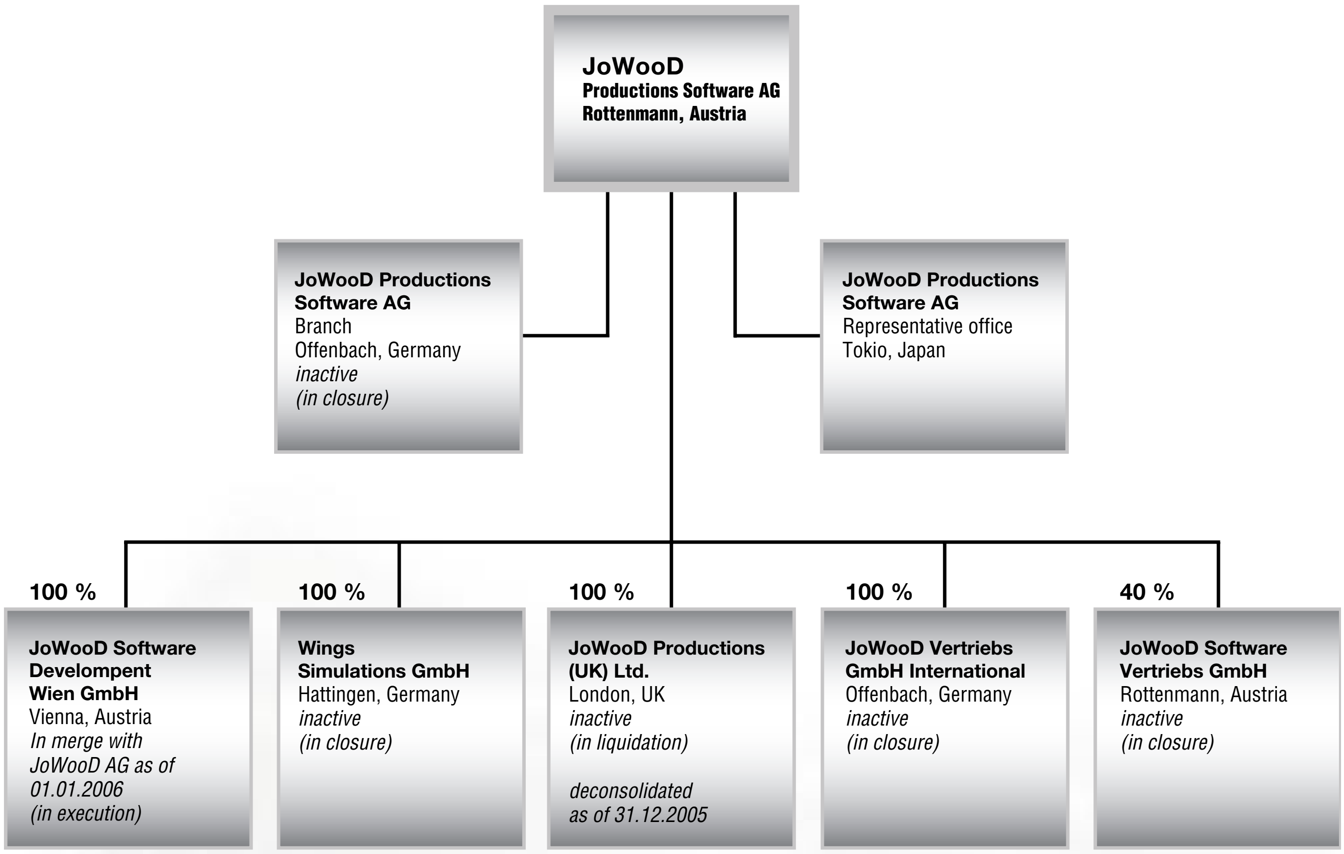
COMPANY REPORT 2005

GROUP STRUCTURE



KEY FIGURES

all values in EUR ,000	2005	2004	+/- in %
Sales	6,457	17,203	-62%
Operating result (EBIT) before restructuring	-4,922	-8,669	43%
Result from restructuring	-15,356	-7,686	-100%
Operating result (EBIT) after restructuring	-20,278	-16,355	-24%
Result from ordinary operations (EBT)	-20,623	-17,449	-18%
Result prior to minorities and changes in reserves	-18,144	-29,766	39%
Group result	17,345	-29,769	158%
Cash-Flow from Operating Activities	-564	-15,674	96%
Balance sheet total	9,280	33,255	-72%
Total equity	-1,642	10,513	-116%
Investments	60	550	-89%
Depreciation	420	2,540	-83%
in Euro			
Loss/Profit per share [1]	-2.34	-4.27	
in %			
EBIT margin [2]	-314%	-95%	
EBITDA margin [3]	-308%	-80%	
Equity ratio [4]	-18%	32%	
Employees (as of December 31) [5]	53	206	

[1] Group result / weighted average number of shares

[2] EBIT after restructuring as a percentage of sales

[3] EBITDA (= EBIT after restructuring + depreceation) as a percentage of sales

[4] Equity prior to minorities as a percentage of the balance sheet total

[5] Including free lancers and contractors per head

Board of Directors' Report

In the 2004 business year, patterns in strategic business policy similar to those of previous years were adopted. Experiments in product development and collaboration with new and inexperienced studios as well as in product strategy relative to brand selection and maintenance failed. An excess of mediocre products resulted in losses of profit and overshadowed the profitable business areas and core product brands. In the marketing area, the contractual distribution risk was again incurred as in previous years. As a result of this circumstance, write-offs from returned merchandise in the millions had to be entered in the books in the 2005 business year.

As a consequence of these developments, management introduced a comprehensive restructuring concept that resulted in a restructuring of the business model in the 2005 business year. The restructuring measures implemented can be divided into two areas: On the one hand, the business model was renovated in various areas and by doing so the revenue model as well as the cost structure of the enterprise was optimized (business management restructuring); and on the other hand, an extensive debt relief in five steps was undertaken (fiscal restructuring). These restructuring measures are presented in detail in the following.

A. Business management restructuring measures

Old business model

JoWooD develops and publishes electronic entertainment software. Originally, the issuers covered and operated with their own resources the entire creation of value spectrum within the industry, i.e., game design, ranging from development to retail distribution. For example, customers, especially in the European sector, were thus directly supplied with finished goods. This meant that the issuer not only assumed responsibility for the manufacture and development of the game software, but also for the physical reproduction and manufacture of CDs/DVDs, the entire range of distribution and logistics activities within the distribution channel down to retail, as well as for all end consumer-related marketing and advertising activities.

Furthermore, the company strove for a high number of new releases in order to increase the volume of sales. The number of new releases thus climbed to 22 in the 2004 business year. This occurred in spite of the fact that the video game industry is following the clearly visible trend of the entertainment industry, wherein the attention of a growing market is now focusing on fewer titles with outstanding potential.

Distribution contracts were signed with many distributors in small regions, which led to an in transparent and unprofitable distribution structure. In addition, the issuer was still producing a substantial portion of its products in its own in-house daughter development companies in the 2005 business year. The issuers also assumed all financing activities for game development, and thus bore the entire risk as well as the cost of the financing.

All of these activities resulted in a high and long-term capital commitment, as well as an unfocused business activity, which combined to have a strong negative impact on profit on account of the immanent risk factors (investment risks, risks of merchandise returned from the market, etc.).

New business model and strategy

On account of the aforementioned reasons, the restructuring in the 2005 business year encompassed nearly all areas of the enterprise. Particular emphasis was placed on focusing on core business areas as well as the simultaneous outsourcing of peripheral business areas.

While the issuer outsourced its retail distribution in the 2002 and 2003 business years, product programming was transferred to external partner studios in the 2005 business year in order to achieve a market-driven cost structure in this area and attain an optimum flexibility and avoid idle time costs in strategic product decisions.

In addition, the product portfolio was streamlined: 14 titles in the 2003 business year and 22 titles in the 2004 business year were published, respectively. Three titles were published in the restructuring year of 2005. As many as 10 titles are planned for the 2006 business year. Henceforth, financial resources will be used for the development and the growth of those titles that have strong potential, in order to keep abreast of the increasing hit trend in the industry. Titles having mediocre or below average potential will be discontinued on account of the negative margin structure associated with them.

The above-mentioned finished goods concept was replaced step by step by a license strategy. Henceforth, the issuers will no longer undertake the actual manufacture and reproduction of the games (CD, DVD, handbook, box, etc.) themselves, rather, they shall issue licenses to partners in the respective countries and regions. By doing so, the capital commitment and investment risks will be reduced in those areas of the value-creating chain that are to be designated as not significantly value-creating.

In addition, a co-publishing strategy was implemented. This strategy provides for the sharing of the risk and the financing in game projects among partners from the industry.

Finally, those areas that formerly had a subordinate status in the organization, but which are of central importance to the issuer's business activity, were strengthened. Thus increased attention is now being dedicated to the careful selection, formatting, and preparation of game concepts and game software, as this is where the foundation for the potential of the end product is laid. In the 2005 business year, for example, business development was declared an independent area. This area is in charge of the development of existing brand potential and the acquisition of new projects, and thereby ensures a constant flow of new projects for the production area.

The business strategy and the business model are taking a new orientation as a result of the conclusion of the operational and fiscal reconstruction of the enterprise. The crucial points of this new orientation are basically the outsourcing of services outside the core business area in order to achieve strategic cost management by reducing the fixed cost burden.

Content-related crucial points are

- the focus on the company's own existing game brand potential,
- the distribution of operational risks in the development and marketing area among customers and suppliers and
- improved market access through strategic partnerships.

Through outsourcing solutions in the programming area as well as allocation of parts of the marketing activities to strategic partners, the monthly management/operational costs were able to be reduced by more than 65% by the end of the 2005 business year compared with the end of the 2004 business year.

Henceforth, the emphasis of JoWooD's business activities will lie in the area of product design, the selection and implementation of an optimum mix of in-house and external development skills adapted from SkillSet, as well as in the development and the expansion of the potential of JoWooD brands through branding and specific product management (publishing).

The strategic market positioning of game titles through an appropriate marketing mix of PR activities, community care, and pricing policy will be achieved by JoWooD in cooperation with distribution partners, wherein long-term marketing cooperations with established partners are decisive for enduring market success, as it is only in this way that the appropriate learning and use of synergy can take place. Another foreseeable consequence of the implementation of this approach to publishing is the henceforth strategic cooperation with Koch Media secured through equity participation, particularly in European marketing areas. The management of JoWooD is making medium-term plans to implement such strategic marketing cooperations in markets outside of Europe.

B. Fiscal restructuring

The company suffered substantial financial difficulties in the 2005 business year. Fiscal reconstruction before the infusion of fresh equity was absolutely necessary in order to avoid insolvency.

According to conversations and negotiations with various investors, it was possible to work out and implement a fiscal restructuring concept with Koch Media GmbH that was most practical strategically for the company and its shareholders. A long-term restructuring of the company was thus guaranteed this way.

Collection or encashment of accounts receivable

In the first step of the fiscal reconstruction concept, Koch Media GmbH collected or encashed the majority of existing accounts receivable against JoWooD, from major as well as minor creditors. The nominal value of the collected or encashed accounts receivable was around 6,883 TEUR (thousand euros), wherein the purchase or encashment price lay overwhelmingly under the nominal value of the accounts receivable. Although this procedure has still had no effects on JoWooD's financial situation, it has, however, had positive effects on eliminating the immanent risk of liabilities maturing and not being able to meet payments.

Capital reduction

In the second step, the simplified capital stock reduction by 22,567,020 EUR from 30,089,360 EUR to 7,522,340 EUR, in accordance with §§ 182 ff AktG (stock corporation law), was approved in the extraordinary meeting of shareholders on December 19, 2005. The capital decrease was achieved by consolidating the shares in the ratio of four old shares to one new share. The implementation of the capital reduction was entered in the commercial register on January 6, 2006.

The capital stock was reduced in accordance with § 182 AktG (stock corporation law) to cover any other accumulated deficits as well as to establish the prerequisite for the underwriting of the requested real capital increase by Koch Media GmbH.

Prior to the adoption of the simplified capital reduction resolution, all reserves of the company were liquidated beforehand in accordance with § 183 AktG (stock corporation law), except for 10% of the company's bonded reserves based on the remaining capital stock after the decrease to 7,522,340 EUR.

The simplified capital reduction as well as the foregoing liquidation of reserves in accordance with § 183 AktG (stock corporation law) resulted in a reduction of accumulated deficit equal to the capital reduction and liquidation of reserves. The total equity, however, remained unchanged.

Real capital increase

After the collection or encashment by Koch Media GmbH of the above-mentioned accounts receivable against the company amounting to 6,883 TEUR, and after the passing of the simplified capital reduction resolution, in a third step Koch Media GmbH input these accounts receivable, as well as other receivables against JoWooD in the amount of around 3,030 TEUR, i.e., receivables totalling 9,913 TEUR altogether, in the company as contributions in kind in the course of a capital increase under the exclusion of the present shareholders' purchase rights. According to the resolution of the extraordinary meeting of shareholders on December 19, 2005, the decreased capital stock was raised by 6,400,000 EUR from 7,522,340 EUR to 13,922,340 EUR by these measures, and the borrowed capital was reduced. The increase in real capital was entered in the commercial register on January 6, 2006.

As compensation for the deposit of the accounts receivable in the nominal value of around 9,913 TEUR, Koch Media received 6,400,000 shares of common stock in the name of the holder having a face value of 1 EUR each at the issue price of 1 EUR per share. The contribution in kind was audited by a court-appointed contribution-in-kind auditor and corroborated by a legal opinion from the Vienna University of Economics and Business Administration (*Wirtschaftsuniversität Wien*).

Cash capital increase

In the course of the extraordinary meeting of shareholders, the resolution for a cash capital increase by way of a regular capital increase was passed in a fourth step. This cash capital increase was successfully implemented by assuring the purchase rights of the present shareholders in the form of an open offer in the amount of 6 million shares at a price of 1.50 EUR per share from January 31 until February 14, 2006. The capital increase, which was concluded ahead of schedule on February 14, 2006, was almost threefoldly oversubscribed. Almost 98% of the purchase rights were exercised.

Subordination of liabilities

In the fiscal restructuring concept, additional liabilities of JoWooD to banks amounting to a total of around 3,700 TEUR were subordinated.

C. Outlook

The 2005 business year was a historically significant one for JoWooD Productions Software AG. With the implementation of the restructuring of the business model, the fiscal restructuring and the introduction of the distribution partner of many years, Koch Media GmbH, as a strategic core stockholder, the foundation stone for the turnaround was laid after long-lasting reconstruction and on March 31, 2006, the JoWooD group once again showed an operational profit as well as a positive equity.

We expect a continuation of the turnaround in 2006 and a clearly positive operational profit combined with a strong growth in sales.

It is therefore with great motivation, confidence and pleasure that we are looking towards the future, with the clear-cut goal of achieving long-term profits and establishing and respectively strengthening our global position.

We especially wish to thank our employees, who ultimately laid the foundation for the turnaround of the JoWooD group.

In the name of the Board of Directors

Dr. Albert Seid
Chairman of the Board

Mag. Maximilian H. Tinauer, MBA
Board Member

Changes in organs of the Supervisory Board and Board of Management

During the extraordinary General Assembly of 14th January 2005, the whole Supervisory Board was re-elected unanimously. As a result the Supervisory Board consisted of Dr. Andreas Rudas, Wolfgang Meusburger, MBA, Dr. Gerhard Weisschädel and Mag. Christoph Ludwig.

Andreas Tobler, founder and Board Member for Sales, Marketing and Product Management, withdrew on 26/1/2005. The Board contract for Mr Tobler was not renewed by mutual agreement. Instead of Mr Tobler Dr. Albert Seidl was nominated as Chairman of the Board of Management on 28/1/2006 as his successor.

On 14/3/2005, the company announced another change to the Board. The board Member for Finance, Development and Quality Assurance Dr. Michael Pistauer, withdrew from the company of his own accord on 30/4/2005. In his place, Mag. Maximilian H. Tinauer, MBA, was nominated as a new Board Member as of June 3rd 2005.

During the extraordinary General Assembly of 19/12/2005, Mr Michael Sares was elected to replace Dr. Gerhard Weisschädel in the Supervisory Board. Dr. Weisschädel withdrew form the Supervisory Board effective from 28 December 2006.

The Board of Management on 31/12/2005:

Name	Function	Position
Dr. Albert Seidl	Chairman of the Board	Marketing, Publishing, Sales and Investor Relations
Mag. Maximilian H. Tinauer, MBA	Member of the Board	Process Organisation, Controlling and Finance

Dr. Albert Seidl (born 1972), Chairman of the Board of Management

As a member and Chairman of the Board of Management, Dr. Seidl is responsible for the areas of Investor Relations, Publishing, Marketing and Sales. Dr. Seidl graduated in business administration from the University Economics and Business of Vienna and worked between 1995 and 1999 as Assistant at the Institute for Business Administration for the Industry at the University of Economics and Business of Vienna. Next, he worked in the area of market risk at the Austrian National Bank until 2001, where he was responsible for the evaluation and examination of market risk and value at risk systems of Austrian commercial banks. In 2001, Dr. Seidl joined the Capital Bank – GRAWE Group AG and in 2002 became Manager of Corporate Finance – GRAWE Group AG GmbH focussing on mergers and acquisitions, MBO/MBI transactions and emission management. Over the last few years, Dr. Seidl also worked as a lecturer at the University of Economics and Business in Vienna. In 2005, Dr. Seidl switched to the Board of JoWood.

Mag. Maximilian H. Tinauer, MBA (born 1967), Member of the Board of Management

As Member of the Board of Management, Mr Tinauer is responsible for the areas of Process Organisation, Controlling and Finance. Mr Tinauer graduated in business administration from the University of Klagenfurt and specialised in tax and finance as well as controlling. He also gained a postgraduate degree from the University of Kansas, Lawrence, USA, as Master of Business Administration in International General Management of the CIMBA Business Programme, accredited through the AACSB - The International Association for Management Education. From 1991 to 1998, Mr Tinauer worked in the parental tax advisory office specialising in business consulting. After this, he held various interim commercial management functions from project manager to business manager. In 2002, Mr Tinauer joined the international watchstrap manufacturer Hirsch Armbands GmbH as Group Controller and internal audit manager. In 2005, Mr Tinauer switched to the Board of JoWood.

The Supervisory Board on 31/12/2005:

Dr. Andreas Rudas (born 1953), Chairman of Supervisory Board

Mr Rudas started his career as press spokesman for the Ministry of Interior. After this, he switched to ORF, where he started as press spokesman and leader of the Public Works Department and ended as General Secretary. From 1994 to 2000, Mr Rudas was the Federal Business Manager of the SPÖ. In 2000, he moved to MAGNA Europe AG, where he held various management positions. In 2001, Mr Rudas held the position of Vice-President and was responsible for the areas of Communications and HR at MAGNA STEYR AG (formerly MAGNA Europe AG). Since 2005, Mr Rudas has been Managing Director of K. & K. Media and Trade GmbH. In addition, Mr Rudas has been a university lecturer at the Institute of Business Administration at the University of Vienna and has already published various works on health policy and public works, media policy and new media. Since 2003, Mr Rudas has been the Chairman of the Supervisory Board at JoWood.

Wolfgang Meusburger, MBA (born 1954), Deputy Chairman of the Supervisory Board

Mr Meusburger graduated in Business and Management in St. Gallen in Switzerland in 1977. After this, Mr Meusburger worked in the companies Tobler and Co. in Switzerland, RJ Reynolds in Germany, Mars/Effern Group, Unilever as well as at the Schöller Holding Management Company m.b.H. in Germany. From 1996 to 2001, Mr Meusburger was the speaker of the Board at Tchibo Fresh Roast Coffee GmbH. In 2001, he founded EF Meusburger Management & Development in Switzerland. Since 2005, Mr Meusburger has been the Deputy Chairman of the Supervisory Board at JoWood.

Mag. Christoph Ludwig (born 1974), Member of the Supervisory Board

Mr Ludwig graduated in Business Administration in Graz in 1999 and then worked at Toshiba AG as Product Group Manager and then at Siemens AG in Corporate Development. In 2002, he joined the office of the Styrian Federal Council, where he was Secretary for Economic Policy and since 2004 as deputy cabinet chief for the Federal Council Dr. Gerald Schöpfer. Since 2005, Mr. Ludwig has been deputy cabinet chief in the Federal Council office for Dr. Buchmann. With his wide management experience in industry, Mr Ludwig can use his experience in building up and managing network and cluster organisations. As company representative of the Styrian Restructuring Company STUG, he was able to acquire a wide experience in redevelopment. In addition, Mr Ludwig worked for an international group as leader of mergers & acquisitions. Since 2003, Mr Ludwig has been Member of the Supervisory Board at JoWood.

Michael Sares (born 1967), Member of the Supervisory Board

Mr Sares started his career as a jobber and portfolio manager at the bank Feichtner & Co AG (100% subsidiary of the Austrian Postal Savings Bank AG). In 1993, he moved to Merrill Lunch Bank AG in Austria and set up a team of Merrill Lynch International. In 1999, he was sent by Merrill Lynch Bank AG to Frankfurt, where he was responsible for a team of Financial Consultants as Sales Manager. In 2000, he took over the function of Managing Director at KS Asset Management AG as an associate. In 2004, Mr Sares founded Sares Invest AG in Vienna, in which he holds a 10% share and holds the position of Chairman of the Board of Management. Since December 2005, Mr Sares has been Member of the Supervisory Board at JoWood.

JoWooD at a Glance

Company mission

JoWooD develops and publishes electronic entertainment software for all leading hardware platforms, and for community gamers (hardcore gamers) as well as casual gamers (mass market). Their games are marketed and played worldwide.

JoWooD is a company in the software-entertainment branch that places emphasis on:

- *Offering high quality games that create and sustain enjoyment in playing video games, as successful games are based above all on challenging and diversified game concepts. Even with high quality engineering, however, the game must still be user friendly.*
- *Increasing shareholder value by concentrating on the core business, namely the development and publishing of electronic games, wherein growth is to be achieved through continuous improvement of in-house performance.*

The strategy

JoWooD is pursuing the strategic goal of becoming an important publisher of game titles with high potential and international sales potential. This medium-term goal shall be attained through extensive changes in the business model, product and marketing strategy areas.

A. The new business model

JoWooD's new business model encompasses the product development and publishing areas.

In the development area, new game ideas arise that are then put into practice in the development studios. The average time required to create a game title is around 24 months. After the Quality Assurance Department has verified that the game meets the required standard of quality, approval for publishing is given.

The publishing area includes all activities ranging from the development and implementation of PR and marketing strategies to the manufacturing of the software.

To this end, JoWooD is focusing on the following new business areas in particular:

Development	**Publishing**
Preproduction Producing Postproduction	Market development Distribution Partners

Preproduction

The aims of preproduction are risk minimization and the production of an inexpensive prototype of a new game idea with a straightforward, calculable pre-investment budget. To help develop such a prototype, the game ideas should be co financed at an earlier point in the development plan in order to reduce the investments in production to be borne by JoWooD. Moreover, it should be possible this way to obtain an early external evaluation of a possible game development by an external partner.

JoWooD introduced this preproduction system in its enterprise in the last two business years and has already successfully applied it to preliminary development projects. “Panzer Elite Action,” which appeared early in 2006, is the first game to be produced under this system. More new projects are to be developed under this new model.

Production

The preliminary concept that was designed in the preproduction phase is developed in various forms (prototypes, documents, concept arts, etc.) in the production phase.

Most of the production takes place in external development studios. In the previous business year, JoWooD outsourced development for the following reasons:

- Each project can be assigned to the most competent and cost efficient team on the market.
- Potential “idle running times” in in-house development studios, in other words periods in which costs accumulate without projects being completed, can be avoided. JoWooD is thus able to react in a rapid, flexible manner and collaborate with the most highly skilled professionals on the market.

Postproduction

The final quality control as well as localization (translation and adaptation tasks) of the products takes place in the postproduction phase. Postproduction is understood as adaptation to the local market conditions in different countries and regions (language, legalities, etc.). This area is of paramount importance in successfully bringing a stable, well-engineered product to market.

It was for this purpose that JoWooD founded the quality assurance company S.C. Quantic Lab S.R.L., located in Cul-Napoca, Romania. The S.C. Quantic Lab S.R.L. focuses on quality assurance services for JoWooD titles as well as for titles of third party publishers. S.C. Quantic Lab S.R.L was founded in the first quarter of 2006.

Market development

The JoWooD group products are marketed worldwide through distribution partners. These partners undertake market development measures in consultation with the in-house marketing department.

In a new orientation, JoWooD has optimized the entire range of distribution partners in a strategic key account partner network. JoWooD’s strategic partners include Koch Media GmbH in Central Europe, including England, as well as KE Media in Scandinavia and Aspyr Media in the USA, among others.

In this manner, JoWooD is simplifying and centralizing its marketing and distribution activities. As a consequence thereof, they are now able to concentrate on the development of the respective markets with strong partnerships.

Distribution partners

The respective distribution partner is responsible for the entire sales process, including partial logistics in retail. In order to achieve the greatest possible sales turnover for JoWooD, the in-house marketing team cooperates closely with the distribution partners in the implementation of marketing activities.

Another novelty in the business model to be implemented henceforth is the reduction of marketing risks through newly designed marketing and distribution contracts. JoWooD is increasingly concluding license contracts with its clients. This allows JoWooD to outsource the manufacturing area, whereby a greater share of the risk of returned merchandise or price reductions to be conceded is borne by the distribution partner.

B. Product strategy

In recent years, the video game industry has become an important part of the entertainment branch and it is following the clearly visible trend of this industry, wherein the attention of a growing market is being concentrated on a few titles with outstanding potential.

One of JoWooD's strengths lies in their well-designed product and brand catalogue. In this respect, JoWooD could build up a product library with great potential, as well as a series of valuable IPs (intellectual property rights) in a year's time.

In order to stay abreast of the increasing hit trend in the industry, the 2005 product portfolio was streamlined and titles with mediocre or below average potential were discontinued during the course of 2005. Financial resources shall henceforth be used for the upgrading and growth of titles and brands with strong potential. Moreover, a co publishing strategy was implemented. This strategy provides for the division of the risks and the financing of game projects among partners from the industry.

The JoWooD product strategy is built on these cornerstones:

New game projects go through an evaluation process according to economic and technical principles. Only those game ideas that pass this evaluation process shall be realized.

1. Brand Extension and Brand Continuation

This comprises the upgrading through expansion and / or continuation of existing and well-established game titles and brands with new types of games and genres.

2. New Brands

JoWooD is continually working on developing new brands and games; however, a new project under a new brand name is introduced only after extensive testing of its potential and feasibility.

3. Porting

Another product strategy theme consists of the porting of existing games on additional hardware platforms, wherein concepts for next generation consoles are also developed.

Thanks to its selection of PC and console titles, JoWooD has gained the position as a multi-platform supplier. The advantages resulting here from in particular are that a game idea can be used for several platforms, thus making it possible, in many cases through simple conversions, to realize cost synergies. Also, the marketability of a game on several platforms lowers its development risk and moreover, a considerably greater target public can be reached.

C. Marketing strategy:

In 2005, JoWooD developed a worldwide key account distribution network. This network is based on strong, local distribution partners, each of whom markets specific products in the large markets for JoWooD. This is to assure a transparent and profitable distribution structure. JoWooD works in close cooperation with its partners to this end, and the company also has workers in the major markets who support it in suburban areas.

Corporate Governance

JoWooD Productions Software AG comments upon the Austrian Corporate Governance Code as amended of January 1st 2006 as follows.

JoWooD Productions Software AG meets all legal requirements of the corresponding Austrian law in particular but not exclusively the Stock Exchange Act (Börsegesetz) and the Stock Corporations Law (Aktiengesetz) including all related regulations.

In addition to that, JoWooD values the rules of the corporate governance code as an important and useful instrument in order to achieve a voluntary self-regulation and transparency of the capital markets and commits itself in general to the aims and principles of the corporate governance code.

As the subject of corporate governance plays a vital role for the company, JoWooD evaluates the complete regularities of the corporate governance code at the moment and verifies each rule on its feasibility for JoWooD.

JoWooD Productions Software AG planed to publish a comprehending statement on the corporate governance code and each rule within it's company report for 2005.

JoWooD suffered in the fiscal year of 2005 from economical difficulties which led to business and financial restructuring. Those steps could be taken and finalized in the first months of 2006. Due to the difficulties during the restructuring phase and complex longevity of the audit we were forced to delay this statement.

JoWooD will therefore issue an official statement on the corporate governance codex due in the course of the announcements of its 3rd quarter 2006 results.

JoWood on the Stock Exchange

In the extraordinary General Assembly of 19th December 2005, a simplified capital reduction from 30,098,360 EUR by 22,567,020 EUR to 7,522,340 EUR through a grouping of shares at a ration of 4:1 was decided. The grouping of shares was published on 28th December and entered in the Register of Companies on 6th January 2006.

Furthermore, in the extraordinary General Assembly of 19th December, it was decided to increase the reduced share capital of the company from 7,522,340 EUR by 6,400,000 EUR through the issue of 6,400,000 registered ordinary shares with a nominal value of 1 EUR each with voting rights and entitlement to profits from 1st January 2005 to 13,922,340 EUR at an issue price of 1 EUR per share under exclusion of the subscription rights of existing shareholders and admission to Koch Media GmbH to take up all new shares. The increase in share capital was made for non-cash contribution. The increase in capital was announced in the Register of Companies on 28th December 2005 and registered on 6th January 2006.

Furthermore, in the extraordinary General Assembly of 19th December, it was decided to further increase the share capital of the company against a cash contribution after carrying out the above mentioned capital increase up to 6,000,000 EUR through the issue of 6,000,000 registered ordinary shares with a nominal value of 1 EUR with a minimum issue price of 1 EUR per share under guarantee of the legal subscription rights of existing shareholders. This capital increase for cash was successfully carried out in the period from 31 January 2006 to 14th February 2006 under guarantee of the subscription rights of existing shareholders at a price of 1.50 EUR. Almost 98% of subscription rights were exercised.

Key Figures of the JoWood Share

Value Development 2005

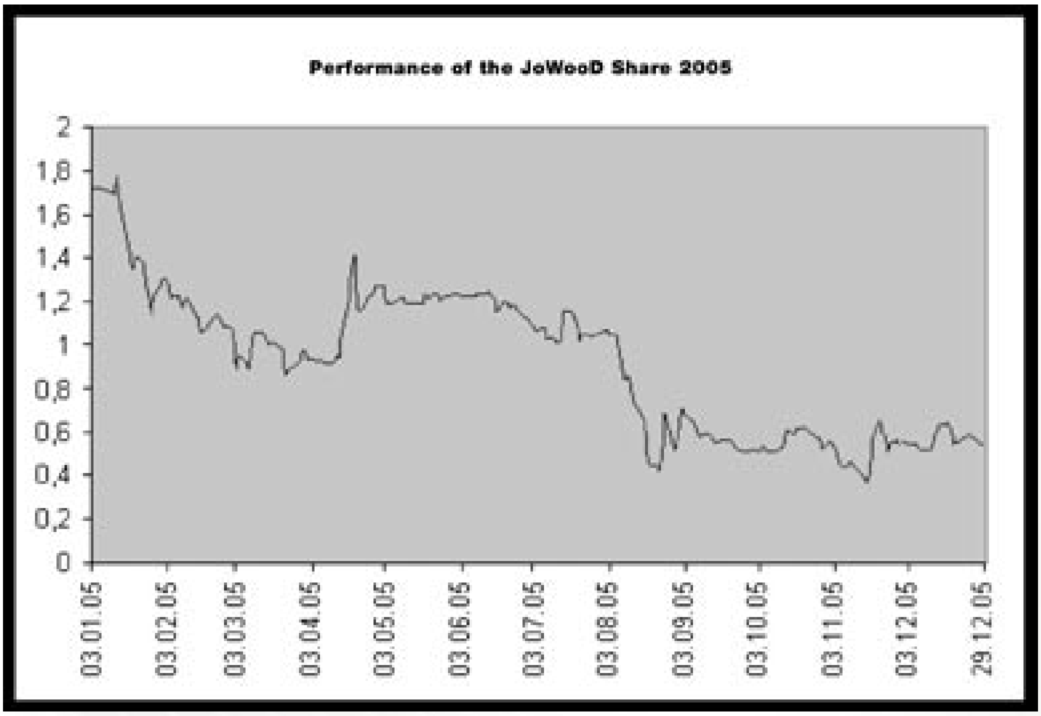
• Peak price (Intraday)	EUR	1.80
• Lowest price (Intraday)	EUR	0.35
• Closing price on 29 December 2005 (before grouping of shares at a ratio of 4:1)	EUR	0.54
• Reference value of 2 January 2006 (after grouping of shares at a ratio of 4:1)	EUR	2.16
• Market capitalisation on 29/12/2005 (based on reference value of 2/1/06, acc. to resolution on share grouping in the above mentioned General Assembly of 19/12/2005)	EUR	16,248,254.40
• Total Sales (double counting)	EUR	116,344,517.66

Profit Development 2005

Average number of shares on 31/12/2005	7,738,931 shares
Profit per share[1]	EUR -2.34

[1]) see explanations in the appendix under point H

Price development 2005

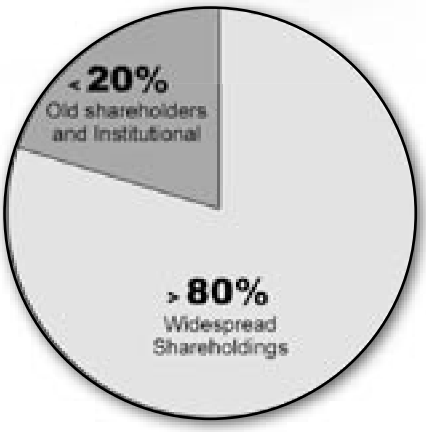


The share prices are strongly marked by the necessary restructuring tasks. On 28th December 2005, the share grouping decided at the extraordinary General Assembly on 19th December 2005 was published and entered in the Register of Companies on 6th January 2006. The JoWood shares are therefore listing based on the share grouping at a ratio of 4:1 from 2nd January 2006.

Opening price on 2nd January 2006: EUR 1.70.

Shareholder Structure

Shareholder Structure on **1/1/2005**:



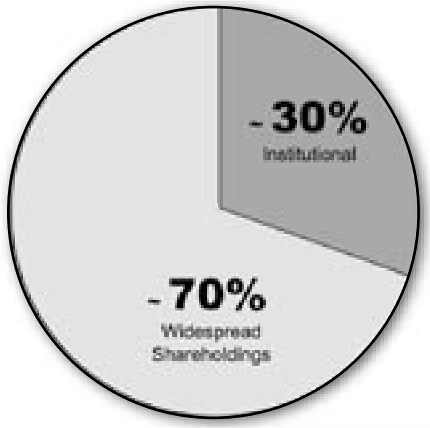
Andreas Tobler/ Tobler Privatstiftun	<5%
Johann Schilcher/ Schilcher Privatstiftung	<5%
Qino Flagship Ltd.	<5%
Dieter Bernauer Schilcher	<5%
Johann Reitinger	<5%
Templeton Asset Management Ltd.	<5%
Clanfa Anstalt	<5%
Bank Austria	>5%

The company received no reports of shifts in participation for the 2005 financial year. The widespread shareholdings were therefore still high at over 80% during the 2005 financial year, according to available information.

Through the increase of non-cash capital of Koch Media GmbH decided at the extraordinary General Assembly of 19/12/2005 and registered in the Register of Companies on 6th January 2006, there was a shift in the shareholder structure. The share in Koch Media GmbH amounted to around 46% following the increase in non monetary capital. This share has reduced, partly due to the capital measures taken in spring 2006, and at the time of drawing up the business report, it was at around 28%.

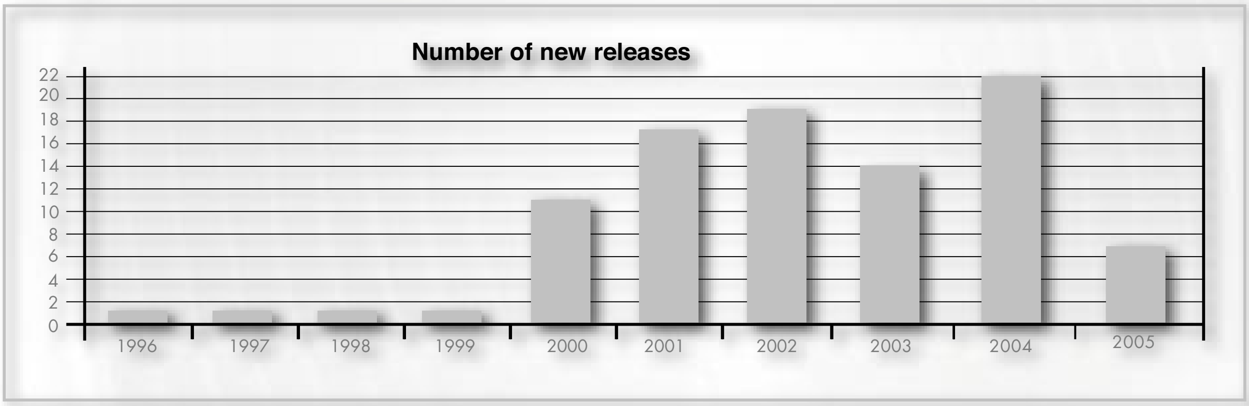
The company is therefore aware of the following shareholding situation at the time of drawing up this business report:

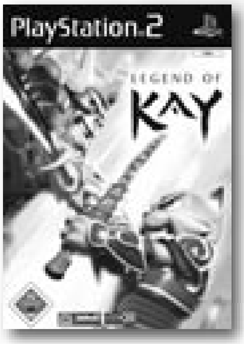
Koch Media GmbH	>	25 %
Bank Austria Creditanstalt AG	>	5 %



Source: taken from the FMA Website
Link: “Shareholding relationships of listed companies“

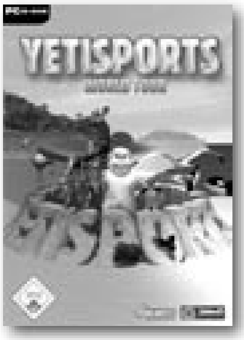
	Game	Platform
1.	Legend of Kay	PS2
2.	Yetisports Word Tour	PS1, PC
3.	Söldner: Marine Corps	PC
4.	Söldner Gold	PC
5.	SpellForce Platinum	PC
6.	Yetisports Arctic Adventures	PC, Xbox, PS2 EyeToy
7.	Ski Racing 2006	PC, PS2, Xbox





Legend of Kay (PS2)

“Legend of Kay” is a classic action adventure – enhanced by an advanced combat fighting system. The hero ‘Kay’, a young tomcat, embarks on a quest to save his village from invading troops of emperor Shun – king of the mighty gorillas. Kay leaves his hometown only with his sword and soon becomes a seasoned fighter, the only hope of all cats. Finally Kay manages to unravel the secret that lies hidden in the volcano fortress of emperor Shun.

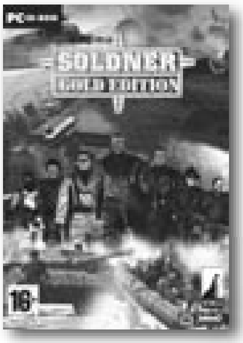


Yetisports World Tour (PC, PS1)

After the successful Yetisports flashgames and “Yetisports Deluxe” (PC, PS1) “Yetisports Worldtour” offers many new features and games with the Yeti. Ten new games for single- and multiplayer fans and newly created highscore schedules provide great hours of gameplay for each Yeti fan.

Soldner: Marine Corps (PC)

In the official expansion pack to “Soldner – Secret Wars” the player becomes part of a special operations squad or can even command the team trying to survive underwater missions. In a fascinating, action-packed tactical fight each squad tries to get the upper hand over its rivals.

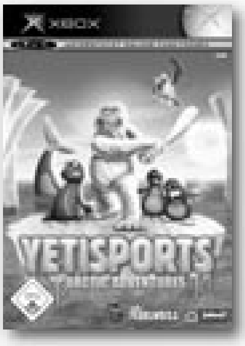


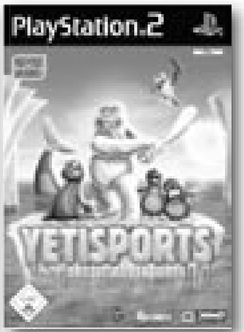
Soldner Gold (PC)

“Soldner Gold” combines the original “Soldner – Secret Wars” and the expansion “Soldner – Marine Corps”. Players have the possibility to receive two products at a reasonable price and fight themselves trough exciting quests of this Military Tactical Online Shooter.

SpellForce Platinum (PC)

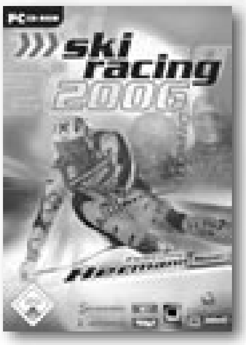
“SpellForce Platinum” consists of the awardwinning “SpellForce – The Order of Dawn” and two extremely successful AddOns “SpellForce – The Breath of Winter” and “SpellForce – Shadow of the Phoenix”. This genremix of role playing game and real time strategy takes the player to the fascinating world of Eo, where the fight between good and evil guarantees great hours of gameplay.

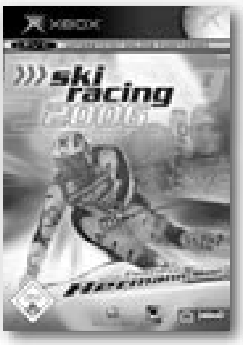


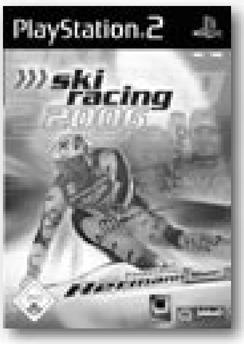


Yetisports Arctic Adventures (PC, Xbox, PS2 Eytoy)

The next generation of the popular Yetisports saga is born and takes the cuddly Yeti from the 2D world into the breathtaking 3D landscape of the Arctic. Many new games provide hours of diversified gamefun for the whole family.







Ski Racing 2006 (PC, Xbox, PS2)

The ultimate skiing experience! Ski Racing 2006, the next-season successor of the winners game, fullfills the expectations of both action-loving gaming freaks and simulation fans. Expect the best in realism and authenticity.

Annual Report of the JoWood Productions Software Group

The market for entertainment software

In the entertainment software and gaming industry, 2005 is marked by **new generation** console hardware (PlayStation, XBox and Nintendo).

Microsoft released the new XBox, named XBox 360, onto the market in the 4th quarter of 2005. In September 2005, Sony released the PlayStation Portable (PSP) onto the US market.

Although the changeover in these console platforms was took place last year, the successive switch by consumers to the new consoles means there will be significant market influence in 2006. The successive switch to new consoles increases the prevalent basis and at the same time, at least an equally considerable decline in sales of predecessor consoles (especially Xbox) is to be expected.

The trend in the new generation will only become more prevalent with the release of the PlayStation 3 (PS 3) expected in autumn 2006.

Following the introduction of the new generation consoles in 2005, there has been a slowdown in **growth in the market** for entertainment software since consumers increasingly await new hardware products. While market growth in 2004 was at 0.13%, this went up to 2.8% in 2005. Following the closing of the transition phase to the new consoles, which is expected in early 2007, the whole market is set to grow even more. For 2007, growth rates of around 16.2% are expected.

Irrespective of somewhat reduced growth rates in 2005, the video gaming industry is founded on a still growing market segment. Important drivers behind this growth are a fast growing casual gamers target customer group as well as changing demographic features such as new online technologies, which promote growth.

While the release of the PlayStation 3, XBox 360 and the PSP offers technological developments making games more extensive with better graphics and acoustics and thereby appealing to the now typical video game customer group even more, the release of the Nintendo DS and the XBox 360 supports the "fun" factor and therefore addresses and finds a market in a casual gamers target group, other than the classic gamers community, which, as a partly supplementary target group, contributes to further market growth.

Within the entertainment software market, on the other hand, the online gaming segment is showing the highest growth rates. Turnover in the online gaming segment amounted to 1 billion USD worldwide in 2003. For 2008, turnovers of around 4 billion USD are estimated. This growth is supported by increasingly improved technological conditions for online gaming. For example, the new Xbox 360 has online billing systems, which until now have been focussed on the PC platform. In the area of the PC platform, in important markets segments of the global video gaming industry, an almost full transition to online distribution and online gaming can be observed (e.g. Korea). Modern massive multiplayer online games are almost exclusively concentrated on an online business model and billing system.

Within these conditions of the global video gaming industry, it is **JoWood's objective** to react to new technological and market/customer-related challenges and to develop strategies. Due to strong established brands, there is a solid basis for a gradual implementation of new online technologies, gradual switch to new consoles and to be able to successfully perform on a market geared towards demographic trends in the target and customer groups.

Overview of net worth, financial situation and profit situation 2005

The 2005 financial year was marked by fundamental and developments partly putting the company's very existence at risk. AT the beginning of 2005, considerable liquidity bottlenecks and difficulties had to be stated. The profit and liquidity situation was strained by development costs and writing off little or not profitable games projects.

At the same time, considerable liabilities weighed heavily on the company, which represented a potential threat in connection with the existing strained liquidity situation.

In publishing development, following thorough due diligence on the games projects in development, it had to be ascertained that a range of publishing dates originally planned could not be kept due to development delays. Furthermore, such serious development flaws were ascertained in some projects (especially the planned games project Stargate SG1 – The Alliance) that the whole projects had to be interrupted or suspended out of technical and operational considerations.

Due to these serious deficits and crucial events in games development and publishing, publishing dates had to be re-determined and mostly defined for after the end of the 2005 financial year on the basis of a completely new project management and new project plans.

In this way, with the exception of the Yeti Sport title released in Q2, only earnings from the sales of games titles previously released and already on the market could be generated in the 2005 financial year, and income from new publications, which represent the main part of income in the video game industry, could therefore not be registered.

In the third quarter of 2005, therefore, a full restructuring concept was prepared, which provides for a considerable reduction of liabilities along with strengthened equity capital following the entrance of the company Koch Media GmbH, in Höfen, as a strategic investor in JoWood. This entrance as an investment in kind was resolved in the extraordinary general assembly of 19/12/2005. At the same time, a regular capital increase to strengthen liquidity and capital structure was passed at this general assembly.

Profit Situation

The **sales** of 6,457,000 EUR in 2005 reflect the fact that there were no significant new releases of games titles. In addition, significant reductions (debit notes) affecting 2004 sales were registered.

The sales achieved exclusively result from the sales of games already released and on the market (back catalogue goods). Sales from back catalogue goods are considerable lower than sales from normal trade in games releases, as this usually takes place at lower prices and with considerably reduced periodical (weekly) sell-through volumes compared to the first 2-3 months following the re-release of a game.

Typically, a large part of its life cycle sales is generated upon the new release of a game title (3-5 months following the release date). The total earnings for 2005 therefore consist of the remaining reduced sales following the blow to sales from new releases.

In addition to the reduced levels of sales, **profits** are also affected by the considerable restructuring expenses incurred in 2005. While the EBIT before restructuring expenses still lies at - 4,922,000 EUR, the EBIT after restructuring expenses is at - 20,278,000 EUR.

In this way around 24% of the EBIT result from operational business developments in progress, while around 76% come from restructuring expenses.

The total restructuring costs consist of the following individual positions:

Summary of Restructuring Expenses on 31/12/2005	**Values in thousand EUR**
Inventory value adjustments from deliveries in 2004	2,576
Write-offs or expenses due to studio closures	2,679
Write-offs or expenses due to withdrawal of unprofitable or defective games	1,417
Special depreciation of unprofitable games in the course of loss-free valuation	5,694
Valuation adjustment for depreciation Stargate (perception)	6,196
Valuation adjustments of receivables from 2004	210
Legal disputes	283
Other restructuring expenses	476
Sum of Restructuring expenses on 31/12/2005	**19,531**

Internal development studios, especially in Germany, were closed since, according to the JoWood management, the product-related alignment of games development in these studios would not lead to any profitability or increased value. This restructuring measure aimed at maximising profit can therefore be justified from the aspect of a thorough product valuation in view of marketing potential as well as fundamental product strategy considerations. At the same time, significant progress could be made in the implementation of cost reduction objectives. With the closures, write-offs of games titles (semi-finished and finished products) amounting to 2,679,000 EUR had to be undertaken.

Through the cancellation of just as little marketable and, according to the management, unprofitable games projects developed by external development studios, 7,197,000 EUR had to be taken on in the restructuring expenses for write-offs.

Inventory value adjustments for 2004 burden the result to an amount of 2,576,000 EUR. This is mainly concerned with settling returned goods in retail by customers for titles delivered in 2004 and also registered in earnings and profits balances for 2004. It must be stated here that the management of 2004 proceeded from excessive sales and contribution margin expectations especially for console titles. Also, for operational and product strategy reasons, extensive profit generating restructuring steps had to be taken.

Within the scope of loss-free valuation, games titles (especially console games) particularly from 2004 had to be considerably written-off (5,694,000). Due to lacking marketability and titles lying outside the JoWood core product strategy, the continuation of sequels was not carried out and the brand discontinued as part of profit maximising restructuring.

Restructuring yields of 4,175,000 EUR mostly result from releases from debts in the course of out of court settlements as well as debts brought in by Koch Media GmbH following the deduction of distributed shares with a nominal value of 6,400,000 EUR.

Financial results amounting to -345,000 EUR are identified by interest charges along with expenses for short and long-term credit liabilities amounting to 566,000 EUR, amongst others. In the course of financial restructuring in 2005, compositions were concluded with bank creditors so that the credit liabilities to banks were reduced by a total of 5,531,000 EUR in the fourth quarter of 2005. This considerable reduction in credit liabilities will probably also lead to a noticeable relief in the financial results. In addition, in the course of financial restructuring of the company, liabilities amounting to 3,692,000 EUR were subordinated, which led to a marked improvement to the liquidity situation, but not to any further improvement or relief to the financial results.

The result from taxes on profits is closely connected with the revaluation of deferred tax assets. The deferred tax assets mainly result from losses carried forward from the crisis year of 2002.

Deferred tax assets on 31/12/2004 were adjusted to zero in the equity capital on 1/1/2005 in accordance with the KPMG auditor's report. According to the continuance forecast, company estimates and expected results, deferred tax assets from losses carried forward on 31/12/2005 were adjusted to 2,821,000 EUR and shown as taxes on profits in the balance sheet.

In connection with the closure of JoWood Vertriebs GmbH International (formerly Leisuresoft), provisions were affected and 336,000 EUR was registered in the expenses for taxes on profits.

The summary of developments in the profits situation shows the following picture:

	2005	**Change in%**	**2004**
Sales	6,457	- 62.5 %	17,203
EBIT before restructuring	- 4,922	+ 43.2 %	- 8,669
EBIT after restructuring	- 20,278	- 24,0 %	- 16,355
Financial result	- 345	+ 68.4 %	- 1,093
Result from profit tax	2,479	+ 120.1 %	- 12,317
Net loss for the year	-18,144	+ 39.0%	- 29,766

The effect of cost reductions achieved with the studio closures and other capacity reductions have not yet become noticeable in 2005 due to high closing down costs as well as the sometimes long contractual and legal obligations both in personnel and material expenses.

This considerable financial relief have become noticeable from the beginning of 2006. The reduction of personnel costs in the first quarter of 2006 compared to the first quarter of 2005 amounts to around 68% (Q1 2005 2,266,000 EUR, Q1 2006 721,000 EUR).

Personnel development

Staff levels at JoWood were massively reduced during 2005 in the course of business restructuring. While on 31/12/2004 206 employees were employed, on 31/12/2005 there were only 53 employees (incl. contractors).

Staff cuts were mainly made in those internal development studios whose focus was no longer a part of the company's focal strategy, and were therefore closed. In total, 80 employees were laid off in this area.

In addition, further savings were made for reasons of efficiency and organisational changes. These measures mainly concern the areas of quality assurance, finance and administration.

In 2005, internal quality assurance (QA) department was closed since it is a service with high personnel cost and was not competitive in comparison with providers on the market offering professional quality assurance services. In total, this area comprised of 50 employees. The QA services required during 2005 were outsourced to external providers.

In the meantime, planning and preparation tasks for an internal quality assurance department in Romania were completed and this department entered into service at the beginning of the second quarter of 2006. In comparison with the in-house quality assurance solution, which existed until mid 2005, considerable personnel and material costs could be saved.

The remaining staff cuts were made in finance, administration and sales, and consisted of a total of 23 employees and contractors.

Sales Development

Sales in 2005 amounted to 6,457,000 EUR. The share of sales outside the German speaking area is 33.2%. Within the German speaking area, there were sales losses of 4,315,000 EUR, which is 66.8% of total sales.

In thousand EUR	**2005**	**% of**	**2004**	**% of**
German speaking area	4,315	66.8%	8,821	51.3%
Rest of Europe	916	14.2%	6,216	36.1%
Rest of the world	1,226	19.0%	2,166	12.6%
Total:	**6,457**	**100%**	**17,203**	**100%**

Reduced sales compared to the same period in the previous year (2004) mainly result from the fact that 22 titles were released and sold in 2004. These included Soldner, Spellforce und Transport Giant, which mainly contributed to company sales development for 2004.

Titles from the planned 2006 line-up, for which sales contracts were concluded in 2005 and which were released in 2006, are not included in the results for 2005.

Net worth

On 31/12/2005, the total net worth of JoWood fell in comparison with the same day the previous year from 33,255,000 EUR (value after adjustment of deferred tax assets by 6,649,000 EUR) by 23,975,000 EUR to 9,280,000 EUR.

The company's **long-term assets** were continually cut down during the period 2002-2004, whereas in 2005, following adjustment for deferred tax assets by 6,649,000 EUR, these were increased by around 2 million EUR. During the 2005 financial year, long-term assets amounted to 3 million EUR, in 2004 to approx. 1 million EUR (values after deferred tax asset adjustment of 6,649,000 EUR), in 2003 approx. 15.3 million EUR and in 2002 around 20.3 million EUR.

The changes are closely connected with the adjustments for deferred tax assets. Deferred tax assets mainly result from the crisis year of 2002. In 2003 and mainly in 2004, on the occasion of the reduction of corporate tax from 34% to 25%, a part of the deferred tax assets was written off.

As a precaution, an adjustment for deferred tax assets was made on 1/1/2005 so that on 31/12/2005, the balance sheet shows an asset value of 2,821,000 EUR (2004 financial year: value before adjustment on 1/1/2005 6,649,000 EUR, 2003 financial year 12,365,000 EUR, and 2002 financial year: 13,558,000 EUR). This value corresponds to expected tax savings for the coming years, which was determined on the basis of available continuancy forecasts, company estimates and expected results.

Moreover, intangible assets in the 2004 financial year incurred unscheduled depreciations of 1.1 million EUR and in 2003 ended up with a reclassification of license rights for games still balanced under intangible assets on 31 December 2002 and which were finished during the 2003 financial year to current assets of 1.1 million EUR.

Short-term assets fell to 6.2 million EUR during the 2005 financial year, whereas during the 2002 to 2004 financial years, they averaged around 32 million EUR. The decline in short-term assets during the 2005 financial year is mainly linked with semi-finished and finished products and demand for deliveries and services.

The cause for this is the rigorous write offs of titles with low life cycle-earnings expectations within the scope of a loss-free valuation amounting to 5,694,000 EUR.

In addition, restructuring measures in the area of studio closures and project cancellations are reflected in the accounts to an amount of 10,292,000 EUR (not including 9,596,000 EUR account for semi-finished and finished products).

With these measures, the stock of semi-finished and finished products in particular was reduced by 15,290,000 EUR. Through the further spur in the development of games titles released in 2006, stocks were increased by 8,015,000 EUR in the same period.

The severe decline in demand for deliveries and services including demand from Koch on 31/12/2005 by around 9,090,000 EUR compared to 31/12/2004 to 1,777,000 EUR is partly due to above average demand status on the capture date of 31/12/2004, and also due to the offsetting of reserves and liabilities. In addition, considerable price credit notes for games deliveries during the 2004 financial year to an amount of 2,576,000 EUR were issued during the 2005 financial year.

Through **massive restructuring expenses** within the scope of profit-maximising restructuring in 2005, the whole equity capital was used up and a **financial over-indebtedness** beginning in the third quarter of 2005 had to be shown. The negative nominal equity capital amounted to -7,212,000 EUR on 30/9/2005.

The objective of the **financial restructuring** started at the beginning of the third quarter of 2005 was the reduction of massive liabilities from previous years while improving the equity capital situation. To this purpose, a restructuring concept was prepared with a large part of JoWood's creditors.

This restructuring concept provided for comparisons and subordinations of liabilities with subsequent conversion to equity capital as an investment in kind. At the same time, the company is to receive new cash through a capital increase for cash.

The implementation of this restructuring concept mainly took place in the fourth quarter of 2005. Up to 19 December 2005, liabilities amounting to around 9,913,000 EUR could be converted into equity capital following a capital increase against an investment in kind. In addition, debt releases by creditors amounting to 437,000 EUR were brought about and entered and recognised in assets. Further liabilities amounting to 3,692,000 EUR were subordinated. In the general assembly which took place on 19 December 2005, a resolution on a capital increase for cash to strengthen the company's liquidity levels was passed.

Through these financial restructuring measures, the equity capital situation was improved to -1,642,000 EUR on 31/12/2005.

Financial situation

JoWood's cumulated operative cash flow on 31/12/2005 (-564,000 EUR) is almost unchanged in comparison to the first semester of 2005 (-523,000 EUR). The cumulated operative cash flow in the same period the previous year was -15,674,000 EUR. Although the negative conditions of restructuring (declining earnings, higher restructuring expenditure) greatly affected results, the JoWood Group was still able to more or less finance itself by 31/12/2005.

Self-financing is especially linked with high restructuring expenditure amounting to -19,531,000 EUR during the 2005 financial year. This was essentially non-cashable and consequently led to a reduction in semi-finished and finished products and demand for products and services in the 2005 financial year. The conclusion of co-publishing contracts also led to an increase in down-payments on games in development compared to the same time in 2004.

The reduction of semi-finished and finished products is the result of write-off method applied, the cancellation of game developments that became necessary in the course of economic appraisal, the consideration of loss-free valuations, the value adjustment of the game "Stargate SG-1™: The Alliance" and the increased deductions of down-payments.

The severe decline in demand for products and services is partly due to above average demand status on the capture date at the end of 2004, and also due to the offsetting of reserves and liabilities In addition, considerable price credit notes for games deliveries during the 2004 financial year were issued.

Payments for investments are much lower than the same period the previous year with the closure of studios with -60,000 EUR in normal circumstances (-550,000 EUR).

Cash flow from the financing area amounting to 149,000 EUR mainly consists of repayment from long-term financial liabilities of -219,000 EUR and the raising of short term funds of 368,000 EUR. Cash flow from the financing area amounted to 8,573,000 EUR in the same period the previous year.

The following table shows group cash flow from 1/1/2005 to 31/12/2005 in detail (values in thousand EUR):

Cash Flow Statement

		2005 TEUR
Annual result prior to interest and taxes		**(20,278)**
-	Costs of capital increase	(411)
+	Interests received	158
-	Interests paid	(503)
-	Income tax paid	(343)
+	Depreciation of fixed assets	422
-	Debt releases (reliefs)	(3,503)
+	Losses from disposal of fixed assets	368
Cash Flow from operating activities (from profit)		**(24,090)**
+/-	Decrease/increase of inventories	13,239
+/-	Decrease/increase of receivables and other assets	10,203
+/-	Decrease/increase of deferred expenses	178
-/+	Decrease/increase provision for severance payments	(102)
-/+	Decrease/increase of other provisions (short term)	(3,195)
-/+	Decrease/increase of liabilities from deliveries	4,447
-/+	Decrease/increase of other liabilities and deferred income	(1,244)
Cash Flow from operating activities		**(564)**
–	Payments for asset acquisitions (not financial assets)	(60)
Cash Flow from investment activities		**(60)**
+	Raising of short-term financial liabilities	368
-	Repayment of long-term financial liabilities	(219)
Cash Flow from financing activities		**149**
Changes of financial funds		**(475)**
Financial funds		
	Financial assets at the beginning of the period	671
	Financial assets at the end of the period	196

Investments and acquisitions

Acquisitions and investments in 2005 only took place to a limited extent. For 2006, these are also to be limited.

A large part of expenditure at JoWood is on software title development (games). These are activated and written off following release.

Investments made over the last three years are shown below:

In thousand EUR	2005	2004	2003
Intangible assets	23	376	1,852
Goodwill	0	0	232
Tangible fixed assets	37	167	254
Financial assets	0	7	0
Total:	**60**	**550**	**2,339**

The 2005 financial year shows a further decline in investments by 490,000 EUR compared to the 2004 financial year. Investment costs in intangible assets concerns expenses for the self-generated basic technology and copyrights. Investments in tangible fixed assets mainly result from the purchase of IT equipment.

For the 2006 financial year, no substantial investments in the area of tangible or financial assets are planned. There is no increase to intangible assets planned. Also, no acquisitions and therefore in goodwill are intended.

Financial instruments and risks

There are certain **foreign exchange risks** relating to earnings from US and Asian companies where prices for titles and licenses are mainly agreed in Dollars.

Foreign currency hedging agreements were not used since sales in Dollars are less significant compared to the EURO sales (around 15%) and periods of payment for these sales are usually short (spot transactions), which means that there is no considerable currency exposure.

In the area of borrowed capital, only EURO credits on EURIBOR basis were expiring during 2005, which is why foreign currency hedging agreements in interest were not necessary.

Considerable risks became conclusive in 2005, in particular from contracts with customers from 2004:

Risk of return, price protection clauses, stock depreciation allowances, loss of receivables and other similar risks were borne all by JoWood. In addition, these conclusive risks put huge pressure on funding requirements since this expenditure had to be offset against declining demand.

Within the scope of profit-maximising restructuring in 2005, all recognisable related risks were exposed and posted affecting earnings in discussions with customers. Through the conclusion of settlement agreements with customers, it could be guaranteed that no further risks from these earlier transactions would become conclusive.

The conclusion of settlement agreements and the realisation of credit analyses for major customers meant that no loss of receivables had to be recognised in income statement.

Employee Options programme

In view of the employee options programme still existing on 31/12/2004, disclaimers were obtained from all existing employees. The reason for this is the preparation of a new employee options programme, which is to be proposed for resolution at the ordinary general assembly of 2006.

Particularly Significant Events Taking Place after the Accounting Date

Share and Equity Capital

On 19/12/2005, a resolution on the conversion of receivables into equity capital by way of an investment in kind through the new depositor Koch Media was passed at an extraordinary general assembly.

At the same time, a resolution on a capital increase for cash by way of a regular capital increase was also passed. This capital increase for cash was carried out in observance of existing shareholders' stock options in the form of a public subscription offer of 6 million shares at a price of 1.50 EUR per share in the period between 31 January and 14 February 2006. The capital increase prematurely closed on 14 February 2006 was almost oversubscribed threefold. Almost 98% of option rights were exercised.

By carrying out this capital increase for cash, a further significant step to successful restructuring of JoWood was taken with the entrance of Koch Media as a strategic investor.

Through these capital measures, the company's structural liquidity was strengthened and the equity capital structure was significantly improved.

In the first quarter of 2006, the first titles of this new line-up could be distributed whereby on 31/3/2006, a positive result of 724,000 EUR was achieved for the first time since 2003.

Due to positive earnings developments and the successful capital increase for cash, the equity capital on 31/3/2006 compared to 31/12/2005 was able to be raised by 9,570,000 EUR to 7,928,000 EUR.

Quantic Lab Subsidiary

On 21/2/2006, a 95% subsidiary SC QUANTIC LAB SRL based in Cul-Napoca, Romania was founded. Operations began on 25/4/2006.

SC QUANTIC LAB SRL is focussed on quality assurance services for JoWood's own titles as well as for titles from other publishers. Currently, SC QUANTIC LAB SRL employs 14 employees other than the management sent from Austria by JoWood.

Cul - Napoca has an established university infrastructure in IT and software development. Also, Cul-Napoca is a significant location for international IT groups due to its attractive infrastructure.

For this reason, Quantic Lab combines the availability of a qualified local workforce with the labour cost advantages of the Romanian labour market. This results in enormous savings in the area of quality assurance compared to outsourcing, the method used until now, while maintaining corresponding standards.

JoWood Software Development Vienna GmbH Subsidiary

It is intended that the 100% subsidiary JoWood Software Development Vienna GmbH, based in Vienna, transfer all its assets by way of a universal succession through a merger by absorption in accordance with §234 of the Stock Corporations Act and §§ 220 cont. of the Stock Corporations Act as well as in accordance with Art. 1 of the Tax Reorganisation Act to the parent company JoWood Software AG, based in Rottenmann. The merger date is 31/12/2005. Through the merger, there will be a simplification of the group's structure and therefore a further reduction in costs.

Closures of further subsidiaries and branch offices

In order to simplify the group's structure and to further reduce costs, the German branch office is to be closed and the 100% subsidiary Wings Simulations GmbH is to be liquidated in the first semester of 2006. Also, the closure of JoWood VertriebsGmbH, Germany is also planned. Legal steps have already been taken.

On 7/2/2006, a petition for striking JoWood Productions (UK) Limited off the Companies House Register was made. The final striking off the Companies House register is to occur within three months of the petition. The company was deconsolidated on 31/12/2005 for lack of economic control.

The representative office in Tokyo, Japan, continues unchanged.

Outlook

The profit-maximising and financial restructuring measures taken in 2005 can be described as far advanced and successful.

With the entrance of Koch Media GmbH as a strategic investor in the fourth quarter of 2005, a corresponding stability was also created in the shareholder structure.

The outlook in the company report for the 2005 financial year sets the optimisation of the marketing and sales model as well as the acquisition of new markets as objectives. At the same time, the co-publishing system with strong partners is to be pushed.

Both objectives can be considered as being achieved and ideally implemented in a combined way with the entrance of Koch Media. Koch Media has a wide retail distribution network in important European markets. Within the scope of this partnership, JoWood can build up its strengths in product and brand development even further with additional work share in process flows.

Product strategy-wise this means that existing successful game brands are to be developed further and diversified by expanding the range of genres as well as through the integration of online features in the game concept. In this way, new technological developments will be accommodated.

Market strategically, core brands such as Gothic 2 or Spellforce could be marketed in the USA for the first time by selecting a good partner. A further expansion of these US activities, whether through existing partners or by strengthening own resources in the US are to be strived for in 2006.

Through the provision of funds with the successful capital increase for cash, liquid funds are available for investment in the further development of successful JoWood game brands as well as for the introduction into strategically important markets.

Currently there are analyses on the implementation of portings of games concepts that can be implemented fast and efficiently on new technologies, until now not part of JoWood sales and product lines, such as mobile devices.

Operatively, the company's cost structure in comparison with the first months of 2005 has fallen drastically. Considerable fixed cost savings achieved by cutting not very profitable and not fully used capacities have had noticeable effects, already visible in the first quarter of 2006. As such, material and personnel costs could be reduced by 61% in comparison with the same time the previous year, which is why the cost savings objectives mentioned in the outlook for 2005 can be considered as implemented to a large extent. A rigorous cost savings programme will continue to be followed in 2006.

Several releases of games titles with high potential are planned, which is why as things stand, a successful consolidation of the turn around of the first quarter of 2006 can be expected.

Rottenmann, 30/05/2006

The Management Board
of
JoWooD Productions Software AG

Dr. Albert Seidl

Mag. Maximilian H. Tinauer, MBA

CONSOLIDATED INCOME STATEMENT

From January 1, 2005 to December 31, 2005
(all values in EUR ,000)

		Notes	31.12.2005	31.12.2004
1.	Sales	G.1	6.457	17.203
2.	Cost of sales	G.2	(4.224)	(10.407)
3.	**Gross profit before depreciation of games**		**2.233**	**6.796**
4.	Depreciation of games	G.2	(2.453)	(7.846)
5.	**Gross profit after depreciation of games**		**(220)**	**(1.050)**
6.	Other operating income	G.5	2.004	1.540
7.	Distribution expenses	G.3	(3.417)	(5.700)
8.	Administration expenses	G.4	(2.319)	(3.031)
9.	Other operating expenses	G.6	(970)	(427)
10.	**Operating result (EBIT) before restructuring**		**(4.922)**	**(8.669)**
11.	Restructuring income	G.7	4.175	--
12.	Restructuring expenses	G.8	(19.531)	(7.686)
13.	**Restructuring result**		**(15.356)**	**(7.686)**
14.	**Operating result (EBIT) after restructuring**		**(20.278)**	**(16.355)**
15.	Financial result	G.9	(345)	(1.093)
16.	**Result from ordinary operations (EBT)**		**(20.623)**	**(17.449)**
17.	Taxes on income	G.10	2.479	(12.317)
18.	**Result prior to minorities and changes in reserves**		**(18.144)**	**(29.766)**
19.	Simplified capital reduction		35.489	--
20.	Minorities		--	(3)
21.	**Group result**		**17.345**	**(29.769)**
Loss/Profit per share in Euro		H.	(2,34)	(4,27)

CONSOLIDATED CASH FLOW STATEMENT

From January 1, 2005 to December 31, 2005
(all values in EUR ,000)

		31.12.2005	31.12.2004
Annual Result prior to interest and taxes		**(20.278)**	**(16.355)**
–	Costs of capital increase	(411)	--
+	Interests received	158	60
–	Interests paid	(503)	(1.154)
–	Income tax paid	(343)	139
+	Depreciation of fixed assets	422	2.540
+	Losses from disposal of fixed assets	368	(48)
–	Debt releases (reliefs)	(3.503)	--
Cash Flow from Operating Activities (from profit)		**(24.090)**	**(14.818)**
+/-	Decrease/increase of deferred tax assets	--	(91)
+/-	Decrease/Increase of inventories	13.239	(2.690)
+/-	Decrease/Increase of receivables and other assets	10.203	(4.229)
+/-	Decrease/Increase of deferred expenses	178	(112)
-/+	Decrease/Increase of provision for severance payments	(102)	22
-/+	Decrease/Increase of other provisions (short term)	(3.195)	3.081
-/+	Decrease/Increase of liabilities from deliveries	4.447	891
-/+	Decrease/Increase of other liabilities and deferred income	(1.244)	2.272
Cash-Flow from Operating Activities		**(564)**	**(15.674)**
+	Payments received from disposal of fixed assets (not financial assets)	--	(2)
–	Payments for asset acquisitions (not financial assets)	(60)	(550)
–	Payments for securities	--	(1.974)
Cash-Flow from Investment Activities		**(60)**	**(2.526)**
+	Proceeds from equity	--	9.048
–	Repurchase of own shares	--	(62)
+	Proceeds from the consumption of equity capital	--	24
+	Raising of short-term financials liabilities	368	3.527
–	Repayment of long-term financial liabilities	(219)	(3.964)
Cash-Flow from Financing Activities		**149**	**8.573**
Changes of financial funds		**(475)**	**(9.627)**
	Financial assets at the beginning of the period	671	10.298
	Financial assets at the end of the period	**196**	**671**

CONSOLIDATED BALANCE SHEET

From January 1, 2005 to December 31, 2005
(all values in EUR ,000)

	Assets	Notes	31.12.2005	31.12.2004
A.	**LONG-TERM ASSETS**			
	Intangible assets	D.a/F.1	136	440
	Goodwill	D.a.3/F.1	--	35
	Tangible fixed assets	F.1	86	475
	Deferred tax assets	F.2/G.10	2.821	--
	TOTAL LONG-TERM ASSETS		3.043	950
B.	**SHORT-TERM ASSETS**			
	Inventories	F.3	4.137	17.375
	Receivables from the supply of goods and services	F.4	1.045	10.867
	Receivables from affiliated companies	F.4/M	732	--
	Other receivables	F.4	76	1.188
	Securities		--	1.974
	Cash on-hand and in banks	I.	196	671
	Deferred expenses	F.4	51	230
	TOTAL SHORT-TERM ASSETS		6.237	32.305
	TOTAL ASSETS		**9.280**	**33.255**
	Total Equity and Liabilities			
C.	**TOTAL EQUITY**			
	Share capital	D.f/F.5	13.922	30.089
	Additional paid in capital	D.g/F.5	595	13.517
	Own shares	D.g/F.5	(23)	(63)
	Reserves from retained earnings	D.g/F.5	(16.136)	(33.030)
	TOTAL EQUITY		(1.642)	10.513
D.	**LONG-TERM ACCOUNTS PAYABLE**			
	Long-term payables from financing	F.7	79	3.989
	Long-term payables from financing subordinated	F.7	3.692	--
	Provision for severance payments	F.6	163	265
	TOTAL LONG-TERM ACCOUNTS PAYABLE		3.934	4.254
E.	**SHORT-TERM ACCOUNTS PAYABLE**			
	Short-term payables from financing	F.7	72	4.999
	Accounts payable from the supply of goods and services	F.7	1.640	2.897
	Accounts payable from affiliated companies	F.7/M	1.332	--
	Other provisions	F.6	2.224	5.419
	Other liablilities and deferred income	F.7	1.721	5.173
	TOTAL SHORT-TERM ACCOUNTS PAYABLE		6.989	18.488
	TOTAL EQUITY AND LIABILITIES		**9.280**	**33.255**

CHANGES IN GROUP EQUITY

(all values in EUR ,000)

	Notes	Share capital	Additional paid in capital	Reserves from retaind earnings	Own shares	Total
As of December 31, 2003	**F.5**	**25.652**	**35.852**	**(29.265)**		**32.239**
Restatement additional paid in capital 2002			(26.947)	26.947		--
Capital increase February 17, 2004		625	625			1.250
Capital increase June 19, 2004		740				740
Capital increase July 16, 2004		2.672	3.741			6.413
Capital increase September 08, 2004		400	600			1.000
Costs of capital increase			(355)			(355)
Repurchase of own shares					(63)	(63)
Other changes in equity share				4		4
Change into basis of consolidation				(948)		(948)
Annual result 2004				(23.120)		(23.120)
Restatement deferred tax assets				(6.649)		(6.649)
As of December 31, 2004	**F.5**	**30.089**	**13.517**	**(33.030)**	**(63)**	**10.513**
Changes in own shares					40	40
Simplified capital reduction		(22.567)	(12.922)			(35.489)
Capital increase December 19, 2005		6.400				6.400
Costs of capital increase				(308)		(308)
Other changes in equity share				(143)		(143)
Annual result 2005				17.345		17.345
As of December 31, 2005	**F.5**	**13.922**	**595**	**(16.136)**	**(23)**	**(1.642)**

A. General information

JoWooD Productions software AG ("JoWooD"), as the top parent company of the JoWooD group, is a corporation constituted under the Austrian laws. Its shares are quoted in the prime market of the Vienna Stock Exchange. The companies of the JoWooD group ("JoWooD group") supply and sell computer games all over the world.

The parent company has its company headquarters at 8786 Rottenmann, Technologiepark 4a. The preparation of consolidated financial statements is responsibility of the Executive Board, which later communicates them to the Supervisory Board.

The financial reports figures are expressed in thousands of Euro (TEUR). Many of the amounts and percentages which are shown in the consolidated financial statements were rounded; therefore some of the sums and totals may differ from the represented amounts.

B. Summary of the most important balance principles

The most important balance principles applied in the preparation of the financial statements are the following:

a) General information

The present financial statements for the 2005 financial year were prepared according to the International Financial Reporting Standards (IFRS), as well as the interpretations of the International Financial Reporting Committee (IFRIC) in the valid versions for the corresponding financial year.

Standards and Interpretations applied for the first time in the current financial year

The following revised standards replace the earlier versions of the following standards: IAS 1 (Presentation of Financial statement), IAS 2 (Inventories), IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), IAS 10 (Events after Balance Sheet Date), IAS 16 (Property, Plant and Equipment), IAS 17 (Leases), IAS 21 (The Effects of Changes in Foreign Currency Exchange Rates), IAS 24 (Related Parties Disclosures), IAS 27 (Consolidated and Separate Financial Statements), IAS 28 (Investments in Associates), IAS 31 (Interest in Joint Ventures), IAS 33 (Earnings per Share) as well as IAS 40 (Investment Property).

The JoWooD group applied standards IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), revised by the IASB and adopted in the EU, if they were applicable to the financial years which begin on or after January 1st 2005. The adjustment of the amounts of previous years in the context of the transitional regulations of IAS 39 (revised 2004), was not advisable due to the lack of existing facts.

IFRS 2 (Share based Payment) regulates the balance of share-based remuneration systems, like in particular the grant of share options to associates. This standard was applied for those financial years that start on or after January 1st 2005, on which share options were granted after November 7 2002.

The existing share option program in the JoWooD group was granted on November 7 2002, on which the regulations of IFRS 2 would be to be used in principle. However, since all associates have submitted disclaimers regarding the share option program, IFRS 2 is no longer applicable.

IFRS 3 (Business combinations) replaced IAS 22 (Business combinations). IFRS 3 prescribes the acquisition method for illustrating company mergers. At the time of the acquisition, all identifiable net assets, debts and contingent debts will be entered in the balance sheet with their market value (fair value). The regular depreciation of business and company values (goodwill) must be stopped. An annual recoverability test must be made instead. IFRS 3 is applied on all company purchases, which were agreed upon on or after March 31 2004. After this date, JoWooD has not been involved in any company mergers.

In connection with the publication of IFRS 3, the revised standards IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) were published. For this reason, the related standing changes are that business values, goodwill and intangible assets with an indefinite service life must be revised at least once per year for possible depreciation. Regular depreciation is not allowed. The revised standards apply to business values, goodwill and intangible assets which were acquired in the context of the company merger which began on or after March 31st 2004. The depreciation of goodwill acquired in the past was not continued in 2005. Instead, goodwill was subject to a recoverability test. This recoverability test led to exceptional goodwill depreciation for an amount of TEUR 35. The new standard was used prospectively – this means that the new balance and evaluation methods were used only in the current statements, and were not considered in the statements of the comparison period.

IFRS 4 (Insurance Contracts) applies to insurance contracts that a company closes as an insurer, and to reinsurance contracts that a company closes as an insurant. IFRS 4 does not have a concrete effect on the asset, financial and earnings situation of the JoWooD group.

IFRS 5 (Non current assets held for sales and discontinued operations) regulates that those net assets which a company holds for the purpose of sale, are registered with their lowest book value and current value less the sales costs. IFRS 5 is applied for financial years which begin on or after January 1st 2005. This standard was not used in the 2005 financial year due to the lack of existing facts.

IFRIC 1 (Change in existing decommissioning, restoration and similar liabilities) regulates the procedure for changes of disposal, re-establishment and similar obligations, which were activated in the context of acquisitions or manufacturing costs of material assets and at the same time were set as reserves. Afterwards, any adjustments of balanced amounts are not applicable when the expected cash-flow and discount rates change in addition to the change of indebtedness over time. IFRIC is not applicable due to the lack of existing facts.

The changes on SIC-12 (Consolidation Special Purpose Entities) include plans for equity participation services (Equity compensation plan) into the application range of SIC-12: A company which sources the mechanism out of a share-based remuneration system into a trust, must consolidate this with a governing possibility if it uses IFRS 2 (Share based Payment). All other long term due services can be taken out from the application range of SIC-12 by IASB (additional service plans after completion of the employer-employee relationship). This SIC is not used by the JoWooD Group due to the lack of existing facts.

IFRIC 2 (Member's Shares in cooperational entities and similar instruments) determines under which circumstances the cooperative portions can be classified as equity capital. This IFRIC is not relevant for the JoWooD group.

Recently published standards and interpretations

The following regulations, which must be used for the financial years which begin on or after January 1st 2006, have no relevance for the JoWooD group as of December 31st 2005:
Amendment to IAS 19, "Employee Benefits"
Amendment to IAS 19, "Multi Employer plan"
Amendment to IAS 39, "Fair value option"
Amendment to IAS 39, "Cash flow hedge accounting of forecast intragroup transactions"
Amendments to IAS 39 (Financial instruments) and IFRS 4 (Insurance Contracts): "Financial Guarantee Contracts"
IFRS 7 "Financial instruments: Disclosures "
Amendment to IAS 21 "The Effects of changes in Foreign Exchange Rates – Net Investment in a Foreign operation"
IFRIC 4 "Determining whether an arrangement contains a lease"
IFRIC 5 "Rights to interests arising from decommissioning, restoration and environmental funds"
IFRIC 6 "Liabilities arising from participating in a specific market – Waste Electrical and Electronics equipment"
IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies"
IFRIC 8 "Scope of IFRS 2"
IFRIC 9 "Reassessment of Embedded derivatives"

In accordance with § 245a of the Austrian Commercial Code (öHGB), the parent company must prepare corporate financial statements and a corporate situation report according to internationally recognized accounting principles. The elaboration of financial statements based on the national regulations of the Commercial Code is thereby released.

b) Report currency

The financial statements are expressed in Euros (EUR). The corresponding exchange rates of the different national currencies were used against the Euro.

c) Consolidation principles

The financial statements include JoWooD and the companies controlled by it. This control (governing) takes place whenever JoWooD directly or indirectly possesses more than 50% of the voting rights of a Company, in order to have a significant influence on the financial and business policies of the company and to profit from these activities. The portions of equity capital and results which are allotted in minority interests are accounted separately in the financial statements and in the corporate profit and loss accounts. Since December 31st 2004 there are no participations in minority interests, since JoWooD Software Commercial GmbH – which was accounted in the minority interests – was finally consolidated in October 1st 2004.

The acquisition method was used with all acquired companies. With the acquisition method, the current value of the assets and debt items can be confronted with the book value of the participation inclusion at the time of the acquisition. Any surplus resulting from it is accounted as an asset item. The goodwill is accounted in the acquisition costs less the accumulated depreciation and any exceptional depreciation.

Any corporate internal sales, expenses and intermediate results as well as receivables and liabilities between consolidated companies were eliminated.

The JoWooD Group includes current business cases in foreign currencies that are adapted each month into foreign exchange average exchange rates. The conversion in the balance sheet of the existing monetary assets and liabilities denominated in Euro into foreign currency, takes place under the valid foreign exchange rate on the conversion date. Any foreign currency profit and loss results are included in the results of the financial year.

d) Substantial differences between the Austrian and the IFRS accounting regulations

(1) Goodwill

In accordance with IFRS 3, goodwill from capital consolidation is activated and examined each year in accordance with IAS 36 for depreciation. According to the Austrian Law (HGB, Commerce Code) a result neutral accounting with retained earnings is permissible.

(2) Self provided software

In accordance with IAS 38, the self created intangible assets are activated when the conditions of IAS 38 are present and are depreciated within a time limited service life over the service life. According to the Austrian laws, this activation is not allowed for non gratuitously acquired fixed assets items.

(3) Deferred tax assets and liabilities

In accordance with the Austrian Commerce Code (HGB), deferred taxes for passive and active temporal (timing) differences are formed if during their cancellation a tax expense is expected. According to IFRS, deferred taxes are intended for balancing all temporary differences between the tax balance and the IFRS balance under the current use (which may have already been posted for a future time) of the valid control item (temporary concept). In accordance with the IFRS regulations, deferred tax assets must also be formed for fiscal losses brought forward from non used previous accounts, as well as from not yet used tax credit notes, as far as these can presumably be used by future fiscal profits.

(4) Other provisions

In comparison with the Austrian Commerce Code (HGB), the IFRS bases the formation of provisions under another interpretation of the caution principle. The IFRS establishes tendentiously higher requirements against the probability of relevant events and the determinability of the resolvable amounts.

(5) Foreign currency business

The difference between the two accounting systems consists in the way to register unrealized profits coming from foreign currency amounts by the share evaluation deadline. According to the Austrian laws, only the non realized losses must be balanced, while according to IFRS, the non realized profits must also be considered.

(6) Provision for severance payments

According to the Austria Commerce Code (HGB), the provisions for severance payments are accumulated following the fractional value procedure without considering any future yield increases. According to IFRS, the formation of provisions for severance payments must be based on the contingent right cash equivalent procedure (projected unit credit method) by applying a discount factor, that is determined by the market net yields for first class loans and considering any expected yield increases.

(7) Extraordinary results

According to IAS 1.85, for those financial years starting on or after January 1st 2005 already exists an explicit prohibition to make extraordinary entries according to IFRS.

However, in accordance with IAS 1.86 and 1.87 any substantial yield or expense entries must be indicated separately. Among other things, the expenses for the restructuring activities of a company fall under the “other expenses” category.

(8) Extended obligation to supply information

In the context of the IFRS balancing, there is an extended duty to supply information in comparison with the Austrian accounting regulations. Among other things, this includes mandatory information concerning the business segments as well as data on the financial instruments.

(9) Cost of an equity capital transaction

According to the Austrian laws, these costs are regularly entered as an expense of the current period, if necessary in the extraordinary result. According to IAS 32.37, the transaction costs of an equity capital transaction must be deducted from the equity capital, considering the latent taxes, and balanced with neutral results.

(10) Own shares

In the Austrian Commerce Code, own shares are accounted as asset items of the circulating capital. In accordance with the IFRS regulations, own shares must be set apart from the equity capital in the balance sheet.

C. Consolidation cycle

A detailed representation of the participation can be inferred from the participation level included in the notes of these financial statements.

IFRS 5 is not to be applied to the conducted final consolidations, since the business fields concerned were not given up - they were just exercised in a different way.

The following participations were finally consolidated in the 2005 financial year:

Massive GmbH	by July 31st, 2005
Neon GmbH	by July 31st, 2005
JoWooD Productions (UK) Limited	by December 31st, 2005

According to the articles of association dated July 7th 2000, JoWooD is a limited partner on Media Publishing GmbH & CoKG. Therefore, on December 31st 2004 the 15% participation in media publishing GmbH & CoKG Germany was accounted (with a book value of TEUR 0). It was shown that JoWooD is not designated as a partner (= limited partner) in the trade register excerpt. For this reason, the participation is no longer set in the balance. Thereby, the legal consequences and effects that stand in connection for JoWooD have been revised by the German Legal advisers of JoWooD.

D. Balance and evaluation fundamentals

General principles

For reasons of improved transparency, starting on the 2005 financial year the depreciation of the game titles will be accounted separately. Therefore, from now on there is a gross result from the sales before and after the game titles depreciation. In this regard, this was adapted the previous year. Otherwise the previous representation form was also kept in the preparation of the existing year-end report.

a) Intangible assets

The intangible assets are evaluated with the acquisition and/or manufacturing costs. After the first activation, the intangible assets are evaluated with the initial costs less the accumulated depreciation and any exceptional depreciation. The intangible assets with temporary limited service life are linearly depreciated over their estimated service life. The amortization period and the amortization method are revised annually by the end of each financial year. During the current financial year, an exceptional depreciation of self created software was carried out.

(1) Concessions, commercial patent rights and similar rights

The amounts carried out for concessions, commercial patent rights and similar rights were activated and then linearly depreciated over their expected service life. The expected service life lies between 4 and 10 years.

License rights for computer games which can be marketed in the future are not included in the intangible assets, but in the circulating capital.

(2) Self produced software - Basic technologies

In the context of the activation of intangible assets in accordance with IAS 38, the expenses incurred for the self development of fundamental technologies are activated and linearly depreciated over their estimated service life (2 years), if future use confirming conditions of the transacted expenses are determined, and if above all the technical usability of the developed product is fulfilled. Otherwise, these expenses are absorbed effectively in the expenses immediately in the year in which they were exercised. The exceptional depreciation of basic technologies in the current financial year reached a value of TEUR 43 after revising their recoverability (previous year: TEUR 1,105).

(3) Goodwill

The surplus of the purchase price of an acquisition over the current value of the acquired certifiable net assets values and liabilities will be accounted at the time of the acquisition as goodwill and will be balanced as an asset. The goodwill will be accounted to the initial costs less the accumulated depreciation and exceptional depreciations.

The book values will be subject to an impairment test by the balance sheet date. If there are any signs for a possible goodwill value reduction, a possible individual sale and/or liquidation value is estimated based on the respective cash-flow generating unit. If the books value is higher than this estimated value, an exceptional depreciation is made. Due to the lack of recoverability, extraordinary depreciations for an amount of TEUR 35 (previous year: TEUR 584) were exercised and accounted under other operational expenses.

b) Tangible assets

Tangible assets are depreciated from the initial costs less the accumulated depreciations and any exceptional depreciation. If an asset is sold or separated, then the initial costs and the accumulated depreciation are written off and any possible profit or loss from the sale is reflected on the result.

The initial costs of tangible assets include the purchase price and all the accrued direct assignable costs, in order to bring and transfer those assets to the operational condition in their intended use location. The expenses arisen after the start-up of fixed assets, such as repairs, maintenance and overhaul costs are normally exercised in the same period during which the costs arose.

The depreciation is made linearly according to the following estimated service life:

Investments in external buildings	4 - 8 years
Tools, office and business equipment and vehicles	10 - 13 years

The service life and the depreciation methods are periodically revised, in order to guarantee that these correspond to the expected economic use process of the tangible asset.

c) Inventories

The evaluation of semi-finished and finished products takes place with the lowest value from either acquisition or manufacturing costs or the settled value on the balance-sheet date. This ensures a loss-free evaluation.

In order to be consistent with the conversion of the 2005 business model, an adjustment of the amortization method for the finished products was made, in order to ensure one of the Matching Principle appropriate display ways.

Compared with the previous year, this evaluation methodology implies a significant change, since from now on the constant sample method (40% in the 1st quarter, 30% in the 2nd quarter, 20% in the 3rd quarter and 10% in the 4th quarter) will no longer be used; instead, the depreciation will be a function of the accomplished respectively the expected turnover. The depreciation will start in the month on which the first turnover is generated.

Despite the change in the 2005 year, the depreciation amount correspond up to approx. TEUR 300 with the depreciation methodology used in the 2004 year.

The stock value includes semi-finished respectively already finished development projects (manufactured products) as well as marketable finished goods (computer games, including packing). Semi-finished and finished development projects are evaluated according to their manufacturing costs.

The manufacturing costs are determined as follows (IAS 2):

Material direct costs	
+	Material indirect costs
+	Manufacturing direct costs
+	Manufacturing indirect costs
+	Additional itemized manufacturing costs
–	Exceptional depreciation
=	Manufacturing costs

A further exceptional depreciation of game titles was made during the 2005 year (this depreciation mostly concerns game titles which were finished in the 2004 year or before).

Merchandise are evaluated with the initial costs (sliding average price) or the lower daily value; beyond that, if necessary, further anticipated discounts are given because of lack of salability.

For low turnover articles, the necessary evaluation discounts were given to the appropriate extent.

d) Receivables from deliveries and services

The receivables from deliveries and services are accounted with their nominal value, and if necessary they are decreased by value adjustments. Foreign currency receivables are evaluated with the foreign exchange rate on the balance sheet date. The value of the not accepted receivables from the distribution partners were corrected according to the caution principle.

e) Liquid funds

The liquid funds include cash and bank deposits.

f) Nominal Capital

The nominal capital to the balance-sheet date amounts to TEUR 13,922 (previous year: TEUR 30,089), which is divided into 13,922,340 identical stockholder individual shares (previous year: 30,089,360).

There is only common stock, all of which has been issued and each share has the same rights.

In the extraordinary general assembly of December 19th 2005, a simplified capital reduction from TEUR 30,089 by TEUR 22,567 to TEUR 7,522 was agreed, by means of a share fusion with a 4:1 ratio. The capital reduction resolution was entered in the Commercial Register on December 28th 2005, while the capital reduction was actually exercised on January 6th 2006. This simplified capital reduction took place on one hand for covering the balance loss which can be accounted otherwise, and on the other hand for adjusting the capital stock to the economic value of the company, in order to make it possible for the investor Koch Media GmbH to enter as a shareholder in the course of a capital increase by means of an investment in kind in the form of a contribution.

Before the adoption of the resolutions over the simplified capital reduction in accordance with § 183 of the Companies Act (AktG), up to 10% of the bound reserves of the society based on the capital stock with a value of TEUR 7,522 that remained after the reduction, all reserves of the society were previously dissolved.

In accordance with § 183 of the Austrian Companies Act (AktG), the simplified capital reduction as well as the preceding reserves dissolution caused a decrease of the balance loss in the same amount of the capital reduction and the disposed reserves. However, the equity capital funds sum remained thereby unchanged.

Therefore, it was agreed in the extraordinary general assembly of December 19th 2005, that the decreased capital stock of the company of TEUR 7,522 would be increased by TEUR 6,400 with the issuance of 6’400,000 common stock shares with a nominal price of EUR 1 with right to vote and profit entitlement from January 1st 2005, reaching an amount of TEUR 13,922 to the bond issuing price of EUR 1 for each share under exclusion of the reference rights of the past shareholders and allowing Koch Media GmbH a completely application of the new shares. The increase of the capital stock took place against an investment in kind, in which the receivables of Koch Media GmbH against JoWooD Productions Software AG with a value of TEUR 9,914 (nominal value) were brought into the society. The capital increase was registered in the Austrian Commercial Register on January 6th 2006.

Authorized capital

In the extraordinary general assembly from December 19th 2005, based on the authorization granted to the Executive Board in the general assembly of May 28th 2002 and in accordance with § 169 of the Austrian Companies Act (AktG), it was agreed to increase the nominal capital of the company no later than May 30th 2007 at the most by TEUR 3,019, and in the general assembly of October 30th 2003 and in accordance with § 169 of the Austrian Companies Act (AktG), the authorization given to the Executive Board to increase the nominal capital stock no later than December 3rd 2008 at the most to a nominal TEUR 8,500 was revoked. At the same time, the Executive Board was given a recent authorization in accordance with § 169 of the Austrian Companies Act (AktG), within five years after the inscription of the corresponding amendment of the by-laws in the Companies Register, with the approval of the Supervisory Board, to increase the nominal capital of the Company in TEUR 3,760, by issuing up to 3,760,000 common stock shares with a nominal value of EUR 1 with voting right, in one or more lots against cash contributions, keeping the legal subscription rights to which the shareholders are entitled, also in the way of indirect subscription rights in accordance with § 153 Sec. 6 of the Austrian Companies Act (AktG), or in investments in kind, in this regard also to increase under complete or partial exclusion of the subscription rights of the shareholders, and that the amount of which the shares are issued may not be below the nominal amount of the shares, as well as the other issuance conditions in agreement with the Supervisory Board.

g) Capital reserves, retained earnings and negative equity capital

According to the Austrian Laws, the additional payments of the shareholders are included in the capital reserves contained on the occasion of shares issuance.

The capital reserves in the balance-sheet date amount to TEUR 595 (previous year: TEUR 13,517).

Prior to the adoption of the resolutions over the simplified capital reduction, and in accordance with § 183 of the Austrian Companies Act (AktG), bound capital reserves of TEUR 12,922 were dissolved, so that along with the legal retained earnings with a value of TEUR 158, remains a total amount of TEUR 752 which corresponds to 10% of the capital stock after the reduction.

In the individual financial statements of JoWooD AG, the 2002 capital reserves were dissolved. In the corporate financial statements for the year 2002, this dissolution of capital reserves was exercised in the retained earnings. In the available statements, the reorganization from the retained earnings was retrospectively corrected to capital reserves.

As of December 31st 2005, the parent company accounted a negative equity capital with a value of TEUR – 4,007.

In the context of the financial economical restructuring concept, the liabilities of JoWooD with the banks represented a combined amount of approximately TEUR 3,692, which were subordinately posed to the Koch Media GmbH receivables, which brought TEUR 9.914 (nominal value). These subordinately placed bank liabilities can be seen as subordinate demands by the insolvency law, in accordance with § 57a of the Austrian Bankruptcy Act (KO).

In the extraordinary general assembly of the Company of December 19th 2005, a capital increase against cash investment was agreed, by means of issuing up to 6,000,000 shares under keeping the subscription rights of the existing shareholders. The cash capital increase was agreed ahead of time, on February 14th 2006, because of a three-way oversubscription. The issuance price for each share reached 1.50. Liquid funds with a value of TEUR 8,786 flowed to the Company and increased the equity capital funds in the same extent, thanks to a discount of the cash capital increase costs for a value of approx. TEUR 214.

Regardless of the subordinate position of the bank commitments as well as of the successfully accomplished cash capital increase, the company management provided a continuing prognosis.

In the 1st quarter 2006 the first game titels of the new Line-Up were shipped, whereby a positive result in the amount of TEUR 576 was realized for the first time since 2003.

Under consideration of the succesfull cash capital increase as well as positive trend of results the equity of the parent company increased by TEUR 9.583 to TEUR 5.576 from December 31st 2005 to March 31st 2006.

Along with the existing liquidity from the converted cash capital increase, the continuity of the Company is ensured. Beyond that, the bank liabilities are subordinate posed with a value of TEUR 3,692. Therefore, the parent company currently faces no insolvency issues in the sense of the Bankruptcy Law.

h) Provisions

A provision can only be formed if the company has a current liability from a past event (of a legal or contractual nature), so it is possible to release the needed economic resources for the fulfillment of this obligation (this means rather probably not), as well as a reliable estimation of the magnitude of the obligation. The provisions are revised for each balance-sheet date and adapted to the corresponding new estimates. Due to their considerable interest effects, the amount of the provisions must be determined with the cash value of the expected expenses in order to fulfill the obligation.

i) Other balance and evaluation principles

(1) Financial instruments

The financial assets and liabilities which are included in the balance comprise liquid funds, receivables and liabilities from deliveries and services, as well as other receivables and other liabilities, long-term receivables, interest-bearing financial liabilities and participations. The balancing principles regarding the approach and evaluation of these entries are contained in the respective explanations in this Corporate appendix.

The financial instruments are classified in accordance with the economic content of the contractual conditions as assets or liabilities. Therefore interests, dividends, profits and losses are represented in these financial instruments as expenses or yields. The financial instruments are balanced, if the Company has and intends to exercise a legally enforceable right for balancing at the same time either only the balance or both the receivables and the liabilities.

(2) Sales realization (excluding order completion)

Sales are included if it is sufficiently probable that the economic benefits of sales will flow to the company, the magnitude of these proceeds is reliably assignable and the services were furnished. License pre-payments from deeds of surety are therefore booked as pre-payments which are not relevant to the result. The sales are then accounted without value added tax and discounts, if the delivery took place and both risk and property were changed over.

The full amount of the contractually agreed minimum warranty licenses will be included as sales at the time of the game‘s publication and / or in case of a later contract closure.

(3) Credit costs

The full amount of the credit costs are generally exercised immediately as expenses.

(4) Exceptional depreciation

Material assets, intangible assets including goodwill as well as inventories must be examined for depreciation, as soon as any events or circumstance changes indicate that the book value of the asset is possibly higher than the net sale value. As soon as the book value of an asset exceeds the net sale value, an exceptional depreciation must be made. The net sale values must be estimated for the individual assets. If this is not possible, an evaluation of the superordinate cash-flow generating units must take place.

j) Foreign currencies

(1) Foreign currency transactions

Foreign currency transactions are represented in the currency report by applying the rate of exchange between the report currency and the foreign currency at the time of the transaction. Any exchange rate differences generated from the payment of monetary entries to those exchange rates which deviate from the one originally included, must be immediately reflected in the resulting net income. The resulting net income amounts to TEUR 129.

(2) Foreign companies

Foreign full-consolidated subsidiaries are regarded as independent companies, since they are financially, economically and organizationally independent. The report currencies are the respective national currencies. The balance results of these subsidiaries as well as the expenses and proceeds are converted to the yearly deadline rates.

Goodwill from the acquisition of foreign subsidiary companies is represented using the applicable exchange rate at the time of the acquisition. Currency discrepancies from the offset of monetary postings, which essentially represent a part of the net investments of the company in the foreign subsidiaries, are classified up to separate from the consolidation cycle of the respective subsidiary as equity capital in the Corporate financial statements.

k) Employee services

Severance obligations

In some countries, a Company is legally obliged to pay severance in certain cases when the service relationship with an employee is terminated. In case of a free will notice by the employee no severance must be paid. All corresponding severance obligations are then reset.

Severance payment is a unique compensation, which must be paid according to the corresponding Labor Laws when an employee is dismissed as well as regularly when an employee retires and pension starts. Their amount depends in principle on the number of service years and the last salary amount. Based on the insignificantness of the amount, no statistical calculation was conducted for determining the amount of severance reserves according to IAS 19, but the result of an approximate financial mathematical calculation according to the projected unit credit method with an interest rate of 5% as well as a content increase of 3.5%.

l) Taxes on profits

The tax on profits load is based on the annual profit and considers the deferred tax assets and liabilities. Tax latencies are calculated by applying the “balance sheet liability method”. Deferred tax assets and liabilities reflect the tax effects of the temporary differences between the accounted book values of assets and liabilities and the corresponding amounts due to the respective fiscal regulations.

As of December 31st 2004, a depreciation of deferred tax assets became retroactive according to the audit certificate of KPMG dated December 31st 2004 with an amount of TEUR 6,649 over a correction of equity capital. The deferred tax assets as of the deadline were determined based on the positive results of the continuing prognosis, on the appraisal of the companies as well as on the future expected results estimates of the company, resulting an amount of TEUR 2,821 which was reflected in the results. This result is not cash effective.

Deferred tax assets and liabilites are determined using the expected tax items for the taxable income which will be applicable at the time when the temporary differences are reconciled. The tax items (and tax regulations) used are those which are valid or published at the time of the balance-sheet date. The tax effects reflect the extent of the deferred tax assets and liabilites, which would result according to the company appraisal by the balance-sheet date, if the asset book values were realized and the liabilities were settled.

Deferred tax assets and liabilites are considered for all temporary differences without consideration for it, when a reversal effect will probably occur.

The deferred tax asset is considered, if it is probable that by the time when the deferred tax asset will be used, there will be sufficient taxable profits. The not incorporated and book values of the accumulated deferred tax assets must be reevaluated by each balance-sheet date. The not activated latent tax requirements are considered in the extent in which it became probable that the future taxable profit permits the use of the deferred tax assets. In contrast, the book value of the active latent taxes in that extent is worth corrected, in which it is not longer probable that in the future there will be enough taxable profits for the use of the deferred tax assets.

m) Estimations

In the Corporate financial statements – in particular in the scope of inventory valuation and reserves – estimations must be made to meet a certain degree and acceptance, so that the balanced assets and liabilities influence the statement by other obligations on the balance-sheet date and display the proceeds and expenses during the reported period. The actually adjusting amounts can deviate from the estimations.

n) Explanation of substantial risk positions (reference to possible, substantial value changes)

The value of semi-finsihed and finished products (games) depends on reaching the marketing readiness respectively the future marketability and whether appropriate sales can be generated. If the current expectations prepared in the budget cannot be fulfilled, is must be accounted with partial depreciations.

The current developments are observed and supervised with an intensive project controlling, which cannot prevent erroneous trends, but it can ensure that these are recognized in due time.

Latent taxes represent an asset, that must be depreciated with use (in profit years) or because of their incapacity to be realized. The accounted tax expenses are not cash effective. This asset entry is assumed from a company continuation and positive results. In case of a loss situation it can handled by the accounting department to produce strengthened effects (special value adjustment of the asset entry).

Silverstar Holdings

On December 20th 2005, the Silverstar Holdings company, based in Florida (USA), engaged in a lawsuit because the negotiations over the acquisition of a participation in JoWooD by the plaintiff, according to a term sheet dated October 20th 2005 were allegedly broken off, and that they were taken up again and the therein allegedly specified creditors' acceptance on the acquisition of their receivables as well as the agreement of the shareholders on the capital measures according to the mentioned term sheet. At the same time in the legal proceeding provisory method and in its complaint answer, JoWooD stated that the procedure representational term sheet, which must be deemed as a preliminary agreement, was prematurely terminated justified on the omission of the implicit contract basis and Silverstar Holdings is therefore entitled neither to a fulfillment nor to any other protection. In addition it included certain conditions whose subsequent acceptance without indebting the Company would have been impossible. Therefore, a fulfillment of the lawsuit demands is not possible, as the creditors meanwhile rejected demand redemption by the plaintiff according to the regulations of the term sheet; however, Koch Media GmbH agreed to the demand redemption and Koch Media GmbH acquired the demand by redeeming an investment in kind against the grant of newer shares of the Company. The capital increase against the investment in kind was accomplished and registered in the Commercial Register on January 6th 2006. A provisional order, according to which JoWooD was forbidden to acquire any shares of Koch Media GmbH or of any one of its designated thirds, was rescinded in a resolution dated January 13th 2006, as a consequence of the Company's appeal. The Vienna Commercial Court thereby accepted the arguments presented by JoWooD over the validity of the premature dissolution of the term sheet and the impossibility fulfilling the lawsuit demands. Therefore, the resolution is valid. In the main procedure the lawsuit answer was rebated. The lawsuit demands of Silverstar Holdings became groundless with the abolition of the provisional order and the inscription of the capital increase against the investment in kind into the Commercial Register. The court was able to abandon the main procedure based in the reason of their resolution of January 13th 2006 over the annulment of the provisional order, in particular in the fact that the demands in the provisory procedure and in the main procedure are identical as far as possible. In a written pleading dated January 31st 2006, Silverstar Holdings announced that it would nor interpose any legal resource against the annulment of the provisional order – on the contrary, that it wanted to change its service demands into a compensation demand. Under our point of view, a qualitative change of the lawsuit demands is not possible and therefore we do not agree with it. As of this day, no lawsuit or compensation claim has been submitted in this direction. In our opinion, no effects for the company can be expected from this procedure. The same cannot be said regarding the process costs, since in civil proceedings the underlying party is condemned to costs reimbursement. From our point of view, no other compensation demands exist. However, if it were necessary to make valid any possible claims, it cannot be not estimated that JoWooD is under any kind of legally founded risk.

For any further risks, please refer to the management report.

E. Segment information

During this financial year, the society was exclusively involved in the publishing scope. The distribution activities had already been stopped since the year 2003. Therefore a segment reporting is no longer necessary.

F. Explanation of the consolidated balance sheet

(1) Fixed assets

The inputs include an amount of TEUR 23 from rights and software and an amount of TEUR 37 from material assets.

Regarding the development of fixed assets, please refer to the assets analysis contained in the appendix of the present corporate financial statements.

Only the acquired assets are accounted in the intangible assets and in the depreciation of intangible assets.

The depreciation for all tangible assets are accounted in the profit and loss calculation in the cost of sales (32%), in the costs of distribution (28%) and in the administrative expenses (40%).

Completely depreciated, but still usable assets are not considered on the balance sheet date.

(2) Deferred tax assets

The deferred tax assets concern temporary evaluation differences between the IFRS end-of-year procedures and the relevant tax assessment bases. The asset entry essentially results from fiscal losses brought forward from previous accounts. A detailed development of the latent taxes can be inferred from the "explanations of the company profit and loss calculation - taxes on profits" chapter.

(3) Inventories

Values in TEUR	**2005**	**2004**
Semi-finished products	9,163	13,011
Finished products	297	6,177
Finished goods	58	507
Total before deduction of advances from customers	**9.518**	**19,695**
Less advances from customer	(5,381)	(2,320)
Total	**4.137**	**17,375**

In the context of the loss-free evaluation, an exceptional depreciation of semi-finished products for a total of TEUR 10,460 (previous year: TEUR 1,338) was exercised during the 2005 year, which was accounted in the restructuring expenses.

From that, TEUR 6,196 correspond to the "Stargate SG-1TM: The Alliance" game, in connection with the termination of the development contract with Perception, Australia; TEUR 1,405 to the 'Aquanox' game, in connection with the shut-down of Massive GmbH, Germany; TEUR 578 from the 'Legend of Key' game (LOK) in connection with the shut-down of Neon GmbH, Germany; and TEUR 1,001 to the 'Torque and Gorky' in connection with the development cessation due to inefficiency. Furthermore an exceptional depreciation in the amount of TEUR 1.280 was considered to ensure an adaption to the market requirements for hardware console cycles.

In the 2005 financial year, special depreciations of non profitable games were exercised in the course of a loss-free evaluation for an amount of TEUR 4,703 were made in the finished products article category (previous year: TEUR 1,237). The reason for it was in particular the lacking of usability of the finished products produced in 2004. Beyond that, a lump sum adjustment of value of 30% - equivalent to TEUR 127 (previous year: TEUR 0) was applied on December 31st 2005.

The inventory of **goods** which was built during the year 2004 could be dismantled over the 2005 financial year. A lump sum adjustment of 30% -equivalent to TEUR 25 (previous year: TEUR 0) was made on December 31st 2005. Individual value corrections were accomplished over the previous year, with at a value of TEUR 385 at the article level.

The received advances for game developments, with a value of TEUR 5,381, were balanced from the reserves (previous year: TEUR 1,320). This involves pre-payments for the financing of the development project (co-publishing) with Koch Media GmbH.

The foreign currency transactions are represented by applying the exchange rate between the report currency and the foreign currency exchange rate at the time of the transaction. The exchange rate difference from the payment of monetary entries to exchange rates amounted TEUR 10 for the reserves and was reflected in the result, out of the currency exchange profits.

(4) Receivables

	Total amount	Remaining life < 1 year	Remaining life > 1 year
Receivables from deliveries and services	1,045	835	210
Previous year	*10,867*	*10,867*	
Receivables from affiliated companies	732	732	
Previous year	*0*	*0*	
from Koch Media	*702*	*702*	
from JoWooD Software Vertriebs GmbH	*30*	*30*	
other receivables and assets	127	127	
Previous year	*1,188*	*1,157*	*31*
Receivables total	1,904	1,694	210
Previous year	*12,055*	*12,024*	*31*

The other short term receivables essentially contain fiscal receivables from VAT for an amount of TEUR 60 (previous year: TEUR 646), as well as a security deposit for an amount of TEUR 20.

(5) Equity capital

a) Authorized capital

The authorized capital on the balance-sheet date amounts to TEUR 13,922 (previous year: TEUR 30,089) and is divided into 13,922,340 common stock shares (previous year: 30,089,360). There is only common stock, which is entirely issued and grants the same rights.

There is only common stock, which is entirely issued and grants the same rights.

b) Capital reserves

In agreement with the Austrian laws, the additional payments of the shareholders are included in the capital reserves, on the occasion of shares issuance.

The capital reserves to the balance-sheet date amount to TEUR 595 (previous year: TEUR 13,517). For this change see points D. g. (balance and evaluation principles, capital reserves).

c) Private shares

During the 2004 financial year, 45,416 private shares (with a nominal value of EUR 45,416) were acquired. The associated portion of authorized capital amounts to 0.15%.

In December 2005 a capital reduction with a 4 : 1 ratio was exercised, with a subsequent special capital increase. Thus the society holds now only 11,354 units of private shares (with a nominal value of EUR 11,354) by December 31st 2005 and the portion of authorized capital was reduced accordingly.

The acquisition of the private shares was not covered by sufficient free available capital and retained earnings, so that the formation of a reserve would have been possible in accordance with § 225 Sec. 5 of the Austrian Commerce Code (HGB), and therefore took place contradicting § 65 Sec. 2 of the Companies Act (AktG). These shares must be sold in accordance with § 65a Sec. 1 of the Companies Act (AktG) within one year after their acquisition, otherwise they must be collected according to § 192 of the Companies Act (AktG). The society intends to sell the private shares in the first half of the year 2006.

d) Retained earnings and balance profit

Regarding the development of the retained earnings and the balance profit, please refer to the equity capital analysis.

e) Changes on equity capital

The changes of equity capital funds are represented in addendum III. The other changes of equity capital, for an amount of TEUR 142 concern essentially result-neutral adjustments of value of the active latent taxes.

(6) Provisions

The provisions have developed as follows.

Values in TEUR	Jan 1st 2005 Situation	Cancelled	Used	Supplied	Dec 31 2005 Situation
Severance payments	265	177	222	297	163
Unused vacations	395	135	145	25	139
Efficiency bonuses	127	119	3	65	69
Res. for special payments	0	89	155	244	0
Unpaid overtime	80	118	191	278	49
Price reductions and returns supplies	2,360	432	5,282	3,801	447
Legal / revisions	217	364	229	534	157
Licenses	449	552	77	246	67
Studio shut-down and					
restructuring	400	0	0	245	645
Processes	0	0	0	333	333
Others	1,391	1,500	1,724	2,148	317
Total	**5,684**	**3,486**	**8,028**	**8,216**	**2,386**

From the total provisions amount of TEUR 2,386 accounted on the balance-sheet date, only the severance payments provisions with an amount of TEUR 163 are classified as long-term provisions (previous year TEUR 265).

Provisions for the studio shut-downs and restructuring

The provision amount of TEUR 645 for the studio shut-downs and restructuring essentially concerns a tax provision amount of TEUR 336 in connection with the shut-down of JoWooD Vertriebs GmbH International, Germany (formerly Leisuresoft GmbH) and some still open obligations from settlement negotiations, as well as provisions in connection with the sales of the German development studios Massive and Neon, for an amount of TEUR 300.

Massive GmbH

JoWooD sold all the shares it owned of Massive GmbH, Mannheim, Germany, with a sales contract dated August 23rd 2005.

An insolvency procedure was opened with a resolution from October 11th 2005 over the assets of Massive GmbH. In the course of the shares acquisition in the 2000 financial year, the two joint managing directors at that time included an additional payment regulation in a cooperation agreement, which provided high performance bonuses for the managing directors for the time after they had left the Company. This cooperation agreement was replaced on December 18th 2003 with another agreement; it is however unclear, which are the concrete requirements resulting due to this agreement for the managing directors. The claims made by the former managing directors of Massive GmbH were in any case denied by JoWooD, both on the amount and on the reason. JoWooD strives to reach an agreement out of court.

Neon GmbH

JoWooD sold all of its shares of Neon Software GmbH, Offenbach, Germany, with a sales contract dated August 23rd 2005.

An insolvency procedure was opened with a resolution from November 17th 2005 over the assets of Neon GmbH. In the course of the shares acquisition in the 2000 financial year, the joint managing directors at that time included an additional payment regulation in a cooperation agreement. The claims made by the former managing directors of Massive GmbH were in any case denied by JoWooD. An out of court settlement has already been reached with two of the three former managing directors. JoWooD strives to reach an agreement out of court with the third managing director.

Process provisions

A reserve provision was formed for the process with the Rottermann municipality regarding the premature termination of lease agreement with a value of TEUR 283, and another for the consulting costs in connection with any compensation claim by Silverstar Holdings for an amount of TEUR 50.

Silverstar Holdings

We refer to this particular in “Balancing and evaluation fundamentals - substantial risk positions explanation” (D., n).

Other provisions

All other provisions are basically constituted for not yet booked purchase invoices and authority deliveries.

(7) Liabilities analysis

The following explanations are given regarding the maturity of the liabilities accounted in the balance:

	Total amount	Remaining life < 1 year	Remaining life >1<5 years	Remaining life >5 years
Liabilities with banks				
Credit institutions	151	72	79	0
Previous year	*8,988*	*4,999*	*3,989*	*0*
Liabilities subordinated with banks	3,692	0	2,196	1,495
Previous year	*0*	*0*		
Liabilities from deliveries and services	1,640	1,640		
Previous year	*2,897*	*2,897*		
Liabilities with affiliated companies	1,332	1,332		
Previous year	*0*	*0*		
from Koch Media	*1,332*	*1,332*		
Other liabilities and deferred income	1,721	1,721		
Previous year	*5,174*	*5,174*		
from taxes	*147*	*147*		
in the context of social security	*321*	*321*		
Liabilities total	8,536	4,765	2,275	1,495
Previous year	*17,059*	*13,070*	*3,989*	*0*

In the course of the restructuring, the liabilities with banks with a value of TEUR 3,692 were legally subordinated as insolvency. Beyond that, special arrangements were met regarding the repayment.

Therefore the repayment of the AWS (Austria Economic Services) credits in the amount of TEUR 1,496 is at the earliest due starting from December 31st 2007 and at the latest by December 31st 2015 for repayment in equal high half-yearly capital rates from the operational cash flow. A reduction of the guaranteed credit funds is omitted, so far the Corporate average rate (definition in accordance with § 23 of URG plus possible equity capital similar funds, like for example subordinate credit funds and participation funds) for JoWooD would be reduced to less than 8%.

The export fund credit with a value of TEUR 2,196 will be converted by December 31st 2010 into mezzanine capital and a repayment is omitted up to this deadline. Afterwards the balance is converted into a credit requirement and the repayment modalities are negotiated separately.

Under the other liabilities and deferred income received advances from customers are included with an amount of TEUR 745 (previous year: TEUR 352).

In the entries other liabilities expenses are included with a value of TEUR 115 (previous year: TEUR 168), which become payment effective only after the balance-sheet date.

G. Corporate explanation - profit and loss accounts

(1) Net Sales

Breakdown of the sales profits per region:

Values is TEUR	**2005**	**2004**
German speaking territories	4,315	8,821
Rest of Europe	916	6,216
Rest of the world	1,226	2,166
Total	**6,457**	**17,203**
From Games – Goods	3,563	12,687
From Games – Licenses	1,000	3,601
From Others	1,894	1,069
Sales deduction	0	-154

The sales revenues for the financial year 2005 add up to TEUR 6,457 (previous year: TEUR 17,203). It must be hereby mentioned that these sales revenues, apart from one initial launch in the first half of the 2005 year, exclusively came from the sales from the titles published in the previous year (back catalog).

The strong reduction of sales resulted essentially from the circumstance than on one hand, in the 2005 financial year the “finished goods” commercial model was changed over to a license based commercial model, and on the other hand a total of 22 games were published during 2004, among them relevant titles such as “Mercenaries”, “Spellforce” and “Transportation giant”. In comparison, a single game was brought on the market during the first half of the 2005 year. Beyond that the “Stargate SG-1™: The Alliance” game must be completely written-off, facing no sales turnover.

(2) Acquisition and manufacturing costs required for attaining the sales revenues (cost of sales):

Values in TEUR	**2005**	**2004**
HK - development costs including depreciation Game title inclusive Depreciation	4,104	12,811
HK - production costs	2,573	5,442
Total	**6,677**	**18,253**

The other manufacturing costs consist mostly of production costs for developing the games. The development costs include the game titles depreciation in the amount of TEUR 2,453 (previous year TEUR 7,846).

(2) Sales expenses:

Values in TEUR	2005	2004
Personnel expenses	1,266	1,718
Promotional expenses	845	1,667
Travel expenses	12	89
External services	784	0
Depreciation	73	110
Value adjustments of accounts receivable	38	1,297
Vehicle costs	44	54
Others	355	765
Total	**3,417**	**5,700**

The remaining selling expenses consist mostly of rents, lease and leasing costs (previous year market analyzes).(4) Administrative costs

Values in TEUR	2005	2004
Personnel expenses	1,043	1,687
Office expenses	6	11
Telephone expenses	1	41
Legal and Advisory expenses	552	634
External services	51	0
Depreciation	105	119
Others	561	539
Total	**2,319**	**3,031**

The substantial positions for the remaining administrative costs are rents, insurance and vehicles (like the previous year).

(5) Other operational proceeds:

Values in TEUR	2005	2004
Research premium	0	419
Reserves dissolution	423	496
Proceeds from asset disposals	0	270
Others	1,511	355
Total	**2,004**	**1,540**

The substantial positions with the other proceeds include debt acknowledgments for an amount of TEUR 380, waivers and process settlements for an amount of TEUR 343 as well as promotions for a total of TEUR 83.

(6) Other operational expenses:

The substantial positions are receivables writings-off, rental expenses as well as fees, deliveries and contributions.

(7) Restructuring proceeds:

The restructuring proceeds essentially act around the promotion waivers in the course of out of court settlements, as well as the brought in demands from Koch Media GmbH after deducting the issued shares with a nominal value of TEUR 6,400.

(8) Restructuring expenses:

Composition:

Values in TEUR	**2005**	**2004**
Participation depreciation / Goodwill depreciation	0	584
Price credit notes from the 2004 year deliveries	2,576	0
Depreciation and expenses from the studio shut down	2,679	404
Depreciation and expenses from the phase-out of non profitable and deficient games	1,417	1,105
Special write-off of non profitable games (finished products) in the course of a loss free evaluation	5,694	3,398
Stargate value adjustment (Perception)	6,196	0
Value adjustments of receivables from 2004	210	1,771
Legal disputes	283	0
Special restructuring expenses	476	424
Total	**19,531**	**7,686**

The restructuring position includes expenses with a value of TEUR 19,531, which are not related with the narrower operational business of the 2005 financial year, and that may have arisen during the course of the business model conversion and the product range rationalization.

The position restructuring is essentially perched along with the receivables value adjustment (TEUR 210), the studio shut down and the associated write-off of game developments (TEUR 2,679), game write-offs due to lack of salability (TEUR 1,417), loss-free evaluations without Stargate (TEUR 5,694), value adjustment of the “Stargate SG-1™: The Alliance” game (TEUR 6,196), provision for the lawsuit with the Rottenmann municipality regarding the premature dissolution of a lease agreement (TEUR 283), other restructuring expenses (TEUR 476) as well as price credit notes for deliveries from the 2004 financial year due to lack of usability in the final customer market (TEUR 2,576).

Altogether, the 2005 price credit notes from deliveries of the 2004 year with a value of approximately TEUR 4,274 had to be contractually accepted. An amount of TEUR 1,698 was already considered in the course of the preparation of the 2004 end-of-year financial statements.

(9) Financial results

The financial result is composed as follows:

Values in TEUR	**2005**	**2004**
Interest proceeds	147	60
Interest expenses and bank charges	(619)	(606)
Currency exchange profits / losses	127	(547)
Total	**(345)**	**(1,093)**

The commercial paper value adjustments of the circulating assets are included in the currency exchange profits with a value of TEUR 89.

(10) Taxes on profits

The applicable tax rate for the Corporate parent company JoWooD Productions Software AG for the 2005 fiscal year amounts up to 25%.

The tax expense accounted in the profit and loss calculation is composed as follows.

Values in TEUR	**2005**	**2004**
Profit / expense for current tax on profits	(342)	(139)
Change of deferred tax assets	2,821	(12,178)
Accounted profit / expense for taxes on profits	2,479	(12,317)

The changes of the latent taxes are composed as follows:

Values in TEUR	
2004 deferred tax asset	6,649
Initial balance result as of December 31st 2004	6,649
Correction made on December 31st 2004	(6,649)
Intermediate total	**0**
Deferred tax asset due to continuous prognosis	2,821
Sum	**2,821**

The transition of the effective tax rate to the legally applicable tax rate can be represented as follows:

Values in TEUR	**2005**	**2004**
Result before taxes on profits	(20,623)	(17,449)
Tax expense with the corresponding tax rate (25% respectively 34%)	5,156	5,933
Fiscal effects - value adjustment of the activated losses brought forward from previous account - correction of temporary differences from the previous period - tax rate change	(2,335) 0 0	(7,682) (1,663) (2,395)
	2,821	(5,807)
Tax result according to local conclusions	(6)	139
Retroactive correction to December 31st 2004	0	(6,649)
Tax provision in connection with the closure of JoWooD Vertriebs GmbH International	(336)	0
Effective tax burden	2,479	(12,317)

Deferred tax assets and deferred tax liabilites as of December 31st 2005 and 2004 are the result of the following temporary evaluation differences between the IFRS end-of-year procedures and the relevant tax assessment bases:

Values in TEUR	**2005**	**2004**
Provisions	37	22
Receivables	0	112
Taxable loss carried forward (Parent company)	57,945	56,661
Tax calculation basis	57,982	56,795
Deferred tax asset (gross)	14,496	14,199
Value adjustment	(11,675)	(7,550)
Retroactive correction to December 31st 2004	0	(6,649)
Deferred tax asset	2,821	0

The deferred tax assets as of December 31st 2004, with an amount of TEUR 6,649 which result in particular from the losses brought forward from previous accounts, were corrected according to the audit certificate of KPMG over the end-of-year report of December 31st 2004, in accordance with IAS 8 as of December 31st 2004 over an equity capital of zero. In accordance with the available continuing prognosis, which became estimates of the company as well as of the future expected results, the deferred tax assets were worth TEUR 2,821 as of December 31st 2005.

H. result per share

The number of issued shares amounts to the balance-sheet date 13,922,340 units. The issuance of these shares took place at different times, therefore a weighting of the number of shares is necessary to calculate the result per share. According to IAS 33.21, the moment of the inclusion of the new shares against an investment in kind is that one in which the company obtains the requirement on an appropriate return (date of the contract signing). The number of shares is then converted to an average yearly stock. Thus results an average number of shares of 7,738,931 units after the own shares, whereby a result for each share of EUR -2.34 was calculated out of an annual result of TEUR -18.144.

Since a stock split with a 4:1 ratio was carried out in the 2004 financial year, the number of shares had to be adapted retroactively for the 2004 financial year. The calculation of the result for each share was done by using an average of the number of shares, as it was previously mentioned. Besides the correction of the active latent taxes, an amount of TEUR 6,649 was applied retroactively to December 31st 2004 over the equity capital funds and considered for the 2004 financial year result.

Issuance date	**Number of issued shares**	**Weighted number of shares**
January 1st 2005	30,089,360	30,089,360
December 19th 2005 simplified capital reduction	-22,567,020	-22,567,020
December 19th 2005 investment in kind	6,400,000	227,945
Total	13,922,340	7,750,285
Own shares		-11,354
		7,738,931
Annual result in Euro		-18,143,748
2005 result per share in Euro, diluted and undiluted		- 2.34
2004 result per share in Euro, diluted and undiluted		-4.27

I. Explanations concerning the cash-flow calculation

The cash-flow statement of the JoWooD group shows how the financial funds of the group changed over the course of the reported year under report by the cash inflow and outflow. The cash-flow statement shows the payments stream from current business activities, investment activities and financing activities. The funds stock accounted in the cash-flow statement includes cash in hand, checks and assets with credit institutions. For any other related aspects, please refer to the cash-flow statement.

1) Composition of the financial funds stock:

Values in TEUR	**December 31st 2005**	**December 31st 2004**
Cash in hand	4	2
Credits with banks	189	669
Clearing accounts	3	0
Total	**196**	**671**

2) Explanations concerning the sales of subsidiary companies

During the past financial year three participations were finally consolidated. The sales present themselves as follows:

Values in TEUR	**Massive GmbH**	**Neon GmbH**
Transfer price settled by cash	0	0
Settled by currencies	0	0
Currency of the participation	11	7
Transferred assets and debts:		
Fixed assets	35	31
Current assets without cash	36	130
Reserves	94	39
Liabilities	152	99

J. Financial instruments

a) Management of foreign currency exchange risks

Certain foreign exchange risks exist within the scope of sales to the US American companies, as well as with the companies from the Asian region. The prices for the titles and licenses are generally agreed there on a US dollar basis.

A special currency exchange security deal has not been yet concluded, since the dollar based sales compared with the Euro based sales have a small significance (15%), and the payment terms for these sales are usually short term (spot business), therefore there is no substantial currency exchange exposure to be protected from.

In the range of outside capital, during the 2005 financial year only Euro credits based on the EURIBOR rate basis were subscribed, since a currency exchange security was not necessary in the interest range.

b) Default and solvency risks

Default and solvency risks come from the possibility that the customers are not able of fulfilling their obligations with the company within the usual times fixed for payment. In order to manage this risk, exists credit insurance, besides the verification that the company makes on the solvency of the customers.

The company does not assume any kind of responsibility for the obligations of other parties.

The maximum default risk is represented on the balance sheet by each financial asset. Therefore, the opinion of the company is that its maximum default risk must cover itself with the amount due of the receivables from deliveries and services less the established value adjustments as of the balance-sheet date.

c) Credit risks

The necessary value adjustments were exercised for all the existing risks, therefore in the opinion of the company's management no other credit risks will arise.

d) Interest risks

The Executive Board estimates that the risk from changes on the interest rates affecting the financial assets and liabilities are minimal. Therefore, no instrument derivatives are used for these purposes.

e) Market value of the financial instruments

The book value of the liquid means and the other financial assets approximately corresponds to the market value due to the relatively short maturity of these financial instruments.

f) Short term liabilities with credit institutions

The book value approximately corresponds to the market value (circulation) because of the short maturity of these liabilities.

g) Long-term liabilities with credit institutions

The market value of long-term liabilities are based on the current interest rates for liabilities with the same maturity pattern. The market value of long-term loans and other commitments with variable interest rates correspond approximately to their book values.

K. Leasing

The company is engaged as lessee in different operating leasing agreements for machines, office space and other articles. These leasing agreements do not contain restrictions concerning the company activities in terms of dividends, additional debts or further leasing agreements. The expenses for rents and leases amounted to TEUR 699 in the year 2005, and TEUR 970 in the year 2004.The future leasing payments from operating leasing agreements present themselves as follows:

Values in TEUR	the following business year	the following five business years
	24	35
Liabilities from leasing contracts	(previous year: 226)	(previous year: 1,048)
	309	1544
Liabilities from leasing contracts	(previous year: 560)	(previous year: 2,752)
	333	1,579
Total	(previous year: 786)	(previous year: 3,800)

Beyond the following five financial years, there are no leasing contracts at this time.

L. Contingent liabilities

Regarding the risks we refer to the explanations of the substantial risk positions (D., n.).

M. Events after the balance sheet date

At the beginning of the 2006 year, a cash capital increase in the way of a regular capital increase for an amount of TEUR 6,000 was accomplished. TEUR 3,000 were supplied to capital reserves as capital surplus.

The subsidiary JoWooD Software Development Productions Vienna GmbH will be retroactively merged with the parent company to January 1st 2006.

The Germany branch office has been closed, and Wings Simulation GmbH will be liquidated. In a similar way, it is planned to close JoWooD Vertriebs GmbH International in Germany. The necessary initial legal steps have already been taken.

During the first quarter of 2006, a new society was created in Romania, which in the second quarter of 2006 will absorb the business operations and will be predominantly concentrated on quality assurance listing.

Regarding the further explanations, we refer to the report on the situation.

N. Indication concerning the business cases of intimate persons

The members of the Executive Board of the parent company have received a remuneration with a value of TEUR 468 in the financial year (previous year: TEUR 411).

Remuneration for the activities of the members of the Executive Board

Total remuneration	Active Board	Retired Board	Total
Salary expenses	293	175	468
Total board remuneration	293	175	468

The members of the Supervisory Board have received remuneration payments for their activities for an amount of TEUR 61 (previous year: TEUR 37). The payments received by the supervisory board are composed by remuneration payments for a value of TEUR 48 (previous year: TEUR 36), and travel expenses reimbursements for an amount of TEUR 13 (previous year: TEUR 1).

During the course of the extraordinary general assembly of December 19th 2005, Koch Media GmbH was accepted for the assumption of 6,400,000 stock shares over the course of an investment in kind. Koch Media GmbH has since become the largest shareholder of JoWooD Productions Software AG and in addition it is also the strongest commercial partner. Below the transactions with Koch Media GmbH which are derived from the selling activities and from development financing projects (co publishing) als well as with JoWooD Software Vertriebs GmbH in which the company is participated with 40% of the shares, are represented below in detail:

Balance	Koch Media GmbH	JoWooD Vertriebs GmbH
Receivables from deliveries and services	702	30
Liabilities from deliveries and services	1,332	0
Advances from customers	5,381	0
Sales	**Koch Media GmbH**	**JoWooD Vertriebs GmbH**
Sales from deliveries and services	4,194	0
Other sales	28	50
Expenses		
Marketing	379	0
COGS (Cost of goods sold, production costs)	495	0
Other	1,873	115
Financial expenses	6	0

Business relations with subsidiary companies

During the 2005 year, the following business relations took place between the parent company and its subsidiaries, which were eliminated in the context of the consolidation:

JoWooD Software Development GmbH, Vienna, Austria

Over the course of the financial year, the parent company absorbed from the subsidiary development service expenses for the creation of basic technologies for an amount of TEUR 668 (composed by TEUR 513 of personnel expenses and TEUR 173 from other operational expenses). Additionally the subsidiary sold assets to the parent company for an amount of TEUR 18.

In order to eliminate the negative equity capital by the subsidiary, the parent company had to grant the subsidiary a subsidy for an amount of TEUR 75.

Wings Simulation GmbH, Germany

Over the course of the financial year, the parent company was charged by the subsidiary development services for an amount of TEUR 379 (composed by TEUR 238 from personnel expenses and TEUR 141 from other operational expenses).

JoWooD Productions (UK) Ltd. and JoWooD Vertriebs GmbH International, Germany

Over the 2005 financial year, no business relations were sustained with JoWooD Productions (UK) Ltd. nor with JoWooD Vertriebs GmbH International, Germany.

O. Indication regarding the company's organs and employees

The personnel expenses of the company were arranged as follows:

Values in TEUR	2005	2004
Wages	500	413
Salaries	3,289	6,070
Expenses for severance payments and contributions to the employees' provisions fund	139	80
Thereof severance payment expenses	*123*	*80*
Thereof contributions to the employees' provisions fund	*16*	*0*
Expenses for legally prescribed social contributions as well as contributions depending on remunerations and liabilities contributions	981	1313
Other social expenses	1	17
Total	**4,910**	**7,893**

On the balance-sheet date, the number of employees for the company amounted to 53 (previous year: 206). This number includes 10 contract employees.

During the 2005 financial year, the average number of persons employed in the company amounted to 104 (of which 9 were contract employees), and 184 in the year 2004.

Employee option program

Regarding the employee option program that still existed as of December 31st 2004, all the currently employees delivered waivers to this program. This program has served as the basis for the elaboration of a new employee option program, which is to be submitted to the statutory general assembly of the 2006 year for adoption of resolutions.

Organs of the society

The organs of JoWooD Productions Software AG are:

Members of the Executive Board:

- Dr. Albert Seidl (since January 28th, 2005)
- Mr. Maximilian H. Tinauer, MBA (since June 3rd, 2005)

Retired over the course of the 2005 year:

- Dr. Michael Pistauer (on April 30th 2005 – deleted from the Commercial Register on November 5, 2005)
- Mr. Andreas Tobler (on January 28th, 2005)

Members of the supervisory board:

- Dr. Andreas Rudas (chairman, since January 14th 2005)
- Mr. Wolfgang Meusburger, MBA (deputy, since January 14th 2005)
- Mr. Christoph Ludwig (since January 14th 2005)
- Mr. Michael Sares (since December 28th 2005)

Retired over the course of the 2005 year:

- Dr. Gerhard Weißschädel, (entered in the Commercial Register on December 28th 2005)
- Dr. Helmuth Frey (entered in the Commercial Register on March 10th 2005)
- Dr. Leopold Gartler (entered in the Commercial Register on March 10th 2005)
- Mr. Karl - Heinz Bohl (entered in the Commercial Register on March 10th 2005)

Rottermann, as of May 30th 2006

Signature of the Executive Board

FIXED ASSETS TRANSACTION STATEMENT

From January 1, 2005 to December 31, 2005
(all values in EUR ,000)

Fixed assets transaction statement 01/01/2005 - 12/31/2005	Acquisition/ production costs 01/01/2005	Additions 2005	Disposals 2005	Acquisition/ production costs 12/31/2005	Accum. depre-ciation 12/31/2005	Book value 12/31/2005	Book value 12/31/2004	Annual depre-ciation 2005	Book value disposals 2005	
I. Intangible assets										
1. Trade permits, industrial property rights and similar rights and values, as well as licenses resulting thereto	6.701	23	741	5.984	5.848	136	439	211	115	**1)**
2. Goodwill	15.526	0	0	15.526	15.526	0	35	35	0	
Total	**22.227**	**23**	**741**	**21.510**	**21.374**	**136**	**474**	**246**	**115**	
II. Tangible fixed assets										
1. Structural alteration on third party grounds	236	0	227	9	2	7	98	5	86	
2. Operating and business equipment	2.019	37	1.113	944	865	79	377	169	166	
Total	**2.256**	**37**	**1.339**	**953**	**867**	**86**	**475**	**174**	**252**	
III. Financial assets										
1. Investments in associated companies	769	0	0	769	769	0	0	0	0	
Total	**769**	**0**	**0**	**769**	**769**	**0**	**0**	**0**	**0**	
Total	**25.252**	**60**	**2.080**	**23.232**	**23.010**	**222**	**950**	**420**	**368**	

1) Thereof unplanned depreciation TEUR 43

JoWood Productions Software AG investments in related and associated companies as of 12/31/2005

Following companies are consolidated in the group accounts as of 12/31/2005:

Company	Level of Investment	Type of Consolidation
Shareholdings of related companies:		
Wings Simulation GmbH, Germany	100%	Fully consolidated
JoWooD Vertriebs GmbH International, Germany (formerly: Leisuresoft GmbH Vertriebsgesellschaft für Computersoftware und Hardwarezubehör)	100%	Fully consolidated
JoWooD Software Development GmbH, Vienna, Austria (formerly: Neo Consulting Neue Medien Software Produktions GmbH)	100%	Fully consolidated
Shareholdings of associated companies:		
JoWooD Software Vertriebs GmbH, Austria	40%	

In reference to deconsolidated companies we refer to point C of the notes.

Unrestricted Audit Certificate

We have checked the consolidated financial statements of JoWood Productions Software AG, Rottenmann for the financial year from January 1st 2005 to December 31st 2005. The listing and contents of these consolidated financial statements, compliant with the International Financial Reporting Standards (IFRS) to be applied in the EU, as well as the group situation report which was prepared according to Austrian commercial law, both of which are the responsibility of the legal representative of the Company. Our responsibility is the submission of an audit report regarding these consolidated financial statements based on our audit and a declaration of whether the group situation report coincides with the consolidated financial statements.

We have conducted our audit observing the currently valid legal regulations in Austria and the International Standards on Auditing (ISA). These fundamental principles require that the audit is planned and conducted in such a way that an adequately reliable opinion can be issued whether the consolidated financial statements are free from any false representations and a statement can be made whether the group situation report and the consolidated financial statements coincide. Knowledge of the business activities, the financial and legal environment of the Corporation as well as a forecast on possible faults are taken into account for the determination of the audit activities. Within the scope of the audit, evidence of amounts and other details in the consolidated financial statements are evaluated mainly based on random checks. The audit includes furthermore the assessment of the applied accounting principles and the basic appraisals made by the legal representatives, as well as an evaluation of the overall declaration of the consolidated financial statements. In our opinion, our audit provides an adequately reliable basis for our audit report.

Our audit did not lead to any objections. Based on the knowledge gained during our audit, our opinion is that the consolidated financial statements corresponds to the legal regulations and represents a true image of the financial condition of the Company from January 1st 2005 to December 31st 2005 in compliance with the International Financial Reporting Standards (IFRS) to be applied in the EU. The group situation report also coincides with the consolidated financial statements.

Linz, May 31st 2006

Leitner + Leitner Audit Partners GmbH & Co KEG Auditors
Ottensheimer Straße 30, 32 und 36, 4040 Linz

Gerhard Hopf
Certified Accountant and
Tax Consultant, CPA

Heribert Bach
Certified Accountant and
Tax Consultant

The publication or passing on of the Consolidated Financial Statements in a form deviating from the certified version requires our previous further statement, if our audit certificate is hereby quoted or our audit is referred to.

Supervisory Board Report

The 2005 financial year was marked by a complete change of the Supervisory Board and Board of Management as well as the redevelopment of the company.

During the extraordinary General Assembly on 14 January 2005, the Supervisory Board was wholly and unanimously re-elected. From then on, the Supervisory Board has consisted of Dr. Andreas Rudas (Chairman), Mr Wolfgang Meusburger, MBA (Representative), Dr. Gerhard Weisschädel (Member) and Mr Christoph Ludwig, MA (Member).

The contract of Mr Andreas Tobler, Bord Member responsible for Sales and Marketing, was not renewed. Dr. Albert Seidl was appointed as new Chairman of the Board of Management as of 28 January 2005.

Changes also came about for the Board Member responsible for Finance, Dr. Michael Pistauer. He withdrew from office on April 30th 2005. In his place, Maximilian H. Tinauer, MBA, was nominated as a new Board Member as of June 3rd 2005.

During the extraordinary General Assembly of 19/12/2005, Mr Michael Sares was elected to replace Dr. Gerhard Weisschädel in the Supervisory Board. Dr. Weisschädel withdrew form the Supervisory Board effective from 28 December 2005.

The Supervisory Board observed its duties incumbent to it by law and in accordance with the statutes and accepted the report of the Board of Management.

The Supervisory Board monitored the conduct of business during the 2005 financial year on account of reports on Board meetings and telephone conferences and through repeated personal contacts with Management, and approved their measures.

The Board of Management has reported on the business and financial situation of the company, on the run of business and business development, on the financial situation as well as on special business incidents through regular reports and detailed written documentation. A particular subject of intensive discussions with the Board was the strategic realignment, redevelopment and sustainable recovery of the company.

The annual accounts, consolidated accounts and the annual report of JoWood Productions Software AG for the 2005 financial year have been examined with the inclusion of the bookkeeping undertaken by the auditor appointed by the courts, Leitner + Leitner Audit Partners GmbH & Co KEG Auditors, Linz. According to its final result, the audit has not shown any particular reason for objection to issuing an unrestricted audit certificate. The Supervisory Board has approved the result of this audit.

The auditor's report was made available to the members of the Supervisory Board for examination. Following the conclusive result of the examination of the yearly accounts undertaken by the Supervisory Board in accordance with § 96 of the Stock Corporation Act, the Board's proposal carrying forward the net losses to new account in accordance with § 126 of the Stock Corporation Act, and the annual report drawn up by the Board in accordance with § 243 of the Commercial Code, no reason for objection has been given.

The Supervisory Board therefore approved the annual accounts drawn up by the Board of Management for the 2005 financial year in it sitting on 8th June 2006, with the presence of the auditors, which is therefore established in accordance with § 125 Par. 2 of the Stock Corporation Act. The Supervisory Board hereby takes according note of the annual report for the 2005 financial year and follows the proposed appropriation of earnings.

The Supervisory Board expresses recognition and thanks to the Board of Management and all employees of the company for their work and the successful redevelopment.

On behalf of the Supervisory Board

Dr. Andreas Rudas
Chairman of the Supervisory Board

Financial Calendar 2006

Shareholders Meeting 2005	06.07.2006
Annual results 2005	14.06.2006
Preliminary results 1st quarter 2006	27.04.2006
Results 1st quarter 2006	14.06.2006
Results 2nd quarter 2006	31.08.2006
Results 3rd quarter 2006	30.11.2006

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