN FORCE Hamburg GmbH. They have had a positive impact on the result of the entire year, so that the result for the 2006 period amounted to EUR 4.17 million, an increase of 33.3 percent on the previous year.

The earnings per share is EUR 0.30 in 2006. Nevertheless, it has to be emphasised that despite the capital increase of 50 percent in spring 2006, the record result of the prior year could be reached again.

**Earnings per share by year**


## Development of primary segments

BRAIN FORCE operates three lines of business, which are subdivided into the primary segments **Enterprise Services (ES)**, **Business Solutions (BS)** and **Technology and Infrastructure (TI)**.

The Enterprise Services segment provides customers with comprehensible consulting and service concepts. Highly qualified IT and TK specialists control all project phases from planning to the realisation, testing and integration to the actual operation of IT infrastructures. In addition, with the acquisition of SYSTEAM GmbH, BRAIN FORCE has expanded its competence in the Managed Services division, which is now part of this segment. BRAIN FORCE is now able to provide even globally operating major groups of companies with the complete outsourcing of their IT networks.

In the Business Solutions segment BRAIN FORCE offer products and solutions for the support and optimisation of business processes. Its main fields of competence include outsourcing solutions, financial solutions and enterprise solutions.

The Technology and Infrastructure segment provides solutions for an efficient IT management and optimises ITK networks including security. Issues such as infrastructure solutions, communication solutions or security are part of the company's core competencies. Furthermore, products and solutions from SYSTEAM GmbH's areas of network infrastructure and security were allocated to this segment.

### Enterprise Services

Adverse effect of BenQ on the result

In the financial year 2006, the Enterprise Services segment generated net sales of EUR 34.15 million (prior year: EUR 32.49 million), which corresponds to an increase of 5.1 percent year-on-year. EBIT fell from EUR 1.66 million to EUR 0.81 million. This decline is mainly due to the sudden insolvency of the customer BenQ Mobile, a successor company of our long-term partner Siemens, in the third quarter.

**Segment net sales**


**Segment EBIT**


The ES segment with a share of 38.6 percent continues to be the Group's strongest segment in terms of net sales. The local German companies contributed EUR 24.14 million (prior year: EUR 23.35 million) to this result, which corresponds to a rise of 3.4 percent year-on-year. Austria contributes net sales of EUR 9.63 million, which is an increase of 5.2 percent year-on-year.

In Germany, BRAIN FORCE has made comprehensive service and consulting offers to customers from the logistics industry, the area of pharmaceutics, as well as two internet firms, which resulted in long-term contracts. Due to cross-selling potentials between the Enterprise Services and Technology and Infrastructure segments the Group was also able to provide the customers with additional services and products. By doing so, BRAIN FORCE complies with the general market trend of offering customers everything from one source as a one-stop-shop. In addition, BRAIN FORCE managed to further extend the contract periods with existing customers. For a major customer in the banking sector the Group again received the premium partner status for this year and continues to service the front, mid and back office there in its core IT areas.

In Austria, two companies from the telecommunications industry and Austria's largest mobile phone service provider have opted for BRAIN FORCE. In addition, successful projects of long-term customers could also be extended here. As a result, BRAIN FORCE continues to service a globally operating IT company and managed to further strengthen the good customer relations with two additional projects in the areas of migration and Basel II.

### Business Solutions

Strong development of net sales and EBIT

The Business Solutions segment experienced a very successful year and generated an increase in net sales of 16.1 percent year-on-year to now EUR 26.70 million (prior year: EUR 23.00 million). Extremely positive was also the development of EBIT, which rose significantly by 61.4

percent from EUR 2.07 million to now EUR 3.34 million. The EBIT margin increased from 9.0 to 12.5 percent and thus BS represents the most profitable segment in the entire BRAIN FORCE Group.

**Segment net sales**


**Segment EBIT**


The German companies with net sales of EUR 12.04 million and Italy with EUR 13.73 million contributed to this excellent result. This corresponds to an increase of 14.8 respectively 34.2 percent year-on-year. In total, the Business Solutions segment accounted for 30.1 percent of the Group's net sales.

Apart from the extension and expansion of existing contracts with customers, many new orders contributed to this success. In particular BRAIN FORCE Italy, which have an expert status as Microsoft Gold Certified Partner for Microsoft Dynamics CRM and Microsoft Dynamics ERP solutions relating to medium-sized companies, benefit from the rising demand for these tools.

The local company was able to upgrade the first customer from Visual SPACE to Microsoft Dynamics NAV at a leading machine manufacturer in Italy. For an international supplier the company received the order to develop control mechanisms for gas transport. The company won a substantial order from one of the key providers of business travels. BRAIN FORCE implemented there a solution for the automated booking of business trips on the basis of Microsoft Dynamics CRM. In the automobile industry a large automobile group as well as a specialist for automobile glass opted for BRAIN FORCE. A strategically important step was the acquisition of a leading personnel provider for the hotel and restaurant industry as a new customer. The customer chose Microsoft Dynamics in order to optimise the constantly rising demand for service personnel.

In Germany, a major life insurance group implemented the solutions *BRAIN FORCE Finanzanalyse Center* and *BRAIN FORCE Risikoabsicherung* at the beginning of the year and in a further step licensed *BRAIN FORCE Vorsorgeoptimierung*. Based on this success, two more life insurers decided to implement the standard solution and optimise it according to their requirements. BRAIN FORCE managed to show a convincing performance also in the banking environment and to implement the *BRAIN FORCE Baufinanzierung* at an Austrian banking group and to complement it with a web connection. Furthermore, two existing customers decided to have comprehensive updates of their running software systems. BRAIN FORCE received an order in the managed application environment from a major German bank.

### Technology and Infrastructure

Expansion of market share

The Technology and Infrastructure segment contributed 31.3 percent to the total net sales of the Group and generated net sales of EUR 27.68 million in the previous year. This is a significant increase of 31.1 percent on the prior year figure of EUR 21.12 million. EBIT fell from EUR 1.87 million to now EUR 1.42 million. Moreover, the EBIT margin declined from 8.9 percent to 5.1 percent. The focus for 2006 in the TI segment was on expanding the market share and raising net sales. Accordingly, the decline in the result is in particular due to higher capital expenditure in the areas of desktop application management, migration and network management. In this process, the Europe-wide development of an indirect sales channel and the product launch of *BRAIN FORCE Net Organizer* and *BRAIN FORCE Packaging Robot* in the entire Group were accelerated, having an adverse effect on the result.

**Segment net sales**


**Segment EBIT**

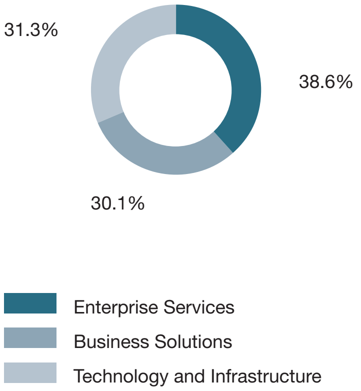

Italy made the greatest contribution to segment net sales at EUR 12.36 million, followed by the Netherlands at EUR 8.84 million and Germany at EUR 6.16 million. The other countries generated net sales of EUR 0.32 million.

In the Netherlands licence sales in particular were generated from the *BRAIN FORCE Packaging Robot*, a tool for the fully automated installation of software systems. In that entire year, the division entered into almost 40 contracts with renowned companies of various industries. In addition, BRAIN FORCE Netherlands successfully completed the migration to Microsoft Vista at a newspaper publishing company. Especially through the implementation of the new operating system at the end of the year an enormous growth potential opened up for BRAIN FORCE, which will boost sales in the financial year 2007 and in subsequent years.

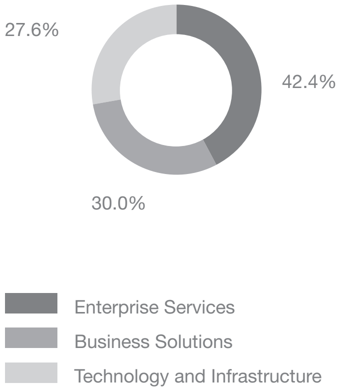
In Germany, the new product was implemented in a refinery company at the beginning of the year. Companies from the logistics environment, the automobile and transport industry also opted for the solution and are now able to document and control their IT networks with it. In Switzerland, a project for the settlement of charges was successfully concluded with BRAIN FORCE solution *INKAS-SQL*.

**Net sales by segment**

2006




2005




The group costs not included in the results of the three segments rose 31.2 percent to EUR 2.65 million (prior year: EUR 2.02 million). The rise in expenses primarily results from the increased funds required for acquisitions made and outstanding and from the expenditure for motor sport sponsoring in the amount of EUR 231 thousand.

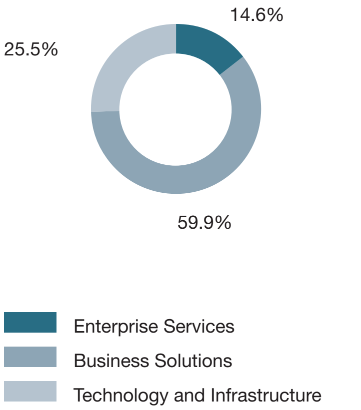
In Germany the BRAIN FORCE Group generated net sales in the amount of EUR 42.34 million (prior year: EUR 38.21 million), which corresponds to a growth rate of 10.8 percent.

The local Italian company generated an increase in net sales of 19.7 percent to EUR 26.10 million (prior year: EUR 21.81 million).

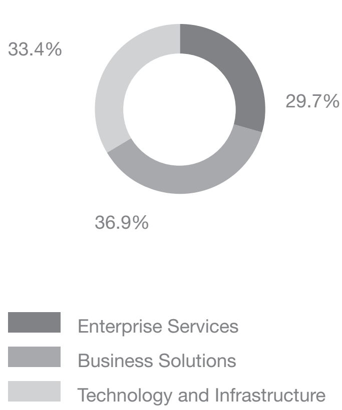
In Austria net sales declined by 14.6 percent to EUR 10.27 million (prior year: EUR 12.02 million). In the Netherlands net sales in the amount of EUR 8.84 million (prior year (for 5 months consolidated): EUR 3.34 million) were generated.

## Results by segment

2006




2005

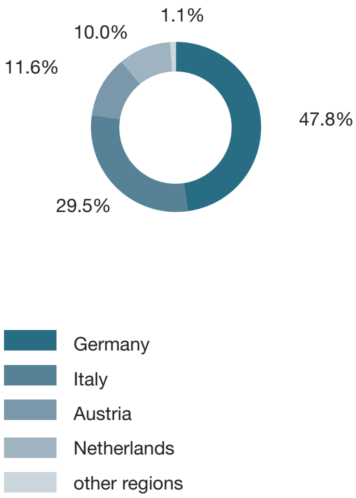



Higher margins in project business

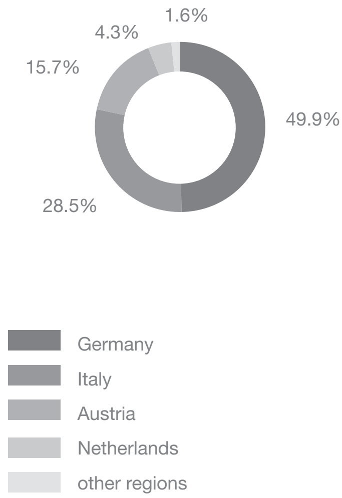
The development of the results by segment emphasises the Group's strategy to focus on the product/project business, which offers higher margins.

## Net sales by country

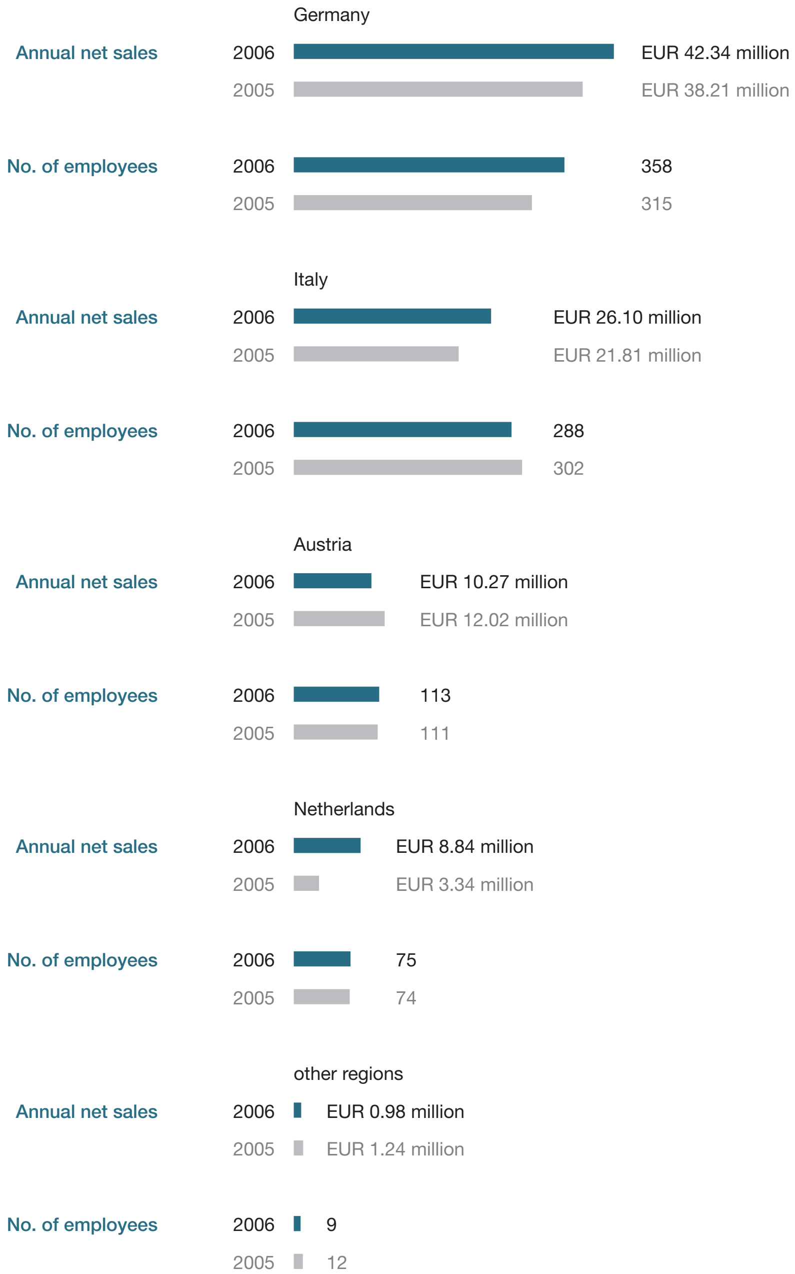
2006




2005



## Net sales and employees



## Orders

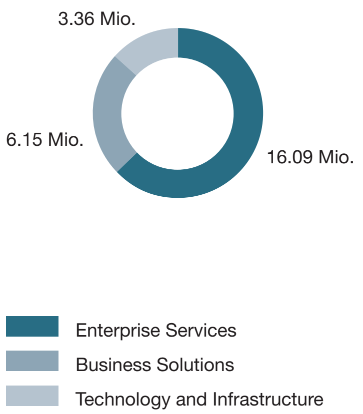
Orders increased significantly

At December 31, 2006, BRAIN FORCE Group had orders worth EUR 25.60 million (prior year: EUR 21.33 million), an increase of 20.0 percent. The orders of the SYSTEAM GmbH acquisition were allocated to the segments Enterprise Services and Technology and Infrastructure. Due to the long-term managed services orders of SYSTEAM GmbH the average contract terms in the segments increased significantly. The volume of signed orders is our most conservative estimate.

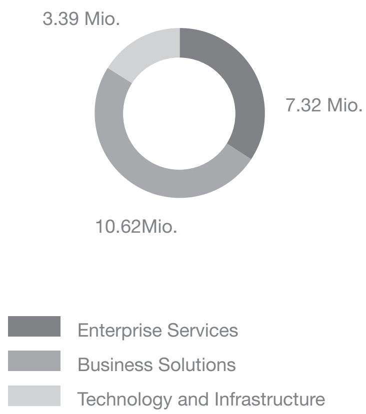
- The Enterprise Services segment accounts for EUR 16.09 million (prior year: EUR 7.32 million)
- The Business Solutions segment accounts for EUR 6.15 million (prior year: EUR 10.62 million)
- The Technology and Infrastructure segment accounts for EUR 3.36 million (prior year: EUR 3.39 million)

**Orders by segment**

2006




2005




## Research and product development

The research and development activities of the BRAIN FORCE Group are bundled in the Business Solutions (BS) and Technology and Infrastructure (TI) segments.

Development of financial products

In the financial year 2006, the BS segment made a series of major expansions and updates of its success product *BRAIN FORCE Finanzanalyse Center* and adjusted it to the current market conditions. For instance, the module *BRAIN FORCE Risikoabsicherung* was extended to include such issues as third party liability, household effects, residential buildings, automobile and legal protection. The *BRAIN FORCE Baufinanzierung* solution now includes an automatic calculation of the various financing components as well as a configuration which has been customised for clients. In addition, the solution was extended by the service providing capability application. In this way, BRAIN FORCE enters into an expanded market and offers the solution to real estate agents for rent via the Internet. The ergonomics of *BRAIN FORCE Vorsorgeoptimierung* was further improved, a uniform look and feel created and the layout was adjusted to the Group's new corporate design.

The customer consulting software *BRAIN FORCE CRM* was complemented by the possibility of an aptitude and adequacy test of the customer. As a result, the solution now also meets the requirements of the extended Securities Trading Act on the basis of the EU Financial Markets Directive (MiFID).

BRAIN FORCE Italy complemented its Microsoft Dynamics AX industry solutions and with AX Metal put the focus on the metal industry.

New version of *BRAIN FORCE Net Organizer*

In 2006 the TI segment continued to develop the *BRAIN FORCE Net Organizer* and extended it by the modules Network Visualisation, AutoRouting and Moving Tool. In addition, with the solution entire corporate networks can now be visualised on the screen and documented. Thus, the customers benefit from being able to better monitor the entire company network on the desktop and to identify more quickly sources of defects, which significantly reduces failure costs. But not only existing networks can be better controlled and monitored with the *BRAIN FORCE Net Organizer*, the latest version now includes a module for the planning of entire networks. With this, such factors as costs and efficiency can be optimally taken into account already in the set-up of a new IT network.

In the Netherlands the *BRAIN FORCE Packaging Robot* was developed further and prepared for the launch of the new Microsoft operating system Vista and Office 2007. Furthermore, with the *BRAIN FORCE Desktop Manager* a new tool was developed on the basis of the *BRAIN FORCE Logon Processor*. This enables a central management of user profiles, which creates additional growth potential with regard to the Vista launch.

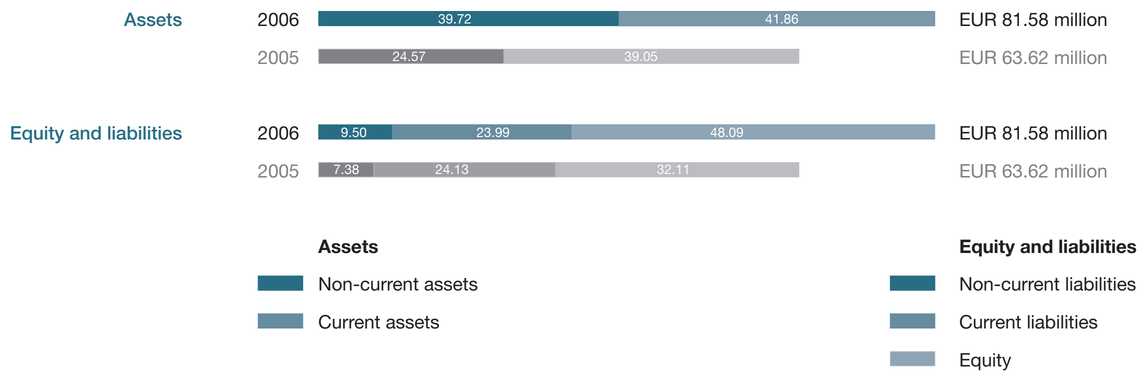
## Net worth and financial position

Higher balance sheet total due to capital increase

The balance sheet total rose by 28.2 percent year-on-year to EUR 81.58 million (prior year: EUR 63.62 million). The increase is mainly due to the capital increase carried out in the reporting year and the company acquisitions made.

Non-current assets account for 48.7 percent (prior year: 38.6 percent) of total assets. The share of property, plant and equipment is low at EUR 1.61 million (prior year: EUR 1.54 million), which is typical of the sector. Capital expenditure amounting to EUR 854 thousand was contrasted with scheduled depreciation amounting to EUR 737 thousand.

**Balance sheet structure**




Rising goodwill

Goodwill rose by EUR 11.23 million to EUR 21.30 million (prior year: 10.07 million). The increase is due to the acquisition of SYSTEAM GmbH made in the past year and to the adjustment of acquisition costs of a company acquired in the previous year. IFRS 3 does not allow for scheduled amortisation. The impairment test stipulated in the Standard did not result in an impairment requirement for goodwill.

Other intangible assets contain software and rights, development costs and intangible assets identified as part of company acquisitions. Development costs account for 7.8 percent (prior year: 10.5 percent) of total assets. Capital expenditure including the intangible assets acquired with the acquisitions amounted to EUR 5.13 million in 2006 (prior year: 5.94 million), which was contrasted with scheduled amortisation amounting to EUR 2.86 million (prior year: EUR 1.89 million).

The shares in associates amounting to EUR 537 thousand (prior year: EUR 404 thousand) include the 30 percent share in KEMP Technologies Inc., New York, USA, as well as the 25 percent share in CONSULTING CUBE s.r.l., Bologne, Italy, held by BRAIN FORCE S.p.A., Milan, Italy.

The 49 percent share in SFP Software für FinanzPartner GmbH, Munich, Germany, which was recognised as an associate at the previous balance sheet date, was consolidated under the purchase method after the acquisition of the outstanding 51 percent at the balance sheet date December 31, 2006 and included in the consolidated financial statements.

The decrease in financial assets by EUR 278 thousand to EUR 183 thousand (prior year: EUR 461 thousand) resulted from the changed presentation of the investment in KEMP Technologies Inc. Due to the acquisition of additional shares the investment increased from 10 percent at the beginning of the year to 30 percent at December 31 2006.

Other non-current receivables amount to EUR 826 thousand (prior year: EUR 1.60 million) and mainly relate to a subscribed convertible bond in the amount of EUR 683 thousand. The decline relates to the reduction in an interest-bearing receivable from the acquisition of a maintenance and development order.

The capitalised deferred tax assets rose by EUR 2.47 million to EUR 4.77 million (prior year: EUR 2.30 million). The increase shows the additional utilisation possibility of tax loss carryforwards after the minority shareholders of Brain Force Financial Solutions AG were squeezed out. The squeeze-out was registered on July 17, 2006 at the competent commercial register. By the subsequent merger with BRAIN FORCE Software GmbH, Unterschleißheim, German, which was evidenced by notarial deed dated August 7, 2006, an additional utilisation possibility of tax loss carryforwards in the amount of approx. EUR 2.11 million arises in the medium-term planning horizon.

Current assets account for 51.3 percent of total assets and rose by EUR 2.81 million to EUR 41.86 million (prior year: EUR 39.05 million). The item trade receivables rose by 4.2 percent to EUR 25.85 million (prior year: 24.81 million). This shows that the increase of trade receivables at the balance sheet date is clearly below the rise in net sales, which contributed to an improvement in the cash flow.

Cash and cash equivalents rose by 14.8 percent and amounted to EUR 13.53 million at December 31, 2006 (prior year: EUR 11.79 million).

Group equity rose to EUR 48.09 million (prior year: EUR 32.11 million). The increase mainly results from the cash capital increase carried out in the reporting year and from the result for the period amounting to EUR 4.17 million (prior year: EUR 3.13 million). Furthermore, a dividend of EUR 0.08 per share was paid based on the resolution passed at the ordinary general meeting on May 11, 2006. The distribution to the shareholders of BRAIN FORCE HOLDING AG amounts to EUR 820 thousand.

Start of share repurchase programme

Based on the authorisation granted by the general meeting on May 11, 2006 the Management Board decided to start a share repurchase programme on December 18, 2006. As of December 31, 2006 the number of shares acquired under the repurchase programme was 33,600. At the balance sheet date the total number of own shares held amounts to 40,759, worth EUR 135 thousand.

As a result of the takeover of 15 percent in Brain Force Software a.s., Prague, Czech Republic, and the transfer of the outstanding 4.85 percent in Brain Force Financial Solutions AG, Munich, Germany, no minority shareholders have shares in the fully consolidated entities. In the prior year, minority shareholders accounted for a capital share of EUR 426 thousand. The equity ratio amounts to 59.0 percent (prior year: EUR 50.5 percent).

Non-current liabilities amount to EUR 9.50 million (prior year: EUR 7.38 million), a rise of EUR 2.12 million. Non-current financial liabilities, however, fell by EUR 202 thousand to EUR 548 thousand.

Other non-current provisions rose to EUR 3.16 million (prior year: EUR 1.46 million), mainly due to the outstanding purchase price obligations from the acquisition of BRAIN FORCE B.V. These purchase price obligations relate to the earn-out component and were recognised based on planned data.

Current liabilities at EUR 23.99 million (prior year: EUR 24.13 million) changed only slightly. Current financial liabilities, however, fell by 63.2 percent to EUR 2.00 million (prior year: EUR 5.43 million).

Trade payables rose by 12.1 percent to EUR 8.52 million (prior year: EUR 7.60 million), other current liabilities increased to EUR 10.53 million (prior year: EUR 9.77 million).

Other current provisions rose to EUR 1.24 million (prior year: EUR 113 thousand) and mainly include the current portion of purchase price obligations from the acquisition of BRAIN FORCE B.V.

Working capital (current assets minus current liabilities) amounts to EUR 17.87 million at the balance sheet date (prior year: EUR 14.92 million).

## Cash flow and investments

Positive change in working capital

EUR 7.22 million in cash flow from operating activities was generating in the past financial year (prior year: EUR 1.67 million), which is an increase in the BRAIN FORCE Group's cash inflow from operating activities of EUR 5.55 million year-on-year.

The increase is mainly due to the positive changes in working capital. With sales up 15.5 percent, the rise in trade receivables amounted to only 4.2 percent at the balance sheet date, which is a significant improvement on the previous year.

The decline in liabilities resulted in a cash outflow of EUR 475 thousand (prior year: cash inflow of EUR 1.56 million).

Income taxes paid rose by EUR 702 thousand and amount to EUR 1.82 million (prior year: EUR 1.11 million).

Cash outflow from investment activities amounts to EUR 13.87 million (prior year: EUR 5.83 million). Payments amounting to EUR 11.16 (prior year: EUR 5.75 million) relate to the acquisition of all shares in SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH and the acquisition of minority interests in Brain Force Financial Solutions AG and in Brain Force Software a.s. In addition, the remaining 51 percent in SFP Software für Finanz-Partner GmbH were acquired and outstanding purchase price payments were made for BRAIN FORCE B.V. (formerly VAI B.V.), which was acquired in the prior year.

Capital expenditure on property, plant and equipment and other intangible assets amounts to EUR 2.81 million (prior year: EUR 2.43 million).

EUR 9.97 million (prior year: EUR 1.73 million) was used for the acquisition of other financial assets. EUR 313 thousand of this figure relates to the acquisition of an additional 20 percent in KEMP Technologies Inc., USA.

In the reporting year, EUR 9.65 million was used for current financial assets.

Cash inflow resulting from the sale of current financial assets amounted to EUR 10.03 million.

Cash flow from financing activities amounts to EUR 8.75 million (prior year: EUR 719 thousand).

In the reporting year, EUR 14.09 million in cash flow was generated through a share issue.

EUR 105 thousand was used for the acquisition of own shares. Furthermore, the payment of dividends to the shareholders of BRAIN FORCE HOLDING AG resulted in a cash outflow of EUR 820 thousand.

As a result of the improvements in cash flows financial liabilities in the amount of EUR 4.42 million could be paid back in the financial year 2006.

At the balance sheet date December 31, 2006 the BRAIN FORCE Group has cash and cash equivalents of EUR 13.53 million (prior year: EUR 11.79 million), EUR 330 thousand (prior year: EUR 680 thousand) of which is restricted cash.

## Human Resources

Increase in headcount

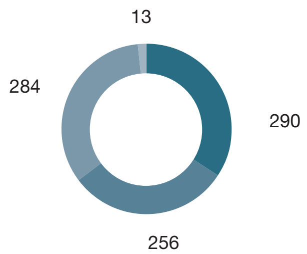
At December 31, 2006, the BRAIN FORCE Group employed 843 people (prior year: 814), an increase of 3.6 percent. In addition, a further 329 freelancers were engaged in projects of the Group at year-end. Thus the total number of people working for BRAIN FORCE was 1,172.

290 people were employed in the Enterprise Services Segment, 256 in the Business Solutions Segment and 284 in the Technology and Infrastructure Segment. 13 employees are employed in central functions of the Group.

The headcount of the Group rose in almost every country. In Austria the number of employees at 113 increased only slightly on the prior year (111). The German companies employed a total of 358 (prior year: 315) people, which resulted mainly from the acquisition of SYSTEAM GmbH. At the balance sheet date Italy had 288 employees, which is 14 fewer than in the prior year. In the Netherlands 75 people are working for the Group (prior year: 74). In all other countries (Switzerland, Czech Republic and Slovakia) the headcount totals 9, which is 3 fewer than at the end of the prior year.

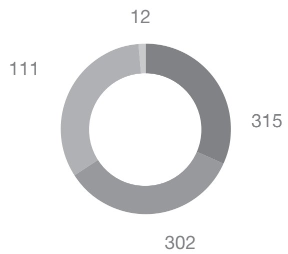
## Employees by segment

2006




- Enterprise Services
- Business Solutions
- Technology and Infrastructure
- Holding

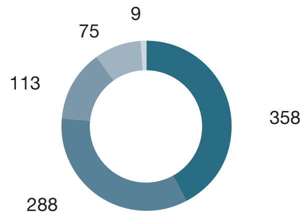
2005




- Enterprise Services
- Business Solutions
- Technology and Infrastructure
- Holding

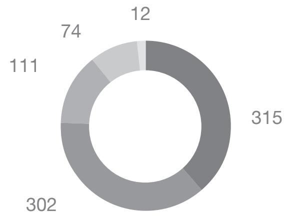
## Employees by country

2006




- Germany
- Italy
- Austria
- Netherlands
- other regions

2005




- Germany
- Italy
- Austria
- Netherlands
- other regions

## Risk Management

The BRAIN FORCE Group is exposed to various risks in the course of its international activities. The relevant risks are described below, as is the response of the BRAIN FORCE Group where appropriate.

- Liquidity risk is monitored by ongoing detailed financial planning at management board level. As the Group is mainly based in the Euro zone, currency risk is of minor importance.
- Interest risk is of minor significance due to the fact that financing agreements are largely current.

Major non-financial risks are:

- Market and competitive risk: the BRAIN FORCE Group operates on a market characterised by intense competition. In addition, the software and IT services market is subject to seasonal fluctuations. The Group manages this risk through geographic and product diversification.
- The range of products offered by the BRAIN FORCE Group is varied and is subject to continuous and rapid technological change. It is also characterised by continuing changes in customer demands with short cycles. The Group guards against this risk by continuing to develop and adapt its products to market requirements.
- The BRAIN FORCE Group's customer base is diverse. Therefore the Group is not dependent on any one customer at present. However, defaults of individual customers' debts can adversely affect the result. The German market at around 48 percent accounts for the largest share in group net sales. It is planned to minimise the risk resulting from the dependence on the German market by expanding business into other regions.
- Risks relating to acquisitions: numerous company acquisitions were made in the past. The Group intends to continue with this Buy-and-Build strategy in the future. External consultants regularly carry out the due diligence phases. The resulting risks are countered by

active integration management and by intensive controlling of the new group companies.

- Unpredictability of future business development: the growth of the BRAIN FORCE Group is dependent on factors such as customer potential and success in new markets. To exclude or minimise the risk of not meeting targets based on these factors, the Group car ries out regular market intelligence and analyses markets and potential acquisition targets.
- Risks relating to software security and system disruptions: the BRAIN FORCE Group either works together with its customers on installing and integrating individual software or sells standard software solutions, which it has usually developed in-house. In order to detect errors that could result in liability at an early stage, customers carry out an acceptance test on project completion and either confirm that the programmes are working properly or identify errors and necessary corrections. Programme errors are rectified within the warranty period.
  Regular project controlling ensures that liability risks from projects are kept to a minimum. Risk and change management is undertaken in line with the size and risk potential of the projects. A legal review of the contracts is mandatory.

Regular reporting to the Management Board

- Major operational risks stemming from the Group's local operations are monitored by the parent company BRAIN FORCE HOLDING AG and are appropriately hedged. The local companies also have disclosure requirements to fulfil. Overall responsibility for monitoring risk management lies with the Board of Management at group level. A Support and Control Centre (SCC) was set up between group management and local companies. One of the main duties of this team, which is part of BRAIN FORCE HOLDING AG, is to report regularly to the Board of Management. The instruments used to monitor and control risks are planning and controlling processes, as well as group guidelines. These are used for regular reviews and audits of local companies with subsequent reporting to the Board of Management.
- Insurance is taken out for specific liability risks and damages.

## Disclosures in accordance with Section 243a HGB

1. The share capital is made up of 15,386,742 no-par value bearer shares and was fully paid in.
2. Pursuant to Section 4 of BRAIN FORCE AG's articles of association anyone who reaches, exceeds or falls below 5, 10, 25, 50 or 75 percent of the voting rights through acquisition, sale or otherwise shall immediately notify the Company in writing of reaching, exceeding or falling below the above mentioned limits, as well as of the proportion of voting rights held, stating his address. Until this notification, as well as for the subsequent three months, the voting rights exceeding the respective limit are not taken into account. Beyond that the Board of Management is not aware of any limitations concerning voting rights or the transfer of shares.
3. The Company has been notified of the following direct or indirect investments of at least 10 percent:
   Helmut Fleischmann Privatstiftung by adding the 2.15 percent pursuant to Section 92 No. 9 BörseG (Austrian Stock Exchange Act): 15.67 percent.
   Apart from that the Company is not aware of any investment of more than 10 percent of the share capital.
4. There are no shares with special control rights.
5. The BRAIN FORCE Group does not have any stock option plans for employees.
6. There are no additional provisions in place regarding the members of the Board of Management and Supervisory Board beyond those laid down in the law.
7. Options to issue or repurchase shares:
   a) Authorised capital: In accordance with the resolutions passed by the general meeting on May 11, 2006 the Board of Management was authorised to raise the share capital within five years as of the registration of the corresponding amendment to the articles of association in the commercial register in one or several tranches by up to EUR 7,693,371 by issuing up to 7,693,371 new ordinary bearer shares (no-par value shares) against cash contributions and/or contributions in kind, with or without the exclusion of existing shareholders' subscription rights in case of cash contributions and/or contributions in kind and/or issue of shares to employees of the Company and of affiliated companies, and to specify the issue amount and terms of the issue in

agreement with the Supervisory Board. In addition, the Supervisory Board is authorised to pass amendments to the articles of association, which result from the issue of shares from the authorised capital.

b) Acquisitions of own shares: At the ordinary general meeting of the Company held on May 11, 2006 the Board of Management was authorised pursuant to Section 65 (1) No. 8 AktG (Austrian Stock Corporation Act) to acquire own shares up to a maximum of 10 percent of the share capital for a period of 18 months as of the date this resolution was passed; the consideration to be paid shall be no less than EUR 1 and no more than EUR 15. The authorisation can be executed in full or in several parts and in pursuit of one or several purposes by the Company, its group companies or a third party acting on its behalf. As declared in an ad hoc announcement on December 13, 2006, the Board of Management decided to use this authorisation. The purchase price shall not exceed or fall below by more than 10 percent of the average stock exchange price in XETRA trading for the past 5 consecutive trading days on the exchange. The repurchase programme started on December 18, 2006 and will end on November 9, 2007.

8. Company agreements that become effective, change or end at a change in control as a result of a takeover bid, as well as their effects are not made public by the Company, with the exception of the disclosures in paragraph 9, as this would seriously damage the Company.
9. For the case of the Company’s takeover in the meaning of the Austrian Takeover Act (“Übernahmegesetz”) it was agreed separately with each member of the Board of Management that the managing director is entitled to unilaterally at any time terminate his management contract within a period of two months as of the date the takeover becomes effective with immediate effect and without any further notification period and to resign immediately. The Company is obliged, if the managing director exerts this above-mentioned right, to transfer to the board member his fixed compensation to which he would be entitled until the end of his full term as stipulated in his contract, in the form of a one-off payment as severance payment in addition to his other severance entitlements within four weeks after the date of his resignation.

## Events after the balance sheet date

On March 2, 2007 the Group accepted an offer for a promissory note bond in the amount of EUR 10 million. The loan granted by Deutsche Bank serves the purpose of financing additional acquisitions.

There were no other events of particular significance after the close of the financial year.

## Outlook

BRAIN FORCE HOLDING AG's Board of Management considers the economic climate favourable and gives a positive forecast for the financial year 2007. In the reporting year, the Group managed to further strengthen its position in all strategically important areas and adjusted its products and services offered to the current market situation. The Company is positioned to grow faster than the overall market in 2007. Apart from the strong organic growth, further company takeovers will also contribute to this development. It is planned to use the funds from the promissory note bond to finance additional acquisitions in the financial year 2007.

Redefinition of primary segments

Due to the strong international orientation of the Group, BRAIN FORCE HOLDING AG's Board of Management decided to adjust the primary segments to the regional markets, defining the following regions and countries:

- GERMANY region including Germany
- CENTRAL AND EAST EUROPE region including Austria, Czech Republic, Slovakia and the other Eastern European countries
- SOUTH WEST EUROPE region including Italy, Switzerland, Spain and Portugal
- NORTH EUROPE region including the Netherlands, Belgium, Luxembourg, Denmark, Norway, Sweden, Finland and Great Britain
- SOUTH EAST EUROPE region including Slovenia, Croatia, Macedonia, Romania, Bulgaria, Greece and Turkey.

Germany was made a separate region due to its high share in the Group's net sales.

As a result of the change in segments, the Group sees a significant rise in continuity even when changes or enlargements occur, such as for instance as a result of acquisitions. Thus, the existing product portfolio will only be subject to regional influences.

# (portfolio)

A visionary Buy-and-Build strategy characterises the history of BRAIN FORCE. Today we are an acknowledged expert for managed services and offer a perfectly customised product portfolio. Our customers benefit from tailored service solutions and innovative software products. Optimised solutions and highly specialised know-how contribute to the efficient implementation of IT projects.

...completely covered...

# (managed services)

Managed services represent the growth market of the IT industry. We have recognised this trend early on and tailored our service portfolio accordingly. Our extensive expertise in the areas infrastructure and business applications exactly meets the market requirements for a one-stop-shop service provider. This way we control our IT processes in a flexible manner and tailored to all company sizes – around the clock with the highest security and availability.


...state-of-the-art technology...

## (software solutions)

Creating synergies is an important aspect of entrepreneurship. Through numerous acquisitions we can offer a customised range of business and infrastructure solutions for all industries. In combination with our comprehensive customer consulting we are able to provide optimal IT support of business processes and highly efficient IT management.


...the professional competence of our experts...

# (perspectives)

To recognise trends and seize growth perspectives are two key strengths of BRAIN FORCE. As a result of our successful acquisition strategy we are already today in the position to service the markets of tomorrow. We will continue our success formula and extend our position as managed services expert and provider of innovative software solutions.

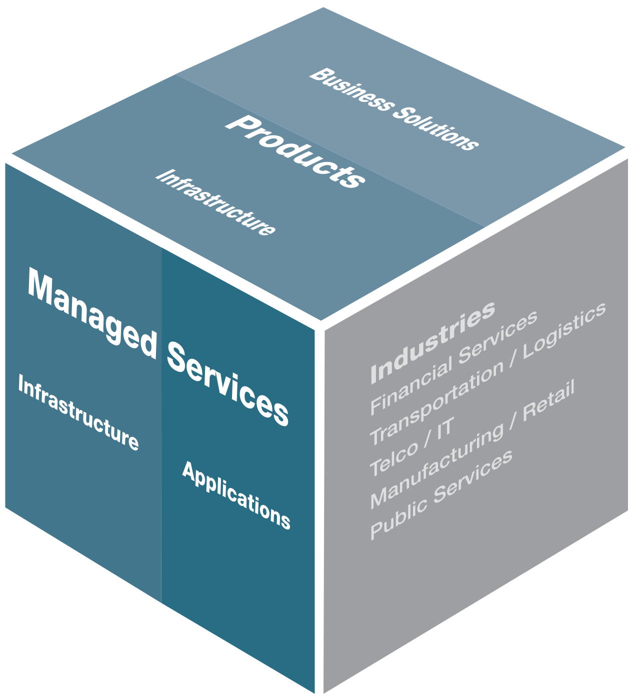
...to finish first...

# Strategic direction

In the past year, BRAIN FORCE has significantly extended its service portfolio and with the acquisition of SYSTEAM GmbH considerably expanded the know-how in the growth market of managed services. This way the Group covers the IT infrastructure segment as well as the area of application management and thus meets the increased requirements for an IT outsourcing provider.

Based on these services, we are already managing various reference projects. In a flexible and highly professional manner, BRAIN FORCE in combination with existing solutions offered turns the most complex IT processes for companies of all industries into a success. In doing so, the Group managed to bundle the different know-how of companies acquired in the past. This way, synergies and cross-selling potentials are well used in the Group across segments. With this approach, we underscore the high competence of BRAIN FORCE to recognise trends early and seize growth potentials faster than competitors.

Presentation of BRAIN FORCE portfolio




With a clear focus on managed services the Group develops additional market opportunities for its product portfolio. As a result, BRAIN FORCE has extensive knowledge of its customers' current and especially future problems. Against this background, in addition to the services offered, we provide our customers with perfectly customised software products, such as migration tools or network management solutions. Due to the optimal combination of software and services we provide our customers with a considerable value added and as full-service provider benefit from an increased sales potential. At the same time we generate higher margins in the projects through the sale of software products.

Synergies in project business

In the project business, we achieve far-reaching synergies with our managed services offered. More and more companies demand one-stop services from their IT partners. Customers benefit not only from our optimised infrastructure and business applications, but at the same time can obtain entire managed services packages from the Group – be it in outsourcing of IT businesses or in the takeover and support of whole network landscapes. Thus companies are able to fully concentrate on their core competencies, while BRAIN FORCE is enhancing its customer relations and further raising its order volume.

In order to be able to recognise trends early, the Group has an expert department in place for the purpose of opening up new distribution channels and working out service and product concepts accordingly, as well as planning marketing strategies. That's how we make sure to be able to service tomorrow's markets accordingly. The takeover of the Dutch VAI in 2005 has to be regarded as an excellent example. Today's BRAIN FORCE B.V. is an expert in the packaging and migration of desktop and operating systems. The implementation of the new Microsoft Vista operating system and the arising sales potential for migration solutions in 2007 and beyond underscores the successful strategy of the Group to focus on future growth markets early.

Expansion of the partner network

In addition to the expansion of our customer services, we are also planning to further boost the marketing of our products and significantly raise the number of distribution partners. We consider the stringent enlargement of our existing partner network an important growth factor for BRAIN FORCE. That's why we are going to expand our pool of partners, who already today distribute our products and solutions all over Europe, to expanding markets, such as Eastern and Northern Europe. The indirect distribution channel will therefore constitute one of the pillars for BRAIN FORCE's success in the coming years.

Another factor that contributes to the success of BRAIN FORCE is also the continuation of our Buy-and-Build strategy. As a visionary company with a clear sense for future trends we are constantly on the look for acquisition targets that boost our expansion and help to further strengthen our international position. In this context, the focus is on the fast growing market for managed services, which promises considerably higher growth perspectives than comparable IT services. Furthermore, we are going to acquire companies which will complement the service and product range of the BRAIN FORCE Group and create a value added in our service portfolio. By taking out loans in the amount of EUR 10 million with a maturity of 7 years and liquidity available in the amount of EUR 10.99 million, we have sufficient funds to take over even major companies.

# (consolidated financial statements)

Setting objectives and achieving them. A highly specialised controlling team constantly monitors the development of the Group – in a transparent and always up-to-date manner – for our joint success.

...finish – new ways and new objectives...

# Consolidated financial statements

## Consolidated balance sheet as at December 31, 2006

| Assets | Notes | Dec. 31, 2006 | Dec. 31, 2005 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 3, 23 | 1,614,067.54 | 1,537,326.89 |
| Goodwill | 5, 24 | 21,304,952.48 | 10,066,500.26 |
| Other intangible assets | 5, 6, 25 | 10,487,375.37 | 8,206,118.97 |
| Investments in associates | 7, 26 | 536,857.43 | 403,880.80 |
| Financial assets | 8, 27 | 183,283.32 | 461,352.44 |
| Other receivables and other assets | 12, 31 | 825,771.92 | 1,598,935.66 |
| Deferred tax assets | 20, 28 | 4,768,958.28 | 2,297,968.21 |
| | | **39,721,266.34** | **24,572,083.23** |
| **Current assets** | | | |
| Inventories | 10, 29 | 337,613.25 | 274,956.68 |
| Trade receivables | 11, 12, 30 | 25,851,978.91 | 24,807,325.04 |
| Other receivables and other assets | 12, 31 | 2,134,857.61 | 2,182,955.28 |
| Cash and cash equivalents | 13, 32 | 13,533,836.72 | 11,786,376.11 |
| | | **41,858,286.49** | **39,051,613.11** |
| | | **81,579,552.83** | **63,623,696.34** |

## Equity and liabilities

| | Notes | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|---|
| **Equity** | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 33 | 15,386,742.00 | 10,257,828.00 |
| Reserves | 33 | 24,475,469.55 | 15,641,836.12 |
| Retained earnings | | 8,365,027.23 | 5,812,121.08 |
| Own shares | | -134,737.40 | -29,924.62 |
| | | **48,092,501.38** | **31,681,860.58** |
| Minority interest | | 0.00 | 425,830.27 |
| | | **48,092,501.38** | **32,107,690.85** |
| **Non-current liabilities** | | | |
| Financial liabilities | 14, 35 | 547,814.99 | 750,000.00 |
| Other liabilities | 14, 37 | 27,449.07 | 27,449.07 |
| Provisions for post-employment benefits | 16, 34 | 3,881,526.73 | 3,781,674.08 |
| Other provisions | 15, 39 | 3,155,240.00 | 1,464,000.00 |
| Deferred tax liabilities | 20, 28 | 1,887,976.80 | 1,360,947.11 |
| | | **9,500,007.59** | **7,384,070.26** |
| **Current liabilities** | | | |
| Financial liabilities | 14, 35 | 1,999,157.99 | 5,433,834.34 |
| Trade payables | 14, 36 | 8,520,498.38 | 7,604,542.86 |
| Other liabilities | 14, 37 | 10,527,741.16 | 9,774,733.87 |
| Tax provisions | 20, 38 | 1,698,344.33 | 1,205,824.16 |
| Other provisions | 15, 39 | 1,241,302.00 | 113,000.00 |
| | | **23,987,043.86** | **24,131,935.23** |
| | | **81,579,552.83** | **63,623,696.34** |

## Consolidated income statement for the financial year 2006

| | Notes | 2006 | 2005 |
|---|---|---|---|
| | | EUR | EUR |
| | | | |
| 1. Net sales | 17, 40, 52 | 88,531,176.82 | 76,618,004.52 |
| 2. Changes in work in progress | | -69,058.07 | 740.14 |
| 3. Other own work capitalized | | 1,952,745.70 | 1,343,235.62 |
| 4. Other operating income | 41 | 1,907,663.25 | 929,125.37 |
| 5. Material and cost of purchased services | 18, 42 | -62,258,077.08 | -53,412,860.20 |
| 6. Employee benefit costs | 43 | -14,924,425.46 | -12,772,226.88 |
| 7. Depreciation and amortisation expense | 44 | -3,595,802.35 | -2,466,468.73 |
| 8. Other operating expenses | 45 | -8,626,110.84 | -6,658,423.46 |
| **9. Operating result** | | **2,918,111.97** | **3,581,126.38** |
| 10. Financial income | 46 | 125,918.63 | 84,752.03 |
| 11. Financial costs | 46 | -220,620.69 | -21,890.64 |
| 12. Financial result | 46 | -94,702.06 | 62,861.39 |
| 13. Share of profit of associates | 26 | 406,554.38 | 34,272.98 |
| **14. Result before income taxes** | | **3,229,964.29** | **3,678,260.75** |
| 15. Income taxes | 20, 47 | 942,883.04 | -547,770.66 |
| **16. Result for the period** | | **4,172,847.33** | **3,130,490.09** |
| | | | |
| Result for the period attributable to: | | | |
| Equity holders of the parent | | 4,172,847.33 | 3,028,127.98 |
| Minority interest | | 0.00 | 102,362.11 |
| | | **4,172,847.33** | **3,130,490.09** |
| | | | |
| Earnings per share | 54 | 0.30 | 0.30 |

## Consolidated cash flow statement for the financial year 2006

| | Notes | 2006 | 2005 |
|---|---|---|---|
| | | EUR | EUR |
| **Cash flow from operating activities** | 48 | | |
| Result before taxes | | 3,229,964.29 | 3,678,260.75 |
| Adjustments for | | | |
| + Depreciation/amortisation | | 3,595,802.35 | 2,466,468.73 |
| +/- Financial result | | 94,702.06 | -62,861.39 |
| - Share of profit of associates | | -406,554.38 | -34,272.98 |
| -/+ Gains/losses from the disposal of property, plant and equipment and intangible assets | | -2,154.08 | 17,296.66 |
| - Other non-cash income | | -475,983.06 | 0.00 |
| +/- Changes in provisions for post-employment benefits and other provisions | | 13,852.65 | 408,875.85 |
| +/- Changes in inventories | | 17,835.41 | 20,678.30 |
| +/- Changes in receivables | | 3,552,554.05 | -5,451,364.70 |
| +/- Changes in payables | | -475,134.79 | 1,555,970.81 |
| +/- Currency translation differences | | -39,126.55 | 37,428.91 |
| | | **9,105,757.95** | **2,636,480.94** |
| - Interests paid | | -207,391.90 | -43,068.39 |
| + Dividends received | | 137,840.58 | 187,115.57 |
| - Taxes on income paid | | -1,815,961.16 | -1,113,540.83 |
| **Net cash flow from operating activities** | | **7,220,245.47** | **1,666,987.29** |
| **Cash flow from investing activities** | 49 | | |
| - Acquisition of subsidiaries | | -11,164,502.84 | -5,751,325.53 |
| - Investments in property, plant and equipment and other intangible assets | | -2,808,587.46 | -2,427,451.63 |
| - Investments in financial assets | | -9,967,702.35 | -1,731,739.38 |
| + Sale of property, plant and equipment and other intangible assets | | 38,643.71 | 60,095.98 |
| + Sale of financial assets | | 10,034,190.53 | 4,019,208.20 |
| **Net cash flow from investing activities** | | **-13,867,958.41** | **-5,831,212.36** |
| **Cash flow from financing activities** | 50 | | |
| + Proceeds from issue of ordinary shares | | 14,092,860.83 | 0.00 |
| - Purchase of own shares | | -104,812.78 | -551,849.90 |
| - Dividends paid | | -820,053.52 | -606,310.98 |
| +/- Proceeds from borrowing/repayments of financial liabilities | | -4,422,455.96 | 1,877,276.38 |
| **Net cash flow from financing activities** | | **8,745,538.57** | **719,115.50** |
| **Increase / decrease in cash and cash equivalents** | 51 | **2,097,825.63** | **-3,445,109.57** |
| Cash and cash equivalents at beginning of year | | 11,106,098.47 | 14,551,208.04 |
| +/- Increase / decrease | | 2,097,825.63 | -3,445,109.57 |
| **Cash and cash equivalents at end of year** | 51 | **13,203,924.10** | **11,106,098.47** |

## Consolidated statement of changes in equity

| |
|---|
| |
| Balance January 1, 2005 |
| Fair value adjustments of securities |
| Currency translation differences |
| Net income recognised directly in equity |
| Result for the period |
| Total result for the period |
| Dividend |
| Change in own shares |
| Other movements within minority interest |
| **Balance December 31, 2005** |
| |
| Fair value adjustments of securities |
| Currency translation differences |
| Transfer of reserves |
| Net income recognised directly in equity |
| Result for the period |
| Total result for the period |
| Dividend |
| Capital increase by cash contribution |
| Transaction costs related to issue of share capital |
| Change in own shares |
| Other movements within minority interest |
| **Balance December 31, 2006** |

| Notes | Attributable to equity holders of the parent | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Other reserves | Retained earnings | Own shares | Total | | Total |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| | | | | | | | | |
| | 10,257,828.00 | 15,738,974.70 | -194,566.28 | 3,506,217.91 | -410,267.40 | 28,898,186.93 | 959,956.25 | 29,858,143.18 |
| | 0.00 | 0.00 | 3,722.02 | 0.00 | 0.00 | 3,722.02 | 0.00 | 3,722.02 |
| | 0.00 | 0.00 | 41,023.18 | 0.00 | 0.00 | 41,023.18 | 3,607.32 | 44,630.50 |
| | 0.00 | 0.00 | 44,745.20 | 0.00 | 0.00 | 44,745.20 | 3,607.32 | 48,352.52 |
| | 0.00 | 0.00 | 0.00 | 3,028,127.98 | 0.00 | 3,028,127.98 | 102,362.11 | 3,130,490.09 |
| | 0.00 | 0.00 | 44,745.20 | 3,028,127.98 | 0.00 | 3,072,873.18 | 105,969.43 | 3,178,842.61 |
| | 0.00 | 0.00 | 0.00 | -606,310.98 | 0.00 | -606,310.98 | 0.00 | -606,310.98 |
| | 0.00 | 52,682.50 | 0.00 | 0.00 | 380,342.78 | 433,025.28 | 0.00 | 433,025.28 |
| | 0.00 | 0.00 | 0.00 | -115,913.83 | 0.00 | -115,913.83 | -640,095.41 | -756,009.24 |
| 33 | **10,257,828.00** | **15,791,657.20** | **-149,821.08** | **5,812,121.08** | **-29,924.62** | **31,681,860.58** | **425,830.27** | **32,107,690.85** |
| | | | | | | | | |
| | 0.00 | 0.00 | -7,618.92 | 0.00 | 0.00 | -7,618.92 | 0.00 | -7,618.92 |
| | 0.00 | 0.00 | -7,432.48 | 0.00 | 0.00 | -7,432.48 | 0.00 | -7,432.48 |
| | 0.00 | 0.00 | -110,262.00 | 110,262.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | 0.00 | 0.00 | -125,313.40 | 110,262.00 | 0.00 | -15,051.40 | 0.00 | -15,051.40 |
| | 0.00 | 0.00 | 0.00 | 4,172,847.33 | 0.00 | 4,172,847.33 | 0.00 | 4,172,847.33 |
| | 0.00 | 0.00 | -125,313.40 | 4,283,109.33 | 0.00 | 4,157,795.93 | 0.00 | 4,157,795.93 |
| | 0.00 | 0.00 | 0.00 | -820,053.52 | 0.00 | -820,053.52 | 0.00 | -820,053.52 |
| | 5,128,914.00 | 10,770,719.40 | 0.00 | 0.00 | 0.00 | 15,899,633.40 | 0.00 | 15,899,633.40 |
| | 0.00 | -1,811,772.57 | 0.00 | 0.00 | 0.00 | -1,811,772.57 | 0.00 | -1,811,772.57 |
| | 0.00 | 0.00 | 0.00 | 0.00 | -104,812.78 | -104,812.78 | 0.00 | -104,812.78 |
| 33 | 0.00 | 0.00 | 0.00 | -910,149.66 | 0.00 | -910,149.66 | -425,830.27 | -1,335,979.93 |
| | **15,386,742.00** | **24,750,604.03** | **-275,134.48** | **8,365,027.23** | **-134,737.40** | **48,092,501.38** | **0.00** | **48,092,501.38** |

# Consolidated notes for the financial year 2006

## The company

Within the past few years BRAIN FORCE HOLDING AG, Vienna, transformed itself from a pure project service provider to an IT solutions provider. The BRAIN FORCE Group offers its products and services on the relevant markets through individual subsidiaries, mainly in the sectors insurance and financial services, telecommunications and industry. The company's head office is located at IZD Tower, Wagramer Straße 19, 1220 Vienna, Austria.

## Accounting and measurement principles

**(1) Financial reporting principles**
The consolidated financial statements at December 31, 2006 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the applicable Austrian regulations pursuant to Section 245a HGB. Presentation currency is the Euro.

The preparation of the consolidated financial statements in accordance with generally accepted accounting and measurement principles pursuant to IFRS, as adopted by the EU, requires the use of estimates and assumptions which influence the amount and presentation of assets and liabilities in the balance sheet, disclosed contingent assets and liabilities at the balance sheet date, and income and expenses recorded during the reporting period. Although these estimates are made by the Management Board to the best of their knowledge and are based on current transactions, actual values may eventually differ from these estimates.

The International Accounting Standards Board (IASB) published a number of changes to existing standards as well as new standards and interpretations which are mandatory as of 2006. These standards also have to be applied in the EU and relate to the following issues:

- Amendment to IAS 19 Concerning Reporting Actuarial Gains and Losses, Multi-employer Plans, as well as Disclosures (Option)
- Amendment to IAS 21 The Effects of Changes in Foreign Exchange Rates
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions IAS 39 paragraph 80
- Amendment to IAS 39 Fair Value Option IAS 39 paragraph 9 (b)
- Amendment to IAS 39 and IFRS 4 Financial Guarantee Contracts IAS 39 paragraph 2 (e)
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- Amendment to IFRS 1 and IFRS 6
- IFRIC 4 Determining whether an Arrangement contains a Lease

- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities Arising from Participating in a Special Market: Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (mandatory as of March 1, 2006)
- IFRIC 8 Scope of IFRS 2 (mandatory as of May 1, 2006)
- IFRIC 9 Reassessment of Embedded Derivatives (mandatory as of June 1, 2006)

### First-time adoption of new financial reporting standards

Of the above-mentioned amendments to existing standards, new standards and interpretations all regulations which became mandatory were adopted for the first time in 2006.

The first-time adoption of these regulations had no material effect on the financial position, cash flows and performance of the Group.

### New financial reporting regulations which are not yet mandatory

The IASB adopted further standards or amendments to standards and interpretations which are not yet mandatory for the financial year 2006. The following regulations had been adopted by the EU by the time these consolidated financial statements were prepared and published in the official journal.

- Amendment to IAS 1 Capital Disclosures
- IFRS 7 Financial Instruments: Disclosures

The effects of these standards cannot yet be estimated reliably.

The following standards or amendments to standards and interpretations were adopted by the IASB or IFRIC, however, by the time these consolidated financial statements were prepared, they had not yet been adopted by the EU.

- IFRIC 10 Interim Financial Reporting and Impairment (mandatory for accounting periods beginning on or after November 1, 2006)
- IFRIC 11 Group and Treasury Share Transactions pursuant to IFRS 2 (mandatory for accounting periods beginning on or after March 1, 2007)
- IFRIC 12 Service Concession Arrangements (mandatory for accounting periods beginning on or after January 1, 2008)
- IFRS 8 Operating Segments (mandatory for accounting periods beginning on or after January 1, 2009)

The effects of these standards cannot yet be estimated reliably.

**(2) Principles of consolidation**

The financial statements included in consolidation were all drawn up with a uniform consolidated balance sheet date at December 31, 2006.

In addition to BRAIN FORCE HOLDING AG, domestic and foreign subsidiaries are included in the consolidated financial statements over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

### Consolidated group

INDIS S.p.A., Milan, Italy, which was acquired in the financial year 2005, was merged with BRAIN FORCE SOFTWARE S.p.A., Milan, Italy, with retroactive effect as of January 1, 2006 by registration in the commercial register dated January 12, 2006. Subsequently, BRAIN FORCE SOFTWARE S.p.A. was renamed to BRAIN FORCE S.p.A. by registration in the commercial register dated February 6, 2006.

With purchase agreement dated April 21, 2006 BRAIN FORCE HOLDING AG acquired the remaining 15 percent of the shares in Brain Force Software a.s., Prague, Czech Republic.

On June 22, 2006 a purchase and transfer agreement concerning all shares in SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH was concluded on a condition precedent. Upon occurrence of all stipulated conditions the shares were transferred to BRAIN FORCE HOLDING AG on September 29, 2006.

In an extraordinary shareholders' meeting of Brain Force Financial Solutions AG, Munich, Germany, held on February 23, 2006 the resolution was passed to transfer the shares of the minority shareholders (4.85 percent) for a cash consideration to BRAIN FORCE HOLDING AG as the majority shareholder. The transfer of all shares was made by registration in the commercial register on July 17, 2006. Subsequently, Brain Force Financial Solutions AG, based on a merger agreement and a resolution passed by the general meeting dated August 7, 2006, was merged with the receiving company, BRAIN FORCE Software GmbH, Unterschleißheim, Germany. The registration in the commercial register was made on August 30, 2006.

In the financial year BRAIN FORCE HOLDING AG increased its share in KEMP Technologies Inc., New York, USA, from 10 percent to 30 percent. After exceeding the 20 percent limit, the company has been recognized under the equity method since June 30, 2006.

By purchase agreement dated December 21, 2006 BRAIN FORCE Software GmbH, Unterschleißheim, Germany, has increased its share in SFP Software für FinanzPartner GmbH, Munich, Germany, from 49 percent to 100 percent. SFP Software für FinanzPartner GmbH was recognized in the income statement for the financial year 2006 under the equity method. The transitional consolidation was carried out with effect as of December 31, 2006.

Thus, the consolidated financial statements comprise BRAIN FORCE HOLDING AG, Vienna, and all the subsidiaries and associated companies listed below:

| Company | Method of consolidation | Share in percent |
|---|---|---|
| | | |
| BRAIN FORCE SOFTWARE GmbH, Vienna | F | 100 |
| BRAIN FORCE Software GmbH, Unterschleißheim, Germany | F | 100 |
| BRAIN FORCE Hamburg GmbH, Unterschleißheim, Germany [1] | F | 100 |
| BRAIN FORCE S.p.A., Milan, Italy | F | 100 |
| BRAIN FORCE Network Solutions B.V., Veenendaal (formerly BRAIN FORCE Software B.V., Amsterdam), Netherlands | F | 100 |
| BRAIN FORCE B.V. (formerly VAI B.V.), Veenendaal, Netherlands | F | 100 |
| BFS Brain Force Software AG, Kloten, Switzerland | F | 100 |
| BRAIN FORCE SOFTWARE Ltd., Cambridge, Great Britain | F | 100 |
| Brain Force Software a.s., Prague, Czech Republic | F | 100 |
| Brain Force Software s.r.o., Bratislava, Slovakia [2] | F | 100 |
| NSE Capital Venture GmbH, Munich, Germany [1] | F | 100 |
| SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH, Langen, Germany | F | 100 |
| SFP Software für FinanzPartner GmbH, Munich, Germany [1] | F/E | 100 |
| CONSULTING CUBE s.r.l., Bologna, Italy [3] | E | 25 |
| KEMP Technologies Inc., New York, USA | E | 30 |
| F... Full consolidation | | |
| E... Equity method of consolidation | | |

1) The share is held by BRAIN FORCE Software GmbH, Unterschleißheim, Germany.

2) The share is held by Brain Force Software a.s., Prague, Czech Republic.

3) The share is held by BRAIN FORCE S.p.A., Milan, Italy.

## Methods of consolidation

Consolidation is carried out in accordance with the regulations of IFRS 3. All business combinations are accounted for using the purchase method. The acquisition costs of the shares in the subsidiaries included in consolidation plus costs directly attributable to the acquisition are offset against the proportionate net assets based on the fair values of the assets and liabilities assumed at the time of acquisition or transfer of control.

Identifiable intangible assets are recognised separately and amortised systematically. The remaining goodwill is allocated to the cash-generating unit(s) and is tested for impairment at least annually at this level.

If the fair value of the net assets of the subsidiary acquired exceeds the cost of acquisition, the assets acquired and liabilities and contingent liabilities assumed as well as acquisition costs have to be remeasured and any remaining excess has to be recognised directly in the income statement.

Intragroup receivables and liabilities, income, expenses and any interim results are eliminated.

### Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). All financial statements are presented in the respective local currencies.

The consolidated financial statements are presented in euros, which is the functional currency of the parent company and the presentation currency of the Group.

The differences resulting from the translation of financial statements of consolidated entities are recognised in equity, not affecting net income.

In the individual financial statements of group companies foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The financial statements of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency at the respective year-end exchange rates.

The euro exchange rates for the major currencies are presented in the following table:

| | | Rate at the balance sheet date 2006 | Rate at the balance sheet date 2005 |
|---|---|---|---|
| Currency | | 1 EUR | 1 EUR |
| CHF | Swiss franc | 1.6085 | 1.5560 |
| GBP | British pound | 0.6710 | 0.6868 |
| CZK | Czech crowns | 27.4800 | 29.0500 |
| SKK | Slovak crowns | 34.5700 | 37.8800 |
| USD | US dollar | 1.3185 | 1.1850 |

### (3) Property, plant and equipment

Property, plant and equipment is stated at historical cost less systematic depreciation. PP&E is depreciated on a straight-line basis over the expected useful lives of the assets. The assets are depreciated on a pro rata temporis basis from the month in which the asset is available for use.

Systematic depreciation is based on the following useful lives which are uniform within the Group:

| | |
|---|---|
| Building investments in non-owned facilities | 10 years |
| IT equipment | 3 to 5 years |
| Office machines | 4 to 5 years |
| Office equipment | 5 to 10 years |

If an asset is impaired, the carrying amount is reduced to its recoverable amount (see note 9).

### Maintenance expenses

Maintenance expenses are recognised in the income statement in the period in which they are incurred.

### (4) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (5) Intangible assets

In accordance with IFRS 3, goodwill arising from a business combination shall not be amortised systematically.

Assets accounted for in connection with the allocation of the purchase price are amortised as follows: product developments on a straight-line basis over 5 years, customer relationships on a straight-line basis over 5 to 7 years, and orders on hand over the corresponding time required for their processing.

Other purchased intangible assets are recognised at cost less amortisation calculated according to the straight-line method and based on the estimated useful lives of the assets. As a rule, estimated useful lives of assets are between 3 and 5 years for software, 3 years for licenses and distribution rights, and 10 years for registered trademarks.

If an asset is impaired, the carrying amount is reduced to its recoverable amount (see note 9). In addition, goodwill shall be tested annually for impairment. Fully amortised goodwill is presented in the statement of fixed assets as a disposal.

**(6) Research and development**

Expenditure on research is recognised as an expense. Development costs, both for bought-in goods and services and also for internal development costs arising from development projects, if they meet the required criteria, are recognised as assets arising from development (other intangible assets) in accordance with IAS 38 to the extent that such expenditure is expected to generate future economic benefits. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are amortised on a straight-line basis over the expected useful life of the respective product, currently 3 to 5 years.

**(7) Associates**

Investments in associates, i.e. companies in which the Group, directly or indirectly, holds more than 20 percent of the voting rights or in another way can exercise a significant influence on the operating policies of the associated company, are accounted for using the equity method. Under this method, investments are initially recorded at cost and subsequently adjusted according to the investor's share in the net assets of the associated company. The income statement reflects the investor's share in the results of the associated company.

**(8) Financial assets**

In addition to investments, financial assets include securities held for an indefinite period that may be sold for liquidity requirements or due to changes in interest rates. They are classified as "available-for-sale".

Available-for-sales securities are subsequently measured at fair value (based on stock prices), with unrealised changes in value being recognised in equity under other reserves.

Investments are also classified as available-for-sale financial assets, they are, however, normally measured at cost, as an active market value does not exist for these companies and the respective fair values cannot be determined reliably at reasonable expense. If there are any indications to a lower fair value, this value will be recognised.

If any indications exist, assets will be tested for impairment. If assets are impaired, the corresponding impairment loss is recognised in profit or loss.

All purchases and sales are recognised at the date of settlement; acquisition costs include transaction costs.

**(9) Impairment of certain non-current assets**

Property, plant and equipment, goodwill and other intangible assets are examined to assess whether altered circumstances or events indicate that the carrying amount is no longer recoverable. If an asset is impaired, the carrying amount is reduced to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. In order to assess impairment, assets are grouped into cash-generating units, i.e. in the smallest identifiable group of assets that generates separate cash inflows (cash-generating units). If the reason for the impairment no longer exists, a corresponding write-up is made, except for goodwill.

**(10) Inventories**

Inventories are recognised at the lower of cost or net realisable value in accordance with IAS 2. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(11) Construction contracts**

The profit from a construction contract is recognised as soon as it can be estimated reliably. The Group uses the percentage-of-completion method to determine the appropriate amount in a period. The stage of completion is shown as the number of hours worked up to the balance sheet date in proportion to all the hours allocated to the project. Losses are recognised at the earliest possible date. Advance payments received are deducted from the receivables from construction contracts. Any negative balance for a construction contract resulting from this will be recognised as a liability from construction contracts.

**(12) Receivables and other assets**

Receivables and other assets are recognised at cost less any necessary provision for impairment. Receivables in foreign currencies are measured at the exchange rate prevailing at the balance sheet date.

Long-term receivables falling due within twelve months after the balance sheet date are recognised under current assets.

**(13) Cash and cash equivalents**

Cash and cash equivalents include cash in hand and bank deposits. Deposits held in foreign currencies are measured at the exchange rate prevailing at the balance sheet date December 31, 2006.

**(14) Liabilities**

Liabilities are recognised at cost or at the amount repayable, if different. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Liabilities in foreign currencies are measured at the exchange rate prevailing at the balance sheet date.

**(15) Provisions**

Provisions are recognised, if the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle this obligation, and that the amount can be estimated reliably.

Long-term provisions are recognised at the amount repayable discounted to the balance sheet date, if the interest effect resulting from discounting is material.

**(16) Provisions for post-employment benefits**

Provisions for post-employment benefits include long-term obligations for pensions and termination benefits (severance payments) calculated in accordance with actuarial methods pursuant to IAS 19. The present value of the defined benefit obligation = DBO is calculated on the basis of the length of service, the expected development of salary and (in the case of pensions) the pension adjustment. The obligation resulting according to the projected unit credit method is reduced for pensions payable by a multi-employer pension fund by the plan assets of the fund. To the extent that the plan assets do not cover the obligation, the net obligation is recognised as a liability under provisions for pensions.

The expense for the period to be recognised includes service cost, interest cost, and expense or income from the amortisation of past service costs and actuarial gains and losses.

The calculation of the obligations is based on actuarial assumptions, particularly with regard to the interest rate applicable for discounting, the rate of increase for salaries and pensions, the pensionable age and probabilities concerning labour turnover and the probability of occurrence.

The calculation is based on local biometrical data.

The interest rate applied in calculating the present value of defined benefit obligations is based on the average market yield on government bonds with the same term to maturity.

Estimated future salary increases are derived from the average salary development of the past years, which is considered realistic for the future.

The deductions for labour turnover and for the probability of occurrence are based on figures for comparable prior periods.

The pensionable age used in the calculation of post-employment benefit obligations is derived from the actual commitments made; severance payments are calculated on the basis of estimated pensionable age.

Actuarial gains and losses are not taken into account unless they exceed 10 percent of the total obligations (corridor). The amount exceeding the corridor will be taken through profit or loss over the average remaining service period of the active staff and recognised in the balance sheet.

Severance payments relate to obligations under Austrian or Italian law.

Severance payments under Austrian labour law are one-off employee benefits, which have to be paid on an enterprise's decision to terminate an employee's employment and when the employee goes into regular retirement. Their amount is based on the years of service and the amount of remuneration.

| | | | | | | |
|---|---|---|---|---|---|---|
| Years of service | 3 | 5 | 10 | 15 | 20 | 25 |
| No. of months remuneration | 2 | 3 | 4 | 6 | 9 | 12 |

Since the beginning of 2003, defined contribution plans have been applicable to employees who join an Austrian company. Starting from the second month of the employment relationship, the employer pays a regular contribution of 1.53 percent of monthly remuneration and any additional payments to a Mitarbeitervorsorgekasse or MVK (statutory scheme for severance payments). No additional obligation exists on the part of the company. The employees' entitlements exist vis-à-vis the respective MVK, and the current contributions paid by the company are recognised under personnel expenses.

Severance payments under Italian law (TFR) are one-off employee benefits which have to be paid as soon as an employee leaves an enterprise. The amount of the compensation is based on the number of monthly salaries (indexed), whereby a monthly salary (annual salary divided by 13.5) is earned per service year. The employee can receive an advance of up to 70 percent of the entitlement under certain conditions, e.g. to purchase a home or medical care.

### (17) Net sales

Revenue is recognised upon delivery or transfer of risk to the customer, rebates and other discounts are deducted. Sales relating to the rendering of services in accordance with IAS 18 are measured using the percentage-of-completion method.

### (18) Cost of material and purchased services

Payroll costs for project staff are recognised as cost of sales to present the earnings situation fairly.

### (19) Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (20) Income taxes

Income taxes are recognised according to the source of tax and are based on the corresponding profit of the financial year.

Deferred taxes are determined on the basis of all temporary differences arising from tax values and IFRS values of all assets and liabilities using the liability method and the relevant national tax rates prevailing on the balance sheet date or which have been substantially enacted and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax liabilities are recognised under long-term liabilities, deferred tax assets under long-term assets.

The most important temporary differences result from the capitalisation of development costs and other assets and liabilities identifiable in the allocation of the purchase price under IFRS 3, the depreciation of property, plant and equipment, receivables, provisions for tax purposes, construction contracts and the provisions for post-employment benefit obligations. Deferred taxes relating to tax loss carryforwards and deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised.

**(21) Financial risk management**

The BRAIN FORCE Group is exposed to a variety of financial risks (liquidity risk, credit risk, foreign exchange risk, interest rate risk). The financial risk management is carried out centrally under policies approved by the Executive Board and is designed to minimize the potential negative effects on the financial situation of the Group.

### Liquidity risk

Liquidity risk refers to the risk that an entity will not have sufficient funds available at any given time to meet its obligations on time. As part of established management mechanisms, monthly rolling financial planning is monitored at management level. Statistical assessments of funds available at varying points in time are used on which to base funding decisions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

### Credit risk

It covers the risk of default in particular, hence the risk that one party fails to meet its obligations and that a default occurs. Risk management accounts for a significant deterioration of customers' creditworthiness.

### Foreign exchange risk

The risk resulting from fluctuations in fair values of financial instruments or other balance sheet items and/or cash flows due to foreign currency fluctuations is referred to as currency risk. In particular, the risk exists where business transactions in currencies other than the local currency of the Group exist or can arise in the course of regular business operations.

The BRAIN FORCE Group is not exposed to significant foreign exchange risks as part of its operating activities. About 98 percent of its sales are generated within the Euro zone, the rest in Switzerland, the Czech Republic and Slovakia.

2 percent of the foreign exchange exposure results from trade receivables not denominated in Euros, and 2 percent from trade payables not denominated in Euros.

The Group invested approx. EUR 1.21 million in USD by acquiring an interest and a convertible bond.

Foreign currency positions are not hedged by derivative financial instruments, because the risk was considered insignificant at the balance sheet date.

### Interest rate risk

The interest rate risk refers to the risk resulting from the change of fluctuations in fair values of financial instruments, other balance sheet items and/or interest-related cash flows due to fluctuations of market interest rates. The interest rate risk comprises the fair value risk for balance sheet items bearing fixed interest rates and the cash flow risk for balance sheet items bearing variable interest rates.

For financial instruments carrying fixed interest rates a market interest rate is stipulated for the entire period. The risk exists that the market value (present value of future payments, i.e. interest and repayable amount, discounted with the market interest rate for the remaining term prevailing at the balance sheet date) of the financial instrument changes when the interest rate changes. The price risk caused by changes in interest rate results in a loss or gain, if the fixed-interest bearing financial instrument is sold before maturity. The interest rate for variable interest bearing financial instruments is adjusted immediately and normally follows the respective market interest rate. The risk involved here is that the market interest rate fluctuates and, as a result, changed interest payments will fall due.

The BRAIN FORCE Group is predominantly self-financed. Financial liabilities are mainly short-term and carry variable interest rates. For the purpose of hedging the favourable interest conditions in the case of a loan with a maturity of approx. two years, an interest rate swap was concluded in the previous year to turn the variable into fixed cash flows. The loan was paid back early at the end of 2006. The interest rate swap matures on June 30, 2007.

The income and operating cash flows of the BRAIN FORCE Group are largely affected by changes in market interest rates. Cash and cash equivalents are invested on a short-term basis.

### Derivative financial instruments

Except for one interest rate swap, the Group does not use derivative financial instruments.

Embedded derivative financial instruments exist, if the economic characteristics and risks of the derivative are not closely related to those of the underlying transaction, a derivative financial instrument concluded on the same terms had to be recognised separately and the hybrid financial instrument is not measured at fair value and recognised in profit or loss.

The present case of an embedded derivative financial instrument with the BRAIN FORCE Group is a call option for BRAIN FORCE which is related to a convertible bond. The underlying transaction is an original financial instrument which is available for sale, however, as it is not listed on the stock exchange and as an active market does not exist, it is measured at amortised cost.

If they can be determined reliably, derivative financial instruments are segregated from the respective underlying transaction, measured separately at fair values and recognised under expenses or income.

### Fair values

Due to their short-term nature, trade receivables, other receivables and payables and cash and cash equivalents recognised in the balance sheet basically correspond to their fair values. The fair values stated for financial liabilities are determined as the present value of discounted future cash flows using the market interest rates applicable for financial debt of corresponding maturity and risk structure.

## (22) Accounting estimates and assumptions

In applying the accounting and measurement principles BRAIN FORCE Group to a certain extent made assumptions about future developments and used estimates with regard to non-current assets, impairments of receivables, provisions and deferred taxes. Actual values may eventually differ from these assumptions and estimates.

### Impairment of goodwill

The effects of adverse changes of estimates made until December 31, 2006 of the interest rate by plus 10 percent or of the cash flow by minus 10 percent would not result in an impairment of the recognised goodwill.

### Deferred taxes

If future taxable income within the plan period defined for the recognition and measurement of deferred taxes fell 10 percent short of the value assumed at the balance sheet date, the recognised net position of deferred tax assets would probably have to be reduced by EUR 598 thousand.

### Provisions for post-employment benefits

In the BRAIN FORCE Group actuarial gains and losses for pensions and severance payments under Austrian law are recognised in the income statement over the average remaining service period considering the corridor rule, in case of severance payments under Italian law immediately at the full amount.

The present value of the obligation depends on a number of factors which are based on actuarial assumptions. The assumptions used in calculating the expenses include the estimated increase in salaries and the interest rate. Any change in these assumptions has effects on the present value of the obligation and on actuarial gains and losses not yet recognised. Applying the corridor method, the amount of actuarial gains and losses outside the corridor has to be allocated in profit or loss over the average remaining service period of the beneficiary.

Estimated future salary increases are derived from the average salary development of the past years, which is considered realistic for the future.

The Group calculates the relevant interest rate at the end of each year. This is the interest rate which is used in the calculation of the present value of expected future cash outflows for the payment of the obligation. The calculation of the interest rate is based on the interest rate for government bonds of the highest credit standing denominated in the currency in which the services are paid and whose maturities equal those of the pension and severance payment obligations.

Further material assumptions are in part based on market conditions.

If the assumptions were based on a discount rate which fell 10 percent short of the estimates made by management, the present value of the obligation for pensions and severance payments would have to be raised by EUR 178 thousand.

### Other balance sheet items

With regard to the other balance sheet items, changes in estimates and assumptions do not result in significant effects on the financial position, the financial performance and the cash flow for the following financial year.

## Notes on individual items of the consolidated balance sheet

### (23) Property, plant and equipment

Property, plant and equipment have changed as follows:

| | Building investments in non-owned facilities EUR | Office machines, IT equipment, other office equipment EUR | Total EUR |
|---|---|---|---|
| Acquisition or production costs Jan. 1, 2006 | 979,027.33 | 3,975,200.53 | 4,954,227.86 |
| Currency translation differences | 631.14 | 913.43 | 1,544.57 |
| Additions | 63,078.65 | 664,251.78 | 727,330.43 |
| Additions from change in consolidated group | 10,974.99 | 116,123.58 | 127,098.57 |
| Disposals | 0.00 | -430,403.47 | -430,403.47 |
| Transfers | -176,144.49 | 160,156.85 | -15,987.64 |
| **Acquisition or production costs Dec. 31, 2006** | **877,567.62** | **4,486,242.70** | **5,363,810.32** |
| Accumulated depreciation Jan. 1, 2006 | 582,896.05 | 2,834,004.92 | 3,416,900.97 |
| Currency translation differences | 83.69 | 781.38 | 865.07 |
| Depreciation charge 2006 | 109,116.11 | 628,246.64 | 737,362.75 |
| Disposals | 0.00 | -393,940.84 | -393,940.84 |
| Transfers | -133,126.68 | 121,681.51 | -11,445.17 |
| Accumulated depreciation Dec. 31, 2006 | 558,969.17 | 3,190,773.61 | 3,749,742.78 |
| **Carrying amounts Dec. 31, 2006** | **318,598.45** | **1,295,469.09** | **1,614,067.54** |

| | Building investments in non-owned facilities EUR | Office machines, IT equipment, other office equipment EUR | Total EUR |
|---|---|---|---|
| Acquisition or production costs Jan. 1, 2005 | 709,230.62 | 3,729,854.29 | 4,439,084.91 |
| Currency translation differences | 525.19 | 782.80 | 1,307.99 |
| Additions | 85,150.48 | 582,017.90 | 667,168.38 |
| Additions from change in consolidated group | 282,226.14 | 264,117.36 | 546,343.50 |
| Disposals | -98,105.10 | -601,571.82 | -699,676.92 |
| **Acquisition or production costs Dec. 31, 2005** | **979,027.33** | **3,975,200.53** | **4,954,227.86** |
| Accumulated depreciation Jan. 1, 2005 | 540,836.34 | 2,928,564.57 | 3,469,400.91 |
| Currency translation differences | 33.19 | 435.55 | 468.74 |
| Depreciation charge 2005 | 107,359.05 | 468,885.69 | 576,244.74 |
| Disposals | -65,332.53 | -563,880.89 | -629,213.42 |
| Accumulated depreciation Dec. 31, 2005 | 582,896.05 | 2,834,004.92 | 3,416,900.97 |
| **Carrying amounts Dec. 31, 2005** | **396,131.28** | **1,141,195.61** | **1,537,326.89** |

**(24) Goodwill**

Goodwill has changed as follows:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Carrying amount Jan. 1 | 10,066,500.26 | 4,706,826.78 |
| Addition | 11,238,452.22 | 5,359,673.48 |
| **Carrying amount Dec. 31** | **21,304,952.48** | **10,066,500.26** |

The goodwill at January 1 of the financial year results from past acquisitions of corresponding shares for BRAIN FORCE S.p.A., Milan, Italy (formerly: TEMA Studio di Informatica S.p.A.), beusen Solutions GmbH, Berlin, Germany (meanwhile merged with BRAIN FORCE Software GmbH, Unterschleißheim, Germany), Brain Force Financial Solutions AG, Munich, Germany (formerly: NSE Software AG, merged with BRAIN FORCE Software GmbH, Unterschleißheim, Germany, in the financial year 2006), INDIS S.p.A., Milan, Italy (merged with BRAIN FORCE S.p.A., Milan, Italy, in the financial year 2006), and BRAIN FORCE B.V., Veenendaal, Netherland (formerly VAI B.V.).

The addition results from the acquisition of a company as well as from an adjustment of the acquisition costs of a business combination carried out in the previous year and is broken down as follows:

| | EUR |
|---|---|
| SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH, Langen, Germany | 5,645,524.22 |
| BRAIN FORCE B.V. (formerly VAI B.V.), Veenendaal, Netherlands | 5,592,928.00 |
| **Carrying amount Dec. 31, 2006** | **11,238,452.22** |

For further details on the acquisition of SYSTEAM see note 53.

In the previous year BRAIN FORCE HOLDING AG has taken over all shares in VAI B.V., Veenendaal, Netherlands (now BRAIN FORCE B.V.). The purchase price consists of a fixed cash purchase price and variable purchase price components. In addition, a mutual purchase option for a subsidiary to be established is defined in the agreement, to which all rights relating to a certain product shall be transferred within a certain period of time. These provisions were stipulated by amendment dated October 30, 2006. In accordance with the amendment to the purchase agreement all future rights, even those exceeding the previous term, to the product were acquired with immediate effect, creating the basis for the successful utilisation of good-will, derived among other things from the know how of the company's staff . Subsequently, the earn-out phase for future revenues from licensing was extended by 3 months in the amendment. The acquisition costs for the redemption of the mutual purchase option defined in the purchase agreement as well as for the extension of the earn-out phase from licensing stipulated in the amendment according to the current assessment of future licensing amount to EUR 5,592,928.

The impairment tests in the financial year 2006 were carried out based on the following cash-generating units:

| | Allocated goodwill EUR |
|---|---|
| Network, Communication and Security Solutions | 1,504,242.00 |
| BRAIN FORCE S.p.A. - Segment BS | 1,783,670.06 |
| BRAIN FORCE S.p.A. - Segment TI | 1,014,886.50 |
| BRAIN FORCE Software GmbH - Segment BS - Financial Solutions division | 1,172,811.78 |
| BRAIN FORCE B.V. | 10,183,817.92 |
| SYSTEAM - Segment ES | 3,838,956.47 |
| SYSTEAM - Segment TI | 1,806,567.75 |
| **Carrying amount Dec. 31, 2006** | **21,304,952.48** |

The cash-generating unit Network, Communication and Security Solutions operates in the Technology and Infrastructure (TI) segment in Germany, Austria and Switzerland.

The cash-generating unit BRAIN FORCE S.p.A. - Segment BS includes the business operations of INDIS S.p.A., which was merged with BRAIN FORCE S.p.A., effective as of January 1, 2006.

The cash-generating unit BRAIN FORCE S.p.A. - Segment TI includes the respective business activities except for the products and services from the Packaging Robot and ID-Suite division, since these are allocated to the cash-generating unit BRAIN FORCE B.V.

In the financial year 2006 Brain Force Financial Solutions AG was merged with BRAIN FORCE Software GmbH. The business of Brain Force Finanical Solutions AG represents a separate cash-generating unit in the Segment BS.

The cash-generating unit BRAIN FORCE B.V. includes the business of the Company in the Netherlands (Segment TI), as well as the business activities relating to products and services in the Packaging Robot and ID-Suite division in other companies (particularly in Italy and Germany in the Segment TI) of the BRAIN FORCE Group.

The company SYSTEAM, which was acquired in the financial year 2006, operates in the Segments ES and TI.

The recoverable amount of the cash-generating units was determined based on value-in-use calculations. These calculations use cash flow projections based on the financial budget for 2007 approved by management and the resulting medium-term planning for the following two years. Cash flows beyond this three-year period are extrapolated using the estimated growth rates stated below, which do not exceed the long-term average growth rate for the respective business segments.

Key assumptions used for value-in-use calculations:

| | Gross margin | Growth rate | Discount rate before tax |
|---|---|---|---|
| | % | % | % |
| Network, Communication and Security Solutions | 51.2 | 1.5 | 14.2 |
| BRAIN FORCE S.p.A. - Segment BS | 33.6 | 1.5 | 27.3 |
| BRAIN FORCE S.p.A. - Segment TI | 28.3 | 1.5 | 27.5 |
| BRAIN FORCE Software GmbH - Segment BS Financial Solutions division | 47.9 | 1.5 | 12.5 |
| BRAIN FORCE B.V. | 59.6 | 1.0 | 18.3 |
| SYSTEAM - Segment ES | 19.9 | 1.25 | 16.7 |
| SYSTEAM - Segment TI | 25.3 | 1.25 | 16.9 |

The gross margins listed are average values for the planning period of the business plan, based on values from previous years and on estimates regarding market developments and market position, taking into account cost structures.

The respective discount rates before tax were determined iteratively on the basis of cash flows before taxes, using the value in use that is calculated by applying discount rates after taxes to cash flows after taxes, which account for the realisable tax loss carryforwards.

The discount rate used was derived from the weighted average cost of capital (WACC), computed according to the capital asset pricing model (CAPM), reflecting the financial structure and market risks associated with the business segments.

## (25) Other intangible assets

Other intangible assets have changed as follows:

| | Development costs EUR | Other EUR | Total EUR |
|---|---|---|---|
| Acquisition or production costs Jan. 1, 2006 | 8,929,583.31 | 2,912,320.49 | 11,841,903.80 |
| Currency translation differences | 8,322.55 | 10,388.66 | 18,711.21 |
| Additions | 1,952,745.70 | 128,511.33 | 2,081,257.03 |
| Additions from change in consolidated group | 0.00 | 3,047,159.91 | 3,047,159.91 |
| Disposals | -38,940.00 | -1,117.09 | -40,057.09 |
| Transfers | 0.00 | 15,987.64 | 15,987.64 |
| **Acquisition or production costs Dec. 31, 2006** | **10,851,711.56** | **6,113,250.94** | **16,964,962.50** |
| Accumulated amortisation Jan. 1, 2006 | 2,241,063.08 | 1,394,721.75 | 3,635,784.83 |
| Currency translation differences | 1,985.09 | 9,962.53 | 11,947.62 |
| Amortisation charge 2006 | 2,246,676.53 | 611,763.07 | 2,858,439.60 |
| Disposals | -38,940.00 | -1,090.09 | -40,030.09 |
| Transfers | 0.00 | 11,445.17 | 11,445.17 |
| Accumulated amortisation Dec. 31, 2006 | 4,450,784.70 | 2,026,802.43 | 6,477,587.13 |
| **Carrying amounts Dec. 31, 2006** | **6,400,926.86** | **4,086,448.51** | **10,487,375.37** |

| | Development costs EUR | Other EUR | Total EUR |
|---|---|---|---|
| Acquisition or production costs Jan. 1, 2005 | 5,346,617.23 | 1,241,212.12 | 6,587,829.35 |
| Currency translation differences | 5,378.84 | 3,295.61 | 8,674.45 |
| Additions | 1,343,235.62 | 417,047.63 | 1,760,283.25 |
| Additions from change in consolidated group | 2,925,700.00 | 1,250,765.13 | 4,176,465.13 |
| Disposals | -691,348.38 | 0.00 | -691,348.38 |
| **Acquisition or production costs Dec. 31, 2005** | **8,929,583.31** | **2,912,320.49** | **11,841,903.80** |
| Accumulated amortisation Jan. 1, 2005 | 1,460,458.06 | 967,209.91 | 2,427,667.97 |
| Currency translation differences | 423.33 | 1,888.78 | 2,312.11 |
| Amortisation charge 2005 | 1,464,600.93 | 425,623.06 | 1,890,223.99 |
| Disposals | -684,419.24 | 0.00 | -684,419.24 |
| Accumulated amortisation Dec. 31, 2005 | 2,241,063.08 | 1,394,721.75 | 3,635,784.83 |
| **Carrying amounts Dec. 31, 2005** | **6,688,520.23** | **1,517,598.74** | **8,206,118.97** |

In addition to acquired software and rights, the item “other intangible assets” includes other intangible assets, such as distribution rights, orders on hand and customer relationships, identified in the allocation of the purchase price in connection with acquisitions under IFRS 3.

**(26) Investments in associates**

The investments in associates, which are recognised according to the equity method changed as follows:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Carrying amount Jan. 1 | 403,880.80 | 535,221.85 |
| Addition due to acquisition | 583,278.65 | 21,501.54 |
| Distribution | -137,840.58 | -187,115.57 |
| Profit share after taxes | 406,554.38 | 34,272.98 |
| Elimination of intragroup transactions | -12,286.69 | 0.00 |
| Disposal | -706,729.13 | 0.00 |
| **Carrying amount Dec. 31** | **536,857.43** | **403,880.80** |

The carrying amount at the beginning of the financial year relates to the 49 percent share in SFP Software für FinanzPartner GmbH, Munich, Germany, held by BRAIN FORCE Software GmbH, Unterschleißheim, Germany, as well as the 25 percent share in CONSULTING CUBE s.r.l., Bologna, Italy, held by BRAIN FORCE S.p.A., Milan, Italy.

The addition relates to the investments in KEMP Technologies Inc., New York, USA. As a result of the acquisition of additional shares the shareholding increased from 10 percent at the beginning of the year to now 30 percent (refer to note 27).

The disposal relates to the share in SFP Software für FinanzPartner GmbH. As a result of the acquisition of the outstanding 51 percent with economic effect as of December 31, 2006 all assets and liabilities of SFP are included in these consolidated financial statements under full consolidation.

Selected financial data of the companies reported as associates at the balance sheet date are as follows:

| | EUR |
|---|---|
| Assets | 1,199,006.82 |
| Liabilities | 1,187,831.61 |
| Net sales | 1,484,040.28 |
| Result for the period | -176,261.27 |

### (27) Financial assets

Financial assets changed as follows:

| | Securities | Investments | Total |
|---|---|---|---|
| | EUR | EUR | EUR |
| Carrying amount Jan. 1, 2006 | 190,902.24 | 270,450.20 | 461,352.44 |
| Reclassification / Disposal | 0.00 | -270,450.20 | -270,450.20 |
| Adjustment to fair value | -7,618.92 | 0.00 | -7,618.92 |
| **Carrying amount Dec. 31, 2006** | **183,283.32** | **0.00** | **183,283.32** |

The securities are shares in investment funds, which are classified as available-for-sale and carried at fair value (stock market price at the balance sheet date).

The reclassification relates to the shares acquired in the previous year (preferred shares series A) in KEMP Technologies Inc., New York, USA, in the amount of 10 percent. According to the stipulations of the purchase agreement dated September 30, 2005 an additional 20 percent were acquired in the financial year and the company was accounted for under the equity method (refer to note 26).

### (28) Deferred taxes

Deferred tax assets are recognised under other non-current assets, deferred tax liabilities are included in non-current liabilities.

Deferred taxes are calculated as follows:

| | Jan. 1, 2006 | Currency translation | Addition due to acquisition | Change in income statement | Dec. 31, 2006 |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| **Deferred tax assets** | | | | | |
| Provisions for post-employment benefits | 137,573.54 | 0.00 | 0.00 | 13,211.10 | 150,784.64 |
| Tax loss carryforwards | 3,882,445.40 | -3,469.63 | 50,590.00 | 2,044,998.72 | 5,974,564.49 |
| Other | 242,795.72 | 0.00 | 0.00 | 134,568.60 | 377,364.32 |
| | **4,262,814.66** | **-3,469.63** | **50,590.00** | **2,192,778.42** | **6,502,713.45** |
| **Deferred tax liabilities** | | | | | |
| Development costs and other intangible assets | 2,596,730.55 | 0.00 | 0.00 | -574,997.68 | 2,021,732.87 |
| Other non-current assets | 84,180.90 | 0.00 | 1,125,957.00 | 187,570.92 | 1,397,708.82 |
| Receivables | 390,407.85 | 0.00 | 0.00 | -242,522.06 | 147,885.79 |
| Other | 254,474.26 | 0.00 | 1,359.00 | -201,428.77 | 54,404.49 |
| | **3,325,793.56** | **0.00** | **1,127,316.00** | **-831,377.59** | **3,621,731.97** |

| | Jan. 1, 2005 | Currency translation | Addition due to acquisition | Change in income statement | Dec. 31, 2005 |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| **Deferred tax assets** | | | | | |
| Provisions for post-employment benefits | 129,444.47 | 0.00 | 14,458.59 | -6,329.52 | 137,573.54 |
| Tax loss carryforwards | 1,990,901.31 | -931.66 | 600,000.00 | 1,292,475.75 | 3,882,445.40 |
| Other | 60,012.54 | 0.00 | 29,578.41 | 153,204.77 | 242,795.72 |
| | **2,180,358.32** | **-931.66** | **644,037.00** | **1,439,351.00** | **4,262,814.66** |
| **Deferred tax liabilities** | | | | | |
| Development costs and other intangible assets | 1,391,455.81 | 0.00 | 1,335,250.00 | -129,975.26 | 2,596,730.55 |
| Other non-current assets | 88,045.93 | 0.00 | 0.00 | -3,865.03 | 84,180.90 |
| Receivables | 315,643.46 | 0.00 | 0.00 | 74,764.39 | 390,407.85 |
| Other | 41,681.85 | 0.00 | 0.00 | 212,792.41 | 254,474.26 |
| | **1,836,827.05** | **0.00** | **1,335,250.00** | **153,716.51** | **3,325,793.56** |

Deferred tax assets and deferred tax liabilities are netted and shown in the balance sheet as assets or liabilities provided that the company has an enforceable right to offset actual tax refund claims against actual tax liabilities and that the deferred tax assets and tax liabilities relate to income taxes levied by the same financial authority.

The following amounts were shown in the consolidated balance sheet after netting:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Deferred tax assets | 4,768,958.28 | 2,297,968.21 |
| Deferred tax liabilities | -1,887,976.80 | -1,360,947.11 |
| **Carrying amount Dec. 31** | **2,880,981.48** | **937,021.10** |

Within the next 12 months a realisation of deferred tax assets is expected in the amount of EUR 1,865,217.69 and a settlement of deferred tax liabilities in the amount of EUR 678,734.03.

Deferred tax assets are recognised for loss carryforwards to the extent that it is probable that future taxable profit will be available against which they can be utilised. In assessing the probability, estimates are based on the available budgeted figures.

Thus, no deferred tax assets have been recognised in the Group for unused tax losses that can be carried forward for an unlimited period of time, nor for deductible differences:

| | Basis | Deferred tax claim |
|---|---|---|
| Dec. 31, 2006 | EUR | EUR |
| Tax loss carryforwards | 61,346,305.13 | 21,757,466.88 |
| Deductible temporary differences | 2,056,809.24 | 514,202.31 |
| | **63,403,114.37** | **22,271,669.19** |

| | Basis | Deferred tax claim |
|---|---|---|
| Dec. 31, 2005 | EUR | EUR |
| Tax loss carryforwards | 64,152,502.34 | 24,274,654.26 |
| Deductible temporary differences | 3,822,845.08 | 955,711.27 |
| | **67,975,347.42** | **25,230,365.53** |

The amount of deductible differences mainly relates to write-downs made in previous years, which have to be allocated for tax purposes on a systematic basis over 7 years.

**(29) Inventories**

Inventories are measured at acquisition or production cost. A write-down to the net realisable value was not necessary in the financial years.

Inventories comprise the following items:

| | Dec. 31, 2006 | Dec. 31, 2005 |
|---|---|---|
| | EUR | EUR |
| Work in progress | 229,800.17 | 274,956.68 |
| Goods for resale | 107,813.08 | 0.00 |
| | **337,613.25** | **274,956.68** |

### (30) Trade receivables

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| Trade receivables already invoiced | 24,341,282.91 | 20,962,530.12 |
| Less allowance for doubtful accounts | -1,843,404.53 | -250,198.02 |
| Trade receivables not yet invoiced | 3,080,263.19 | 3,127,105.03 |
| Receivables from construction/service contracts | 273,837.34 | 673,488.87 |
| Receivables from associates | 0.00 | 294,399.04 |
| | **25,851,978.91** | **24,807,325.04** |

Adequate allowances were made to account for the estimated risk of default on receivables.

Total contract costs incurred and profits recognised for current projects amount to EUR 324,189.06 at the balance sheet date (prior year: EUR 1,486,124.07). Advances received amount to EUR 50,351.72 (prior year: EUR 492,567.27).

### (31) Other receivables and assets

Other receivables and assets comprise the following items:

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| **Non-current:** | | |
| Fair value of insurance cover for pension commitments | 0.00 | 49,038.00 |
| Deposits | 116,046.47 | 183,062.06 |
| Convertible bond | 682,596.00 | 759,510.00 |
| Receivable BHW Lebensversicherung AG | 0.00 | 583,319.04 |
| Other | 27,129.45 | 24,006.56 |
| | **825,771.92** | **1,598,935.66** |
| **Current:** | | |
| Prepayments | 157,139.30 | 61,502.28 |
| Revenue authorities | 156,059.86 | 83,365.71 |
| Maintenance and other prepaid expenses | 774,862.65 | 642,183.89 |
| Receivable BHW Lebensversicherung AG | 583,318.99 | 1,166,638.15 |
| Other | 463,476.81 | 229,265.25 |
| | **2,134,857.61** | **2,182,955.28** |

The fair value of insurance cover for pension commitments is considered a plan asset when calculating the provision for pensions to be recognised in the balance sheet (see note 34), as long as the insurance is pledged in favour of the employee.

Simultaneously with the conclusion of the purchase agreement on the acquisition of shares in KEMP Technologies Inc, New York, USA (see note 27), a convertible bond issued by KEMP in 2005 in the amount of USD 900,000 was subscribed for. The bond matures at June 30, 2009, carries 12 percent interest and is securitised.

With regard to interest compensation, the BRAIN FORCE Group is entitled to cash payments or increases in the amount of the bond held. As long as the other shareholders of KEMP agree, BRAIN FORCE can also opt to be compensated by a corresponding issue of additional shares.

The partial and also complete conversion right into preferred shares series A in the amount of the outstanding nominal capital of the bond including accumulated interest not paid out in cash or in shares existed for the first time at December 31, 2006 under the condition that KEMP after December 31, 2005 reaches a positive EBIT for the entire financial year. The issue of new shares is not possible, if the shares to be issued under the convertible senior security note exceeded 25 percent of the outstanding capital of KEMP Technologies Inc. at September 30, 2005. If BRAIN FORCE HOLDING AG decides to convert its shares, KEMP Technologies Inc. will be entitled to pay in cash up to 50 percent of the shares to be issued to BRAIN FORCE HOLDING AG and 100 percent of the outstanding interest.

As the options of BRAIN FORCE stipulated in the agreement and the probability of avoiding the occurrence of the state to be created as a result of the execution of the option cannot be measured reliably by KEMP, the option was not recognised in the balance sheet.

The convertible bond is recognised at cost at the balance sheet date and is measured at the exchange rate prevailing at the balance sheet date.

In the financial year 2005 an interest-bearing receivable in the nominal amount of EUR 2,333,276.29 arose from acquisition of a contract to develop and maintain the insurance contract management system of BHW Lebensversicherung AG, Hameln, Germany. The term of the contract is 24 months. At the balance sheet date of the prior year the receivable adjusted according to the percentage of completion is broken down into a non-current portion amounting to EUR 583,319.04 and a current portion amounting to EUR 1,166,638.15.

**(32) Cash and cash equivalents**

Cash and cash equivalents comprise the following:

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| Cash in hand | 11,679.39 | 22,251.40 |
| Cash at bank | 13,522,157.33 | 11,764,124.71 |
| | **13,533,836.72** | **11,786,376.11** |

EUR 329,912.62 (prior year: EUR 680,277.64) of cash at bank is pledged as security.

**(33) Equity**

The share capital amounts to EUR 15,385,742 (prior year: EUR 10,257,828) and is divided into 15,385,742 individual no-par value bearer shares.

The shares of the company are listed in the Prime Market segment of the Vienna Stock Exchange and in the Prime Standard segment of the Regulated Market in Frankfurt am Main, Germany.

At the balance sheet date the authorised capital amounts to EUR 7,693,371 (prior year: EUR 5,128,914).

In the financial year, 5,128,914 shares from authorised capital were subscribed for (prior year: 0).

The development of share capital and reserves is shown in the table below:

| | Share capital EUR | Reserves EUR |
|---|---|---|
| Balance Jan. 1, 2006 | 10,257,828.00 | 15,641,836.12 |
| Capital increase by cash contribution in accordance with a resolution by the Management Board dated March 16, 2006, authorised on June 18, 2004 at the general meeting and approved by the Supervisory Board on March 16, 2006, registration in the commercial register on April 6, 2006 | 5,128,914.00 | 10,770,719.40 |
| Transaction costs related to the increase in share capital | 0.00 | -1,811,772.57 |
| Net income recognised directly in equity | 0.00 | -125,313.40 |
| **Balance Dec. 31, 2006** | **15,386,742.00** | **24,475,469.55** |

| | Share capital | Reserves |
|---|---|---|
| | EUR | EUR |
| Balance Jan. 1, 2005 | 10,257,828.00 | 15,544,408.42 |
| Net income recognised directly in equity | 0.00 | 97,427.70 |
| **Balance Dec. 31, 2005** | **10,257,828.00** | **15,641,836.12** |

Other reserves comprise the following items at the respective balance sheet date:

| | Dec. 31, 2006 | Dec. 31, 2005 |
|---|---|---|
| | EUR | EUR |
| Fair value reserve for securities | -2,002.24 | 5,616.68 |
| Revaluation reserve | 0.00 | 110,262.00 |
| Reserve for currency translation differences | -273,132.24 | -265,699.76 |
| | **-275,134.48** | **-149,821.08** |

The revaluation reserve was set up in the financial year 2003 to reflect fair value adjustments as part of the successive share purchases of Brain Force Financial Solutions AG (formerly: NSE Software AG) and transferred to retained earnings in the reporting year.

In the financial year, 33,600 own shares with a nominal value of EUR 104,812.78 were purchased at a price of between EUR 3.08 and EUR 3.18 per share.

The other movements in minority interests in the amount of EUR 425,830.27 result from the increase in investment in Brain Force Financial Solutions AG and in Brain Force Software a.s. to 100 percent each (see note 2). That portion of the purchase price exceeding amortised minority interests was offset against retained earnings.

**(34) Provisions for post-employment benefits**

Provisions for post-employment benefits are broken down as follows:

| | Dec. 31, 2006 | Dec. 31, 2005 |
|---|---|---|
| | EUR | EUR |
| Provisions for pensions | 148,827.00 | 192,240.00 |
| Provisions for severance payments | 410,030.00 | 384,729.00 |
| Provisions for severance payments (TFR) | 3,322,669.73 | 3,204,705.08 |
| | **3,881,526.73** | **3,781,674.08** |

## Provisions for pensions

Due to individual arrangements, some employees were promised an additional pension after their retirement. The amount of this pension basically depends on the defined benefit plan.

The values recognised for provisions for pensions at the balance sheet dates are computed by actuaries based on the projected unit credit method and are broken down as follows:

| | Dec. 31, 2006<br>EUR | Dec. 31, 2005<br>EUR |
|---|---|---|
| Actuarial present value of defined benefit obligation | 479,615.00 | 575,315.00 |
| Fair value of plan assets | -294,969.00 | -233,101.00 |
| | **184,646.00** | **342,214.00** |
| Unrecognised actuarial losses | -35,819.00 | -149,974.00 |
| **Liability in the balance sheet** | **148,827.00** | **192,240.00** |

The plan assets pursuant to IAS 19 consist of the insurance cover for the pension commitments pledged in favour of employees. No expected incomes from the plan assets are shown.

The development of the actuarial present value of the defined benefit obligations is as follows:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Balance Jan. 1 | 575,315.00 | 427,677.00 |
| Current service cost | 47,840.00 | 48,496.00 |
| Interest expense | 21,352.00 | 21,384.00 |
| Actuarial (gains)/losses | -49,377.00 | 77,758.00 |
| Plan curtailments/settlements | -115,515.00 | 0.00 |
| **Balance Dec. 31** | **479,615.00** | **575,315.00** |

The development of the fair value of plan assets is as follows:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Balance Jan. 1 | 233,101.00 | 175,745.00 |
| Actuarial gains/(losses) | 350.00 | -4,569.00 |
| Paid contributions | 61,518.00 | 61,925.00 |
| **Balance Dec. 31** | **294,969.00** | **233,101.00** |

The expense recognised in the income statement concerning defined benefit obligations comprises the following:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Current service cost | 47,840.00 | 48,496.00 |
| Interest expense | 21,352.00 | 21,384.00 |
| Amortisation of past service cost | 0.00 | 2,653.00 |
| Amortisation of actuarial gains | 6,810.52 | 1,847.00 |
| Effects of plan curtailments/settlements | -57,898.00 | 0.00 |
| | **18,104.52** | **74,380.00** |

The interest expense has been recognised in the financial result since the financial year 2006. Thus the expenses for defined benefit obligations recognised in personnel expenses amount to EUR -3,247.48. The prior-year figures have not been adjusted due to immateriality.

The basic actuarial assumptions are as follows:

| | | 2006 | 2005 |
|---|---|---|---|
| Interest rate | | 4.75 % | 4.5 % |
| Future salary increases | | 3 % | 3 % |
| Future pension increases | | 2 % | 2 % |
| Pensionable age | | 60-62, 65 years | 60-62, 65 years |
| Mortality tables | Austria | AVÖ 1999-P, employees | AVÖ 1999-P, employees |
| | Germany | Heubeck 2005 | Heubeck 2005 |

In addition to defined benefit obligations, fixed contributions are paid to a pension fund for some employees in Austria due to pension commitments; the payments made by the company are recognised in accordance with IAS 19 as contributions to defined contribution plans.

Total pension costs comprise the following:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Pension costs – defined benefit plan | -3,247.48 | 74,380.00 |
| Pension costs – defined contribution plan | 28,951.00 | 51,502.80 |
| Capitalisation of premium reserves | 0.00 | -12,330.00 |
| | **25,703.52** | **113,552.80** |

### Provisions for severance payments (Austria)

The values of the provisions for severance payments were computed in the same way as the provisions for pensions:

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| Actuarial present value of defined benefit obligation | 460,641.00 | 438,399.00 |
| Unrecognised actuarial gains/losses | -50,611.00 | -53,670.00 |
| **Liability in the balance sheet** | **410,030.00** | **384,729.00** |

The development of the provision recognised in the balance sheet is as follows:

| | 2006 EUR | 2005 EUR |
|---|---|---|
| Balance Jan. 1 | 384,729.00 | 326,180.00 |
| Expenses for severance payments | 70,264.57 | 58,549.00 |
| Payments of severance payments | -44,963.57 | 0.00 |
| **Balance Dec. 31** | **410,030.00** | **384,729.00** |

The expense recognised in the income statement includes the following:

| | 2006 EUR | 2005 EUR |
|---|---|---|
| Current service cost | 48,942.00 | 42,571.00 |
| Interest expense | 19,731.00 | 15,978.00 |
| Amortisation of actuarial losses | 1,591.57 | 0.00 |
| | **70,264.57** | **58,549.00** |

The interest expense has been recognised in the financial result since the financial year 2006. Thus the expenses for defined benefit obligations recognised in personnel expenses amount to EUR 50,533.57. The prior-year figures have not been adjusted due to immateriality.

The basic actuarial assumptions are as follows:

| | 2006 | 2005 |
|---|---|---|
| Interest rate | 4.75 % | 4.5 % |
| Future salary increases | 3 % | 3 % |
| Average labour turnover | Age-related | Age-related |
| Pensionable age | According to pension reform 2004 | According to pension reform 2004 |
| Mortality tables | AVÖ 1999-P, employees | AVÖ 1999-P, employees |

### Provisions for severance payments (TFR)

In the financial year 2006, the values of provisions for severance payments (TFR) were computed in the same way as the provisions for pensions. The balance recognised at December 31, 2006 amounting to EUR 3,322,669.73 corresponds to the actuarial net present value of the obligation for severance payments (defined benefit obligation).

The development of the provision recognised in the balance sheet is as follows:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Balance Jan. 1 | 3,204,705.08 | 1,657,277.00 |
| Addition from change in consolidated group | 0.00 | 1,253,848.08 |
| Expenses for severance payments | 649,816.47 | 560,562.39 |
| Payments of severance payments | -531,851.82 | -266,982.39 |
| **Balance Dec. 31** | **3,322,669.73** | **3,204,705.08** |

The provision includes irrevocably granted severance payments in the amount of EUR 416,108.08.

The expense recognised in the income statement includes the following:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Current service cost | 503,874.00 | 429,964.92 |
| Interest expense | 118,090.00 | 92,166.47 |
| Recognition of actuarial losses | 27,852.47 | 38,431.00 |
| | **649,816.47** | **560,562.39** |

The interest expense has been recognised in the financial result since the financial year 2006. Thus the expenses for defined benefit obligations recognised in personnel expenses amount to EUR 531,726.47. The prior-year figures have not been adjusted due to immateriality.

The basic actuarial assumptions are as follows:

| | 2006 | 2005 |
|---|---|---|
| Interest rate | 4.5 % | 4.25 % |
| Future salary increases | 3.0 % | 3.0-3.5 % |
| Inflation | 2 % | 2 % |
| Growth rate TFR | 3 % | 3 % |
| Labour turnover | 12.5 % | 12.5 % |
| Pensionable age | 65 years | 65 years |
| Mortality tables | ISTAT 2002 | ISTAT 2002 |

### (35) Financial liabilities

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| **Non-current:** | | |
| Loan | 547,814.99 | 750,000.00 |
| | | |
| **Current:** | | |
| Loan | 156,519.74 | 1,250,000.00 |
| Subordinated loan | 0.00 | 855,201.41 |
| Bank overdrafts | 1,842,638.25 | 3,328,632.93 |
| | **1,999,157.99** | **5,433,834.34** |

In connection with the acquisition of the contract to develop and maintain the insurance contract management system of BHW Lebensversicherung AG, Hameln, Germany, a loan was taken out in the prior year in the amount of 2,000,000 with Deutsche Bank AG, Munich, Germany. The loan carries variable interest rates and has a maturity of 24 months. An interest rate swap was concluded to hedge a fixed interest rate. The total charge including credit margin amounts to 3.55 percent. At the balance sheet date the swap has a fair value of EUR 4,811.06, which is recognised under other receivables. The loan was paid back early.

The subordinated loan existed vis-à-vis existing shareholders of BRAIN FORCE B.V. (formerly VAI B.V.), Veenendaal, Netherlands.

Interest on loans is currently charged at 4.85 percent and on overdrafts at 4.75 to 8.75 percent (2005: 5.0 to 8.125 percent).

### (36) Trade payables

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| Trade payables already invoiced | 6,585,788.71 | 5,318,695.99 |
| Advance payments from customers | 771,742.19 | 809,162.15 |
| Trade payables not yet invoiced | 1,162,967.48 | 1,476,684.72 |
| | **8,520,498.38** | **7,604,542.86** |

### (37) Other liabilities

Other liabilities include the following:

| | Dec. 31, 2006 EUR | Dec. 31, 2005 EUR |
|---|---|---|
| **Non-current:** | | |
| Other | **27,449.07** | **27,449.07** |
| | | |
| **Current:** | | |
| Taxes | 2,480,015.00 | 2,263,089.37 |
| Social security contributions | 1,405,045.21 | 1,493,259.31 |
| Holiday entitlements and overtime payables | 1,770,199.52 | 1,476,578.57 |
| Bonuses | 789,608.14 | 1,055,849.03 |
| Payroll-accounting | 1,437,072.13 | 1,116,886.87 |
| Deferred income from maintenance contracts | 1,487,156.74 | 1,525,931.83 |
| Other | 1,158,644.42 | 843,138.89 |
| | **10,527,741.16** | **9,774,733.87** |

### (38) Tax provisions

| | Balance Jan. 1, 2006 EUR | Utilisation EUR | Addition from acquisition EUR | Allocation/ Reversal EUR | Balance Dec. 31, 2006 EUR |
|---|---|---|---|---|---|
| Prior years | 1,205,824.16 | -761,231.60 | 40,838.29 | -5,029.11 | 480,401.74 |
| Financial year | 0.00 | 0.00 | 199,036.68 | 1,018,905.91 | 1,217,942.59 |
| | **1,205,824.16** | **-761,231.60** | **239,874.97** | **1,013,876.80** | **1,698,344.33** |

### (39) Other provisions

| | Balance Jan. 1, 2006 EUR | Utilisation EUR | Allocation EUR | Balance Dec. 31, 2006 EUR |
|---|---|---|---|---|
| **Non-current** | | | | |
| Outstanding purchase price obligations from the acquisition of shares | **1,464,000.00** | **0.00** | **1,691,240.00** | **3,155,240.00** |
| **Current** | | | | |
| Outstanding purchase price obligations from the acquisition of shares | 36,000.00 | -36,000.00 | 1,225,302.00 | 1,225,302.00 |
| Guarantee | 17,000.00 | -17,000.00 | 16,000.00 | 16,000.00 |
| Other | 60,000.00 | -60,000.00 | 0.00 | 0.00 |
| | **113,000.00** | **-113,000.00** | **1,241,302.00** | **1,241,302.00** |

The outstanding purchase price obligations from the acquisition of shares result from the recognition of an earn-out component from the acquisition of BRAIN FORCE B.V. (formerly VAI B.V.), Veenendaal, Netherlands, which is based on planning information of the company.

## Notes on individual items of the consolidated income statement

### (40) Net sales

Net sales are broken down into the following items:

| | 2006 EUR | 2005 EUR |
|---|---|---|
| Current services | 67,588,732.73 | 59,837,126.93 |
| Construction/service contracts | 5,579,331.86 | 7,026,970.61 |
| Products | 15,363,112.23 | 9,753,906.98 |
| | **88,531,176.82** | **76,618,004.52** |

### (41) Other operating income

Other operating income includes:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Agency income | 196,680.46 | 255,978.19 |
| Rental income | 53,101.61 | 93,094.45 |
| Income from successive business combination | 475,983.06 | 0.00 |
| Cancellation fees and compensations | 767,164.48 | 0.00 |
| Other | 414,733.64 | 580,052.73 |
| | **1,907,663.25** | **929,125.37** |

Income from successive business combination relates to the surplus of net assets acquired over acquisition costs in connection with the acquisition of the remaining 51 percent of shares in SFP Software für Finanzpartner GmbH (refer to note 53).

### (42) Cost of materials and purchased services

This item is broken down as follows:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| **Cost of materials** | | |
| Cost of goods sold | 1,417,577.52 | 164,860.28 |
| Maintenance | 689,678.95 | 507,037.06 |
| Licenses | 2,050,451.50 | 862,524.31 |
| | **4,157,707.97** | **1,534,421.65** |
| **Cost of purchased services** | | |
| Project staff | 35,527,665.21 | 30,719,471.98 |
| Subcontractors | 22,572,703.90 | 21,158,966.57 |
| | **58,100,369.11** | **51,878,438.55** |
| | **62,258,077.08** | **53,412,860.20** |

### (43) Employee benefit costs

Employee benefit costs are broken down as follows:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Salaries | 12,066,138.38 | 10,202,352.36 |
| Expenses for severance payments | 627,971.28 | 653,440.27 |
| Expenses for pensions | 25,703.52 | 113,552.80 |
| Expenses for statutory social security, payroll-related taxes and mandatory contributions | 2,007,356.85 | 1,641,745.25 |
| Other fringe benefits | 197,255.43 | 161,136.20 |
| | **14,924,425.46** | **12,772,226.88** |

Expenses for severance payments in addition to statutory entitlements (see note 34) also include contributions payable to a staff provision fund ("Mitarbeitervorsorgekasse") in the amount of EUR 45,711.24 (prior year: EUR 34,328.88). No severance payments were paid on a voluntary basis (prior year: EUR 0).

### (44) Depreciation and amortisation expense

The depreciation and amortisation expense includes the following:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Depreciation of property, plant and equipment | 737,362.75 | 576,244.74 |
| Amortisation of other intangible assets | 2,858,439.60 | 1,890,223.99 |
| | **3,595,802.35** | **2,466,468.73** |

**(45) Other operating expenses**

Other operating expenses include:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Rents and energy costs | 1,700,935.14 | 2,027,788.04 |
| Maintenance | 365,780.36 | 160,811.20 |
| Mail and communication charges | 457,605.49 | 509,394.07 |
| Travel expenses | 655,036.16 | 546,980.44 |
| Insurance | 174,933.93 | 109,072.42 |
| Legal, audit and consulting fees | 649,709.35 | 722,545.29 |
| Marketing | 1,186,161.60 | 805,251.41 |
| Vehicle costs | 828,002.19 | 627,823.08 |
| Office expenditure | 189,891.15 | 183,247.56 |
| Bad debts and valuation allowances | 1,256,770.63 | 85,935.66 |
| Other sundry expenses | 1,161,284.84 | 879,574.29 |
| | **8,626,110.84** | **6,658,423.46** |

The item “bad debts and valuation allowances” mainly relates to the insolvency of BenQ Germany.

**(46) Financial result**

The financial result is computed as follows:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Income from the disposal of securities | 125,918.63 | 77,790.20 |
| Interest and similar expenses | -133,056.49 | -14,928.81 |
| Net losses from foreign currency translation | -87,564.20 | 0.00 |
| | **-94,702.06** | **62,861.39** |

The net losses from foreign currency translation have been recognised in the financial result since the 2006 financial year. The prior-year figure has not been adjusted due to immateriality.

### (47) Income taxes

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Current tax expense | 2,081,272.97 | 1,833,405.15 |
| Deferred tax income/expense | -3,024,156.01 | -1,285,634.49 |
| | **-942,883.04** | **547,770.66** |

The income tax expense for the year is by EUR 1,750,374.10 lower (prior: by EUR 371,794.53 lower) than the calculated income tax expense of EUR 807,491.06 (prior year: EUR 919,565.19), which would result from applying a tax rate of 25 percent (prior year: 25 percent) on the result before taxes, with the tax rate equalling the income tax rate applicable to the parent company. The reasons for the difference between calculated and recognised income tax expenses are as follows:

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Result before income taxes | 3,229,964.29 | 3,678,260.75 |
| thereof 25 percent = calculated income tax expense | 807,491.06 | 919,565.19 |
| Effects of different tax rates in other countries | 1,266,563.97 | 1,137,837.04 |
| Effects of changes in tax rates | -21,547.12 | 0.00 |
| Income not subject to tax | -385,307.30 | -10,788.50 |
| Expenses not deductible for tax purposes | 156,771.03 | 208,069.63 |
| Other permanent differences | 5,257.24 | 6,569.34 |
| Write-down of deferred tax assets | 84,006.88 | 183,176.02 |
| Utilisation and subsequent capitalisation of temporary differences and tax losses not recognised in the year they arose | -4,006,947.67 | -2,501,378.29 |
| Tax losses for which no deferred tax assets have been recognised | 1,111,752.30 | 624,954.19 |
| Income tax expense – current period | -981,959.61 | 568,004.62 |
| Aperiodic income tax expense/income | 39,076.57 | -20,233.96 |
| Recognised income tax expense/income | **-942,883.04** | **547,770.66** |

## Notes on individual items of the consolidated cash flow statement

The cash flow statement was prepared using the indirect method.

It illustrates the change in cash and cash equivalents in the Group resulting from cash inflows and outflows over the reporting period, divided into cash flow from operating, investing and financing activities.

**(48) Cash flow from operating activities**

The cash flow from operating activities, based on the result before taxes adjusted for non-cash expenses/income, after changes of funds tied up in working capital and after deduction of paid interest (netted with interest earned), dividends received and income taxes, illustrates the inflow of cash and cash equivalents from operating activities.

**(49) Cash flow from investing activities**

This item shows all cash inflows and outflows relating to additions to and disposals of property, plant and equipment, intangible assets and financial assets.

The cash flow from the acquisition of subsidiaries is broken down as follows:

| | EUR | EUR |
|---|---|---|
| Acquisition of SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH, Langen, Germany (note 53) | | 7,049,078.01 |
| Acquisition of SFP Software für FinanzPartner GmbH, Munich, Germany (note 53) | | 75,735.90 |
| Subsequent acquisition costs BRAIN FORCE BV(formerly VAI B.V.), Veenendaal, Netherlands | | |
| Purchase price | 5,592,928.00 | |
| Unpaid liabilities | -2,866,928.00 | 2,726,000.00 |
| Acquisition of minority interests in Brain Force Software a.s., Prague, Czech Republic | | 35,647.57 |
| Acquisition of minority interests in Brain Force Financial Solutions AG, Munich, Germany | | |
| Purchase price | 1,300,332.36 | |
| Unpaid liabilities | -22,291.00 | 1,278,041.36 |
| | | **11,164,502.84** |

**(50) Cash flow from financing activities**

This item shows all cash inflows and outflows relating to equity and debt financing.

**(51) Fund of cash and cash equivalents**

The fund of cash and cash equivalents includes cash in hand and at bank, as long as they are available at short notice and unrestricted.

Thus, the fund of cash and cash equivalents is derived from the amount recognised in the balance sheet as follows:

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Cash and cash equivalents according to balance sheet | 13,533,836.72 | 11,786,376.11 |
| Cash at bank, restricted | -329,912.62 | -680,277.64 |
| **Fund of cash and cash equivalents** | **13,203,924.10** | **11,106,098.47** |

## Other disclosures

**(52) Segment reporting**

a) Business segments

The BRAIN FORCE Group operates in the following three business segments:

- Enterprise Services
- Business Solutions
- Technology and Infrastructure

The **Enterprise Services (ES)** segment offers the experience and know-how of its IT and TK specialists in the form of temporary consulting and service assignments. Such assignments cover all project phases from planning over realisation, test and integration to the actual operation. The scope of the services offered includes: consulting, programming, infrastructure, integration, migration, rollout, operation, support und maintenance.

The **Business Solutions (BS)** segment offers products and project services for the support and optimisation of business processes. The BS segment comprises the following competence centres: outsourcing solutions, financial solutions und enterprise solutions.

The **Technology and Infrastructure (TI)** segment of the BRAIN FORCE Group offers solutions for an efficient IT management and optimises ITK networks including security. The TI segment comprises the following competence centres: Infrastructure Solutions, Communication Solutions and Security.

The ratios for the financial year 2006 and the prior year are as follows:

| Ratios by segment 2006 | Enterprise Services EUR | Business Solutions EUR | Technology and Infrastructure EUR | Unallocated EUR | Total EUR |
|---|---|---|---|---|---|
| | | | | | |
| Segment net sales (consolidated) | 34,146,917.82 | 26,701,501.14 | 27,682,757.86 | 0.00 | **88,531,176.82** |
| Segment operating result before segment depreciation and amortisation (EBITDA) | 1,019,868.04 | 5,021,065.98 | 3,031,380.22 | -2,558,399.92 | **6,513,914.32** |
| Segment depreciation and amortisation | -205,404.72 | -1,682,040.61 | -1,614,180.09 | -94,176.93 | **-3,595,802.35** |
| Segment operating result | 814,463.32 | 3,339,025.37 | 1,417,200.13 | -2,652,576.85 | **2,918,111.97** |
| Financial result | | | | | **-94,702.06** |
| Share in profit of associates | | 446,590.93 | -40,036.55 | | **406,554.38** |
| Result before income taxes | | | | | **3,229,964.29** |
| Income taxes | | | | | **942,883.04** |
| Result for the period | | | | | **4,172,847.33** |
| Segment assets | 16,499,534.76 | 25,476,037.51 | 30,338,958.27 | 9,265,022.29 | **81,579,552.83** |
| Segment liabilities | 6,144,648.25 | 10,464,173.48 | 10,927,454.34 | 5,950,775.38 | **33,487,051.45** |
| Segment capital expenditure | 6,747,392.33 | 1,597,226.27 | 8,809,482.23 | 67,197.33 | **17,221,298.16** |

| Ratios by segment 2005 | Enterprise Services EUR | Business Solutions EUR | Technology and Infrastructure EUR | Unallocated EUR | Total EUR |
|---|---|---|---|---|---|
| | | | | | |
| Segment net sales (consolidated) | 32,493,020.69 | 23,004,712.67 | 21,120,271.16 | 0.00 | **76,618,004.52** |
| Segment operating result before segment depreciation and amortisation (EBITDA) | 1,701,494.69 | 3,380,245.54 | 2,858,218.28 | -1,892,363.40 | **6,047,595.11** |
| Segment depreciation and amortisation | -40,795.09 | -1,314,147.86 | -987,527.64 | -123,998.14 | **2,466,468.73** |
| Segment operating result | 1,660,699.60 | 2,066,097.68 | 1,870,690.64 | -2,016,361.54 | **3,581,126.38** |
| Financial result | | | | | **62,861.39** |
| Share in profit of associates | | 34,272.98 | | | **34,272.98** |
| Result before income taxes | | | | | **3,678,260.75** |
| Income taxes | | | | | **-547,770.66** |
| Result for the period | | | | | **3,130,490.09** |
| Segment assets | 9,557,974.99 | 24,946,678.89 | 22,082,694.19 | 7,036,348.27 | **63,623,696.34** |
| Segment liabilities | 6,704,244.79 | 11,682,493.92 | 8,839,060.19 | 4,290,206.59 | **31,516,005.49** |
| Segment capital expenditure | 59,831.53 | 3,729,970.01 | 8,596,765.25 | 123,366.95 | **12,509,933.74** |

### b) Geographical segments

Geographical segments contain the figures allocated to individual group companies for activities primarily based in the countries where the company's headquarters are located. Other regions comprise the group companies in Switzerland, Great Britain, the Czech Republic and Slovakia.

| | Segment net sales | | Segment assets | | Segment capital expenditure | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | TEUR | TEUR | TEUR | TEUR | TEUR | TEUR |
| Austria | 10,272 | 12,019 | 7,732 | 8,649 | 210 | 397 |
| Germany | 42,339 | 38,211 | 39,356 | 25,415 | 10,220 | 1,495 |
| Italy | 26,097 | 21,813 | 18,196 | 18,458 | 629 | 2,656 |
| Netherlands | 8,838 | 3,340 | 15,218 | 9,601 | 6,157 | 7,925 |
| Other regions | 985 | 1,235 | 1,078 | 1,501 | 5 | 37 |
| | **88,531** | **76,618** | **81,580** | **63,624** | **17,221** | **12,510** |

### (53) Acquisitions

Based on a purchase and transfer agreement concluded on June 22, 2006 the company upon occurrence of all stipulated conditions on September 29, 2006 acquired all shares in SYSTEAM Ingenieurbüro für Datenkommunikation und Informatik GmbH, Langen, Germany. The purchase price including incidental expenses amounts to EUR 7,873,001.

In accordance with the purchase agreement, a cash consideration in the amount of EUR 7,972,000 was stipulated, with an adjustment to the purchase price in the amount of EUR 329,912.62 having been made by the balance sheet date. As far as agreed budget targets are not met in 2007, the purchase price will be adjusted further. Incidental expenses amount to EUR 230,913.62.

The acquired goodwill is determined as follows:

| | EUR |
|---|---|
| Purchase price | 7,642,087.38 |
| Incidental expenses | 230,913.62 |
| **Total price** | **7,873,001.00** |
| Less fair value of acquired net assets | -2,227,476.78 |
| **Goodwill (note 24)** | **5,645,524.22** |

In addition, the following items of assets and liabilities were acquired:

| | Fair values | Carrying amounts |
|---|---|---|
| | EUR | EUR |
| Property, plant and equipment | 125,403.57 | 125,403.57 |
| Distribution rights | 559,383.00 | 0.00 |
| Orders on hand | 386,790.00 | 0.00 |
| Customer relationships | 1,723,656.00 | 0.00 |
| Software | 14,676.91 | 14,676.91 |
| Deferred tax assets | 0.00 | 49,231.00 |
| Trade receivables | 1,769,744.91 | 1,769,744.91 |
| Inventories | 44,821.16 | 44,821.16 |
| Tax receivables | 150,638.12 | 150,638.12 |
| Other receivables | 97,768.97 | 97,768.97 |
| Securities | 253,398.00 | 250,000.00 |
| Cash and cash equivalents | 823,922.99 | 823,922.99 |
| Financial liabilities | -785,594.60 | -785,594.60 |
| Deferred tax liabilities | -1,018,701.00 | 0.00 |
| Trade payables | -428,520.43 | -428,520.43 |
| Other liabilities | -1,489,910.82 | -1,489,910.82 |
| Fair value of acquired net assets | 2,227,476.78 | 622,181.78 |

The net cash flow from the acquisition of the subsidiary is presented as follows:

| | EUR |
|---|---|
| Total purchase price | 7,873,001.00 |
| Less acquired cash and cash equivalents | -823,922.99 |
| **Net cash flow from acquisition** | **7,049,078.01** |

The acquired company contributed to the result of the reporting period as follows: Between October 1 and December 31, 2006 net sales in the amount of EUR 3,304,216.21 were generated and a result for the period amounting to EUR -41,948.02 was earned. At December 31, 2006 total assets amounted to EUR 5,059,764.10, liabilities to EUR 2,874,235.34. Before the acquisition by BRAIN FORCE HOLDING AG, the subsidiary had not prepared accounts pursuant to IFRS. Consequently, consolidated net sales and the consolidated result under the perspective as if the company had already been acquired at the beginning of the year cannot be determined at reasonable expense and are therefore not provided.

On the basis of the purchase agreement signed on December 21, 2006 BRAIN FORCE Software GmbH, Unterschleißheim, Germany, acquired the remaining 51 percent of the shares in SFP Software für FinanzPartner GmbH, Munich, Germany.

The total price includes a fixed cash consideration in the amount of EUR 727,526.

Goodwill was calculated for 100 percent of the shares and is determined as follows:

| | EUR |
|---|---|
| Purchase price for 51 % | 727,526.00 |
| Value of the 49 % of the shares under the equity method | 706,729.13 |
| **Total price** | **1,434,255.13** |
| Less fair value of acquired net assets | -1,910,238.19 |
| **Negative goodwill** | **-475,983.06** |

The negative goodwill was recognised in other operating income.

In addition, the following items of assets and liabilities were acquired:

| | Fair values | Carrying amounts |
|---|---|---|
| | EUR | EUR |
| Property, plant and equipment | 1,695.00 | 1,695.00 |
| Orders on hand | 362,654.00 | 0.00 |
| Trade receivables | 1,505,738.25 | 1,505,738.25 |
| Cash and cash equivalents | 651,790.10 | 651,790.10 |
| Deferred tax liabilities | -58,025.00 | 0.00 |
| Payables to affiliated companies | -77,303.50 | -77,303.50 |
| Trade payables | -20,996.47 | -20,996.47 |
| Tax provisions | -239,874.97 | -403,179.82 |
| Other liabilities | -215,439.22 | -215,439.22 |
| Fair value of acquired net assets | 1,910,238.19 | 1,442,304.34 |

The net cash flow from the acquisition of the subsidiary is presented as follows:

| | EUR |
|---|---|
| Total purchase price | 727,526.00 |
| Less acquired cash and cash equivalents | -651,790.10 |
| **Net cash flow from acquisition** | **75,735.90** |

The acquired company was consolidated for the first time as at December 31, 2006. Thus, the contribution to the result for the period is determined from the result recognised under the equity method in the amount of EUR 462,190.45. As at December 31, 2006 total assets amounted to EUR 2,521,877.35, liabilities to EUR 611,639.16.

**(54) Earnings per share**

Earnings per share is computed by dividing the result for the period by the weighted average number of ordinary shares, adjusted for proportionately held own shares.

| | 2006 | 2005 |
|---|---|---|
| | EUR | EUR |
| Result for the period attributable to the equity holders of the parent | 4,172,847.33 | 3,028,127.98 |
| Weighted average number of ordinary shares (basic and diluted) | 14,025,199 | 10,161,755 |
| Earnings per share (in EUR) | 0.30 | 0.30 |

Together with the preparation of the financial statements the Management Board has submitted a proposal relating to the profit distribution, which provides for the payment of dividends on the share capital, less a proportionate amount for own shares, amounting to EUR 0.10 per share. The financial statements and the proposal on profit distribution will be dealt with in the Supervisory Board Meeting on March 26, 2007 (see note 61). This proposal, which has to be submitted together with the report of the Supervisory Board, is subject to approval by the ordinary general meeting, which is expected to take place on May 9, 2007.

**(55) Notes on related party transactions**

The major shareholders and the Management and Supervisory Board members of BRAIN FORCE HOLDING AG as well as associates are considered related parties.

Remunerations paid to members of the Management Board in the reporting year amounted to EUR 760,882.39, the variable portion of which was EUR 187,302 (prior year: EUR 646,024.66, variable portion of which EUR 107,968). Remunerations paid to members of the Supervisory Board amounting to EUR 63,746 (prior year: EUR 44,002) were recognised in profit or loss.

In addition, expenses for severance payments and pensions for members of the Management Board in the amount of EUR 25,495.96 (prior year: EUR 21,486.51) were recognised in profit or loss.

Neither were any loans granted to nor guarantees given for the benefit of members of the Management and Supervisory Board.

In addition to the remunerations paid to members of the Supervisory Board for services rendered (consulting), fees in the amount of EUR 1,000 (which corresponds to the fees normally charged for such services by external third parties) were paid.

By agreement dated January 27, 2006 and amendment dated March 16, 2006, march.sixteen Finance Services LLP, London, Great Britain, has pledged to the company not to hold the credit institution or consortium of credit institutions engaged by the company in connection with the capital increase which was carried out in the financial year 2006, in particular Erste Bank der oesterreichischen Sparkassen AG and its staff, liable for any losses arising (including those from the prospectus liability) from the acquisition of new shares, which were issued under the capital increase of the company in the nominal amount of EUR 5,128,914.

By placement agreement dated January 18, 2006 and amendment dated March 16, 2006, march.sixteen Finance Services LLP assumed the unconditional guarantee toward the company that 26.90 percent of the shares from the capital increase which are not subscribed for based on the purchase rights of the shareholders, will be subscribed for and fully paid by third parties, with the exception of the second investor, Karl F. Kalmund, or by march.sixteen Finance Services LLP itself under the conditions available for the shareholders, i.e. at the issue price of EUR 3.10 per share. For the assumption of this placement guarantee march.sixteen Finance Services LLP received a guarantee compensation. The amount of the guarantee compensation was dependent on the development of the share price after the capital increase. In case the average stock market price of BRAIN FORCE HOLDING AG's share, calculated evenly according to the respective XETRA closing prices and according to the respective closing prices of the Frankfurt Stock Exchange over a period of 40 trading days as of the announcement of the capital increase, 40 days average price XETRA plus 40 days average price FFM (Frankfurt Floor Market) divided by 2 (i) was higher than EUR 3.25, the guarantee compensation of march.sixteen Finance Services LLP would increase by 2 percent (bonus) to a total of 9 percent of 26.90 percent of the cash contribution of the capital increase or (ii) was lower than EUR 3.25, the guarantee compensation of march.sixteen Finance Services LLP would decrease by 2 percent (penalty) to a total of 5 percent of 26.90 percent of cash contribution of the capital increase. The amount of the guarantee compensation paid was EUR 384,930.12.

The Supervisory Board member Christian Wolff is shareholder and general manager of march.sixteen Finance Services LLP.

SFP Software für FinanzPartner GmbH, Munich, Germany (see note 26) was included as an associated company during the financial year; it was fully consolidated as at December 31, 2006.

The following service relations exist between BRAIN FORCE Group and its associate SFP Software für FinanzPartner GmbH, Munich, Germany:

BRAIN FORCE Software GmbH, Unterschleißheim, Germany, rendered services to SFP Software für FinanzPartner GmbH, Munich, Germany, under an agency agreement. These services comprised the provision of a general manager, the performance of the accounting including payroll-accounting and services in the areas of controlling and back office, as well as provision of office space. BRAIN FORCE Software GmbH earned agency fees in the amount of EUR 196,680.46 (prior year: EUR 255,978.19) from these service relations. Furthermore, BRAIN

FORCE Software GmbH rendered project and maintenance services as well as product sales amounting to EUR 585,735.60 to SFP Software für FinanzPartner GmbH. At the balance sheet date consolidated receivables amount to EUR 77,303.50 (prior year: EUR 294,399.04).

In the financial year 2005 BRAIN FORCE HOLDING AG subscribed for a convertible bond issued by the associate KEMP Technologies Inc., New York, USA, in the amount of USD 900,000. This convertible bond has an interest rate of 12 percent. The financial result earned in the financial year 2006 before elimination of intragroup transactions is EUR 81,911.06 (USD 108,000).

### (56) Share-based compensation

Currently, a share-based compensation plan for employees of BRAIN FORCE HOLDING AG is not in place. Consequently, neither any members of the Management Board nor of the Supervisory Board hold option rights.

### (57) Financial instruments

The financial instruments listed in the balance sheet are securities, investments, cash and cash equivalents including bank accounts, receivables and supplier credits, as well as financial liabilities. The accounting principles described for each balance sheet item are applicable to original financial instruments.

Derivative financial instruments existed at the balance sheet date in the form of an interest rate swap, which is measured at fair value.

### (58) Commitments from leasing transactions

Operating lease commitments

| | 2006<br>EUR | 2005<br>EUR |
|---|---|---|
| Not later than one year | 2,860,104.80 | 2,962,045.44 |
| Later than 1 and not later than 5 years | 6,290,439.31 | 3,748,808.67 |
| Later than 5 years | 5,006,445.00 | 0.00 |

### (59) Notes on employees

| | Average | | At Dec. 31 | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Number of employees (salaried) | 802 | 740 | 843 | 814 |

### (60) Events after the balance sheet date

On March 2, 2007 the BRAIN FORCE Group accepted an offer for a promissory note bond in the amount of EUR 10 million. The bullet loan carries an interest rate of 5.17 percent and has a maturity of 7 years. At the time the consolidated financial statements were prepared, the loan had not been paid out. No material events to be reported occurred after the balance sheet date.

**(61) Authorisation for issue**

These consolidated financial statements were prepared, signed and authorised for issue by the Management Board at the date indicated below. The separate financial statements of the parent company, which after the adoption of the accounting standards were also included in the consolidated financial statements, will be submitted to the Supervisory Board for review and adoption on March 26, 2007 The Supervisory Board and, in case of submittal to the general meeting, the shareholders can change these separate financial statements in a way which might also affect the presentation of the consolidated financial statements.

**Members of the Management and Supervisory Boards**

The following persons served on the Management Board in the financial year 2006:

- Helmut Fleischmann, Kitzbühel, CEO
- Wolfgang Lippert, Langenzersdorf, Deputy CEO

The following persons served on the Supervisory Board in the financial year 2006:

- Dr. Christoph Senft, Angerberg, Chairman (since June 12, 2003; term of office until the end of the ordinary general meeting which decides on the financial year 2009)
- Günter Pridt, Vienna, Deputy Chairman (since April 14, 2005; term of office until the end of the ordinary general meeting which decides on the financial year 2008)
- Mag. Wolfgang M. Hickel, Vienna (since June 14, 2000; term of office until the end of the ordinary general meeting which decides on the financial year 2007)
- Mag. Christian Schamburek, Brunn am Gebirge (since June 11, 2003; term of office until the end of the ordinary general meeting which decides on the financial year 2006)
- Christian Wolff, Switzerland (since April 14, 2005; term of office until the end of the ordi-nary general meeting which decides on the financial year 2008)
- Prof. Ing. Peter Kotauczek, Breitenbrunn am Neusiedler See (since December 22, 2006; term of office until the end of the ordinary general meeting which decides on the financial year 2009)

Vienna, March 14, 2007

The Management Board:

Helmut Fleischmann
Chief Executive Officer

Wolfgang Lippert
Chief Financial Officer

# Auditor's report
# (Report of the independent auditor)

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of BRAIN FORCE HOLDING AG, Vienna, for the financial year from January 1 to December 31, 2006. These consolidated financial statements comprise the balance sheet as at December 31, 2006, the consolidated income statements, statement of changes in equity and cash flow statement for the year ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of December 31, 2006 and of its financial performance and its cash flows for the financial year from January 1 to December 31, 2006 in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on the Consolidated Management Report**

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, March 14, 2007

PwC INTER-TREUHAND GmbH
Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft

signed:

Mag. Dr. Aslan Milla
Austrian Certified Public Accountant

# Information

## Important dates

| Date | Event |
|---|---|
| March 27, 2007 | Annual report 2006 |
| March 27, 2007 | Financial Results Press Conference |
| May 9, 2007 | Annual shareholders' meeting |
| May 14, 2007 | Ex-dividend-date |
| May 29, 2007 | Q1 Quarterly report |
| August 27, 2007 | Semi annual report |
| November 26, 2007 | Q3 Quarterly report |

## Imprint

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Our warmest thanks go in particular to all our staff involved in the making of this annual report.

# Glossary

| | |
|---|---|
| **Ratios** | |
| Cash Flow | Earnings ratio for company analysis, describing the inflow of cash over a given period |
| EBIT margin | Earnings Before Interest and Taxes in relation to net sales |
| EBIT | Earnings Before Interest and Taxes |
| EBITDA margin | Earnings Before Interest, Taxes, Depreciation and Amortisation in relation to net sales |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortisation |
| Equity ratio | Ratio describing equity in relation to total net worth |
| ÖCGK | Austrian Corporate Governance Code – regularity system for the management and controlling of the concern |
| ROE | Return on Equity; profit (before tax) in relation to average equity capital |
| ROS | Return on Sales; profit (before tax) in relation to net sales |
| Squeeze out | Describes the option to squeeze a small group of shareholders out of the company by means of cash compensation. |
| Working Capital | Used to cover cash expenditure required to run the business and to meet short-term fluctuations |

| | |
|---|---|
| **Segments** | |
| ES | Enterprise Services |
| BS | Business Solutions |
| TI | Technology and Infrastructure |

| | |
|---|---|
| **Solutions and Services** | |
| Application management | Services ranging from business process and architecture consulting, design and development of applications, maintenance and management of applications to application operations |
| beusenBAS | Billing & Accounting solution, through-invoicing of telecommunications services |
| BRAIN FORCE FINAS Suite | Front office solutions for financial service provider |
| BRAIN FORCE Net Organizer | Network management system for ICT networks |
| BRAIN FORCE Packaging Robot | Solution consisting of best practice and software tools for automated software packaging |
| Managed services | Adoption of customers' IT-processes |

| | |
|---|---|
| **Software packaging** | |
| BRAIN FORCE Migration out of the Box | Solution consisting of best practice and software tools for Windows migrations |
| Business process outsourcing | Outsourcing of one or several business processes to an external provider, i.e. payroll accounting |
| BRAIN FORCE CRM | Customer relationship management solution |
| INKAS-SQL | Integrated control and billing system – PBX management |
| Outsourcing | Outsourcing of extensive areas/processes to external service providers |
| Outtasking | Outsourcing of individual tasks to external providers |
| User help desk | Single point of contact; all user requirements are expressed via this central telephone number |
| VSpace | ERP-system for small and medium-sized enterprises |

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