

[broadening horizons]



We constantly adapt to the needs of the markets and broaden our horizons. We are ready to meet the challenges of the future ...

Success

Infrastructure

Experience

Knowledge

Technology

IT markets

Consulting

Energies

Expertise

Solutions

Annual Report 2005

Intelligence

Customers

Power

Future

Services

[broadening horizons]

[BRAIN FORCE HOLDING AG – at a glance]

Key figures for the BRAIN FORCE Group according to IFRS

		2005	2004	Change in %
Balance sheet figures				
Balance sheet total	in EUR million	63.62	48.47	31.3
Non-current assets	in EUR million	24.57	11.53	113.2
Current assets	in EUR million	39.05	36.94	5.7
Equity ¹⁾	in EUR million	32.11	29.86	7.5
Non-current liabilities	in EUR million	7.38	2.63	180.1
Current liabilities	in EUR million	24.13	15.98	51.0
Equity ratio	in %	50.5	61.6	-
Working capital	in EUR million	14.92	20.96	-28.8
Earnings				
Net sales	in EUR million	76.62	64.42	18.9
EBITDA	in EUR million	6.05	4.13	46.5
EBIT	in EUR million	3.58	2.39	49.8
Profit before taxes	in EUR million	3.68	3.36	9.5
Profit for the period	in EUR million	3.13	2.03	54.2
Earnings per share ²⁾	in EUR	0.30	0.21	42.9
EBITDA margin	in %	7.9	6.4	-
EBIT margin	in %	4.7	3.7	-
Return on sales (ROS) ³⁾	in %	4.8	5.2	-
Return on equity (ROE) ⁴⁾	in %	11.9	15.8	-

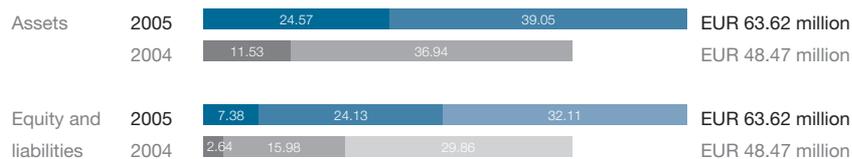
¹⁾ Equity including minority interest

²⁾ Not including shares held in treasury

³⁾ Result from ordinary activities in relation to net sales

⁴⁾ Result from ordinary activities in relation to average equity

Capital structure



Assets

- non-current assets
- current assets

Equity and liabilities

- non-current liabilities
- current liabilities
- equity and minority interest

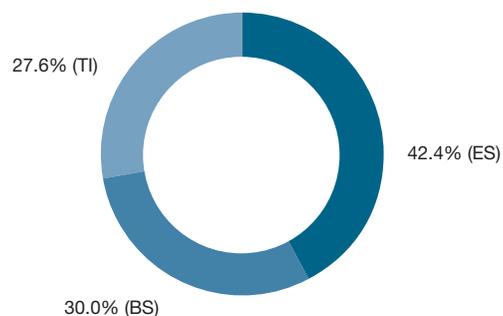
Ratios by segment 2005

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

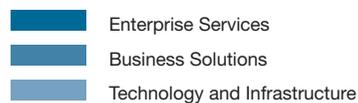
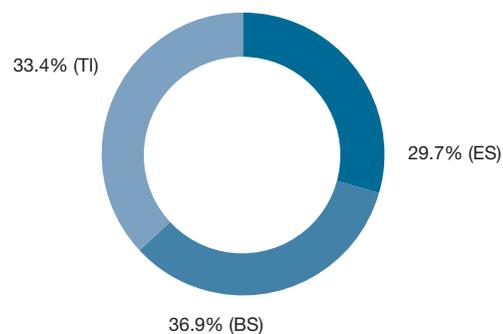
	Segment net sales	Segment assets	Segment investments
Geographical segments 2005	EUR	EUR	EUR
Austria	12,019,243.91	8,649,146.46	397,387.70
Germany	38,210,921.54	25,415,027.44	1,494,856.76
Italy	21,813,355.49	18,458,172.45	2,655,436.32
Netherlands	3,339,640.61	9,601,113.77	7,925,121.94
Other regions	1,234,842.97	1,500,236.22	37,131.02

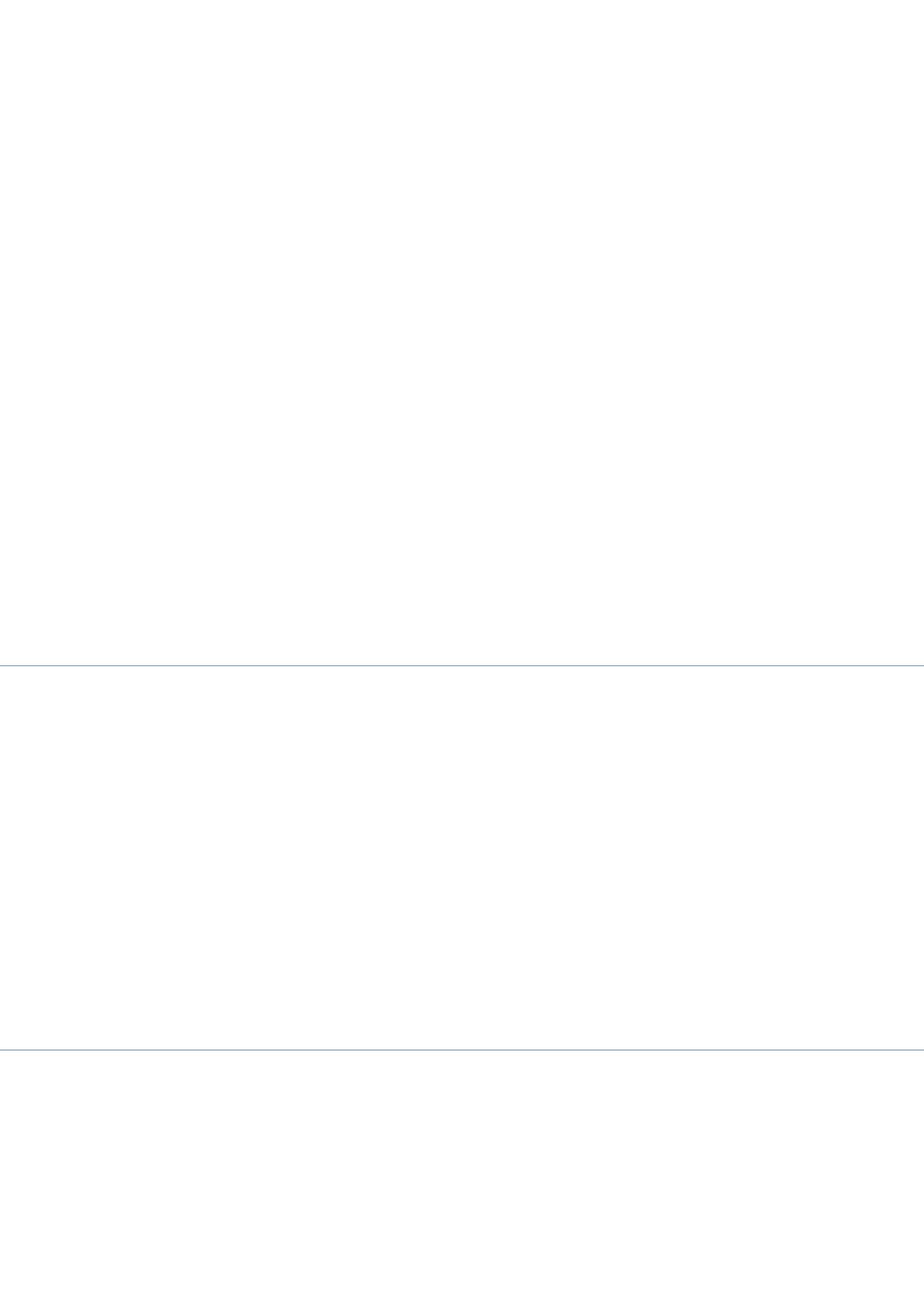
Breakdown by segment

Net sales



Profit





[broadening horizons]

Looking ahead and always setting new challenges. Seeing tomorrow today and taking the necessary steps. We are shaping our future today. With the advent of modern information technology, the future is arriving faster than you may think. That's why we are so determined. We have adapted to the needs of our markets and have broadened our horizons. We are ready to face the challenges of the future ...



[Events]

Great events are shaping our future:

in the past year we have moved into new markets and are now offering our customers even more services.

[Dimension]

The **BRAIN FORCE** dimension: heading for new horizons.



[Flair]

Our flair: projects may change,
but not the flair of BRAIN FORCE.





[Passion]

Passion: working without passion would be impossible for me – this is what makes life worth living.



[Dialogue] [Customers]

Direct dialogue: developing innovative, competitive business solutions also means seeking active dialogue with customers to assess their needs.

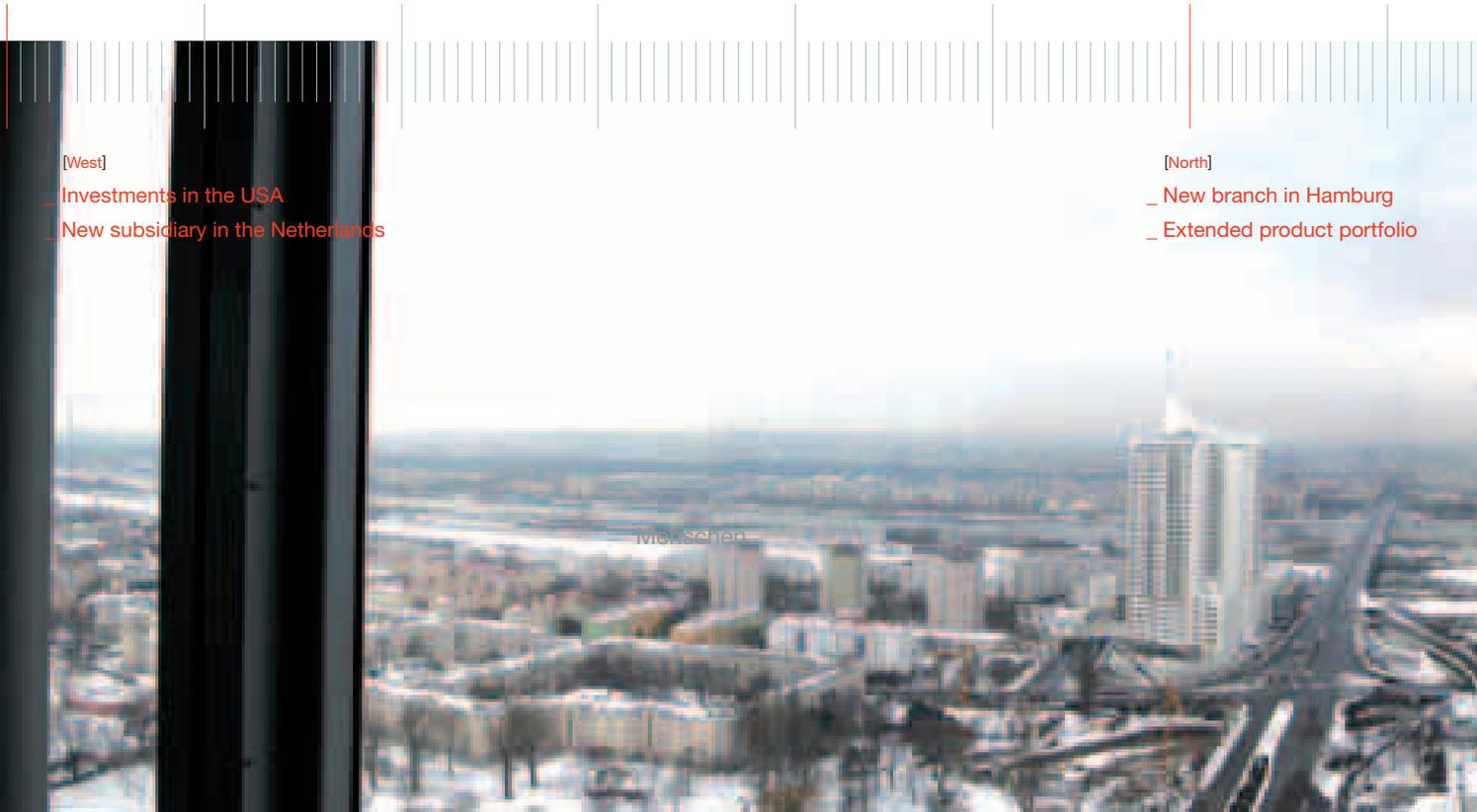


[Processes] [Perspectives]

New perspectives: all round
BRAIN FORCE.

Experience
Knowledge
Determination
People
Technology
Expertise

Expertise Services Energies Technology Solutions Knowledge Determination Power



Intelligence Success
Market
Customers Power
Future
Energies Solutions
Services

Intelligence

Customers

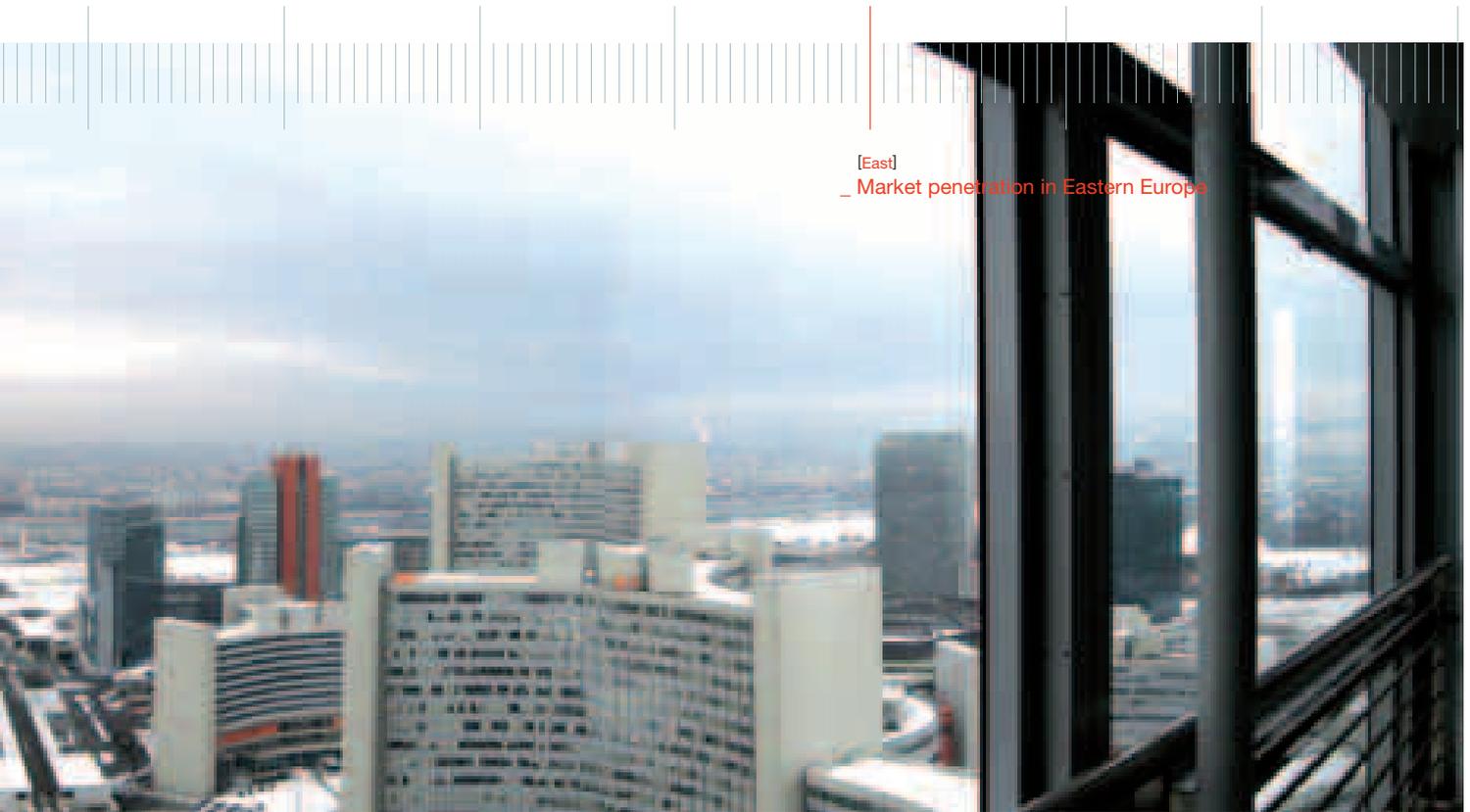
Dialogue

People

Market

Success

Future



[East]
- Market penetration in Eastern Europe

[Contents]

16 Board of Management

20 Corporate Governance

25 Review of 2005

34 Group Management Report

16 Foreword by the Board of Management

20 Report of the Supervisory Board

26 Events in 2005

36 Economic Climate

18 Broadening horizons

22 Corporate Governance Code

28 Share performance

37 Group structure

38 Net sales and earnings

40 Development in primary segments

47 Orders

47 Research and product development

48 Net worth and financial performance

50 Cash flow and investments

50 Human Resources

52 Risk Management

54 Outlook

55 Events after the balance sheet date

56	Future Potential	80	Strategic Direction	90	Consolidated financial statements	149	Information
58	Enterprise Services	82	Broadening horizons	92	Balance sheet	149	Important dates
62	Technology and Infrastructure	82	International acquisitions	94	Income statement	151	Imprint
70	Business Solutions	82	Italy: extending our market leading position	95	Cash flow statement	153	Glossary
78	Group controlling	83	Further focus on infrastructure	96	Statement of changes in equity		
		84	Additional infrastructure solution	98	Notes to the consolidated financial statements		
		84	New sector solutions for financial service providers	148	Auditor's report		
		87	Worldwide prospects				
		88	Outlook				

[Foreword by the Board of Management]

Dear shareholders and stakeholders, ladies and gentlemen,

we look back over an eventful and successful year in 2005. It was characterised by acquisitions in mid-year and ended with the best annual result in the company's history. The BRAIN FORCE Group, its employees and investors can be proud of the fact that we have increased net sales growth by 19 percent to EUR 76.6 million, while increasing EBIT by 50 percent to EUR 3.6 million at the same time. This goes to show that we are capable of achieving stronger growth through acquisitions while improving operating margins simultaneously.

Thanks to these fantastic results earnings per share (EPS) has risen from 21 cents in the prior year to 30 cents. Consequently we will propose a dividend increase from 6 cents (2004) to 8 cents at this year's annual general meeting. With our company acquisitions at mid-year we have done the groundwork to continue on this successful route in the coming years. We are planning to increase net sales in 2006 by a further 20 percent and want to hit the 5 percent EBIT margin mark.

Needless to say, we will not leave it at that. On the contrary; with our wide portfolio we are already offering our shareholders and customers investment security and stability. We intend to put every effort into strengthening the diversified market positions the BRAIN FORCE Group has in its various segments. As on several occasions in the past, we will acquire strategically important companies through targeted acquisitions. We will not only restrict ourselves to Austria, Germany or Italy in our search to find suitable targets, but will look internationally. The financing for these acquisitions is in place. In view of the success of the Buy&Build strategy in the past, we have already found two investors to guarantee the capital required.

At the same time, we have embarked on a key topic of interest to our shareholders. Despite the good 19 percent performance of the BRAIN FORCE share in 2005, the value of our share still does not represent the enormous potential actually in the company. Although the share develops well when we are in the public eye, it regularly flattens off again afterwards. We think this is down to the fact that there are only a small number of institutional investors regularly looking at the BRAIN FORCE share.

We are convinced that our growth strategy is the key to solving this problem. Up to now our stock market value has simply been too low to have captured the attention of numerous institutional investors. This should change after a successful year 2006 and once we have completed our next stage of expansion.

The measures described above will set the parameters enabling the BRAIN FORCE share to reflect the real value of the company in the sustainable future.

You can count on the future of BRAIN FORCE.

Vienna, March 21, 2006

Board of Management



Helmut Fleischmann
Chief Executive Officer



Wolfgang Lippert
Chief Financial Officer



[broadening...

Helmut Fleischmann
Chief Executive Officer

Market conditions and cycles are becoming increasingly hard to predict. You can only survive in this environment if you can recognise change and use it to your advantage. The challenge for us is to shape BRAIN FORCE in such a way that we can grasp opportunities and chances at any time. We have done this very successfully over the past year with our restructuring and various acquisitions. And as long as the environment keeps changing, the BRAIN FORCE Group will continue to change dynamically.



...horizons]

Wolfgang Lippert
Chief Financial Officer

The world is changing fast – as are markets and market participants. Economic areas are coming together, political barriers are coming down. To survive in the business world, every manager has to constantly redefine his horizons. BRAIN FORCE has broadened its horizons and has opened itself to Europe. In so doing, we can hold our own internationally, and react flexibly to market challenges.

[Report of the Supervisory Board]

In performing its duties as stipulated by law and in the company's memorandum and articles, the Supervisory Board held nine meetings during the course of 2005.

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

The financial statements of BRAIN FORCE HOLDING AG including the management report, and the consolidated financial statements including the management report at December 31, 2005, compiled pursuant to § 245a of the Austrian Commercial Code in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union, were audited by PwC INTER-TREUHAND GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, certified public accountants, auditors and tax consultants.

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

The Supervisory Board has approved the 2005 financial statements and the management report. It agrees with the proposal of the Board of Management to distribute a dividend of 8 cents per share minus shares held in treasury from the balance sheet profit of EUR 4,806,570.33 on share capital and to carry forward the remainder. The financial statements have thus been approved in accordance with § 125 AktG (Companies Act). The Supervisory Board has also approved the consolidated financial statements and the consolidated management report.

Vienna, March 21, 2006

Supervisory Board



Dr. Christoph Senft
Chairman of the Supervisory Board

[Corporate Governance Code]

We, as BRAIN FORCE HOLDING AG support the Austrian Code of Corporate Governance (ÖCGK). We are committed to its objectives will continue to observe them in the future. We have complied with the ÖCGK in its February 22, 2005 version in the past financial year. We have selected the following important points that illustrate how we live this code in our company. In addition to the “L-regulations” that must be complied with, we have listed explanations to the “C-regulations (comply or explain)” in 2005.

Commitment to transparency

Due to the forthcoming capital increase at the end of the first quarter of 2006, the number of shares in BRAIN FORCE HOLDING AG will continue to increase. This is why the company feels even more committed to transparency. We publish all relevant information in a detailed annual report, in quarterly reports, at conferences for analysts and through our ongoing public relations work.

Equal treatment of all shareholders

Point 1 ÖCGK

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

All shares carry the same rights

Point 2 ÖCGK

All shares in the company are ordinary shares and therefore carry the same rights. New shares from the capital increase Q1/2006 will be eligible for dividends as of January 1, 2006. We are committed to the principle of “one share – one vote”.

Convening the annual general meeting

Point 4 ÖCGK

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

Publishing the voting results of the annual general meeting

Point 6 ÖCGK
(deviation)

From the financial year 2006 onwards, the company will immediately publish its voting results on its homepage under “Investor Relations”.

Supervisory and Management Boards

Points 9 und 11
ÖCGK

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

Point 18 ÖCGK	<p>Internal audit without staff position</p> <p>Due to the current size of the business, a separate staff position for an internal auditor does not seem justifiable to us on cost grounds. Instead, these activities are carried out by a newly established “Support and Control Centre” staffed by members of the financial controlling, sales and project controlling departments and by the internal legal department.</p>
Points 39, 40, 43 ÖCGK (deviation)	<p>Supervisory Board Committees</p> <p>Three Supervisory Board members resigned their positions in 2005 (DDr. Hermann Wenusch on February 17, 2005 for professional reasons, Roman Gregorig on May 31, 2005 due to work pressure and Josef Schmid for professional and health reasons at the end of the annual general meeting on June 10, 2005). Since then, the Supervisory Board has not had separate committees, as the number of Supervisory Board members does not exceed 6. All items are discussed in full by the whole Supervisory Board.</p>
Point 42 ÖCGK (deviation)	<p>Supervisory Board is informed of strategy at all times</p> <p>The Board of Management develops the company strategy and communicates this regularly to the Supervisory Board. The latter is thus comprehensively informed at all times. As the whole Supervisory Board is involved in issues concerning strategic direction, we do not consider it expedient to establish a separate strategy committee – as the number of Supervisory Board members does not exceed 6, as mentioned above.</p>
Point 45 ÖCGK	<p>No Supervisory Board member serves on a competitor's board</p> <p>BRAIN FORCE HOLDING AG declares that the Supervisory Board Chairman Roman Gregorig (who resigned his seat on the board on May 31, 2005) served on the Supervisory Board of TeleTrader Software AG. However, these two companies are not competitors, they work together as partners on the market. We have elected to provide this information purely for reasons of transparency towards our shareholders, but we are not required to do so.</p>
Point 51 ÖCGK (deviation)	<p>Supervisory Board represents all shareholders</p> <p>The Supervisory Board's main task is to monitor management in accordance with § 95 of the Austrian Companies Act. This task is fully performed by the appointed members of the Supervisory Board. There are no appointed members assigned to a specific group of shareholders. Instead, the supervisory function is performed by all members independently in keeping with statutory requirements.</p>
Point 57 ÖCGK	<p>Employee representation</p> <p>The statutory provisions relating to employee representation are fully applied in our company. To date, our employees have not elected a shop steward for BRAIN FORCE HOLDING AG. For this reason, there is no employee representative on the Supervisory Board.</p>

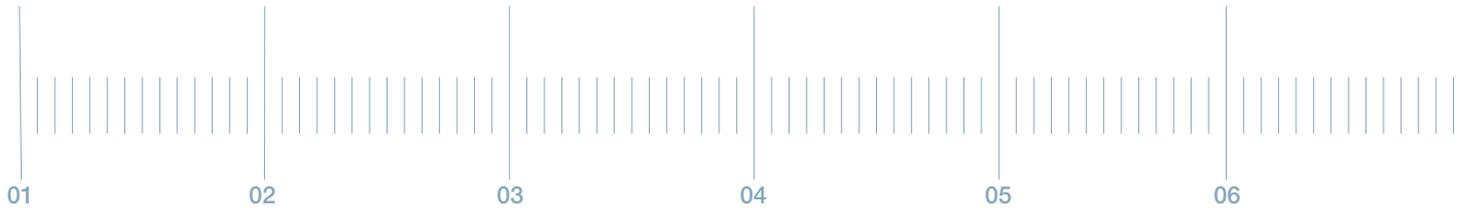
Point 58 ÖCGK	Corporate Governance Each year, BRAIN FORCE HOLDING AG renews its pledge to adhere to the Corporate Governance Code, including any deviations. This document can be accessed online at www.brain-force.com under “Investor Relations”.
Points 60 bis 72 ÖCGK	Comprehensive information to shareholders The shareholders of BRAIN FORCE HOLDING AG are given regular and timely information within the required deadlines through regular publications. The reports are compiled in accordance with International Financial Reporting Standards (IFRS). All documents are accessible via the Internet. This means that private shareholders also have full access to all information. This includes annual reports and much more – details on our strategic direction, for example – extending far beyond the minimum requirements. Our financial diary of important events is an additional source of information. This can be found on page 149 at the back of the annual report.
Point 66 ÖCGK	Consolidated management report The company is exposed to financial and non-financial risks. So that the Board of Management is always well placed to recognise and react to risks, a systematic reporting system has been set up and is operated by members of the Support and Control Centre. These risks and risk management instruments are described in the management report.
Point 78 ÖCGK (deviation)	Controlling and risk management Due to the size of the company, controlling and risk management of the BRAIN FORCE Group is carried out by the Support and Control Centre within the company, which reports regularly and directly to the Board of Management on the results of its audits. The company’s Board of Management is therefore confident that it has adequate information on the feasibility of its risk management. Therefore it has not specifically commissioned a review of its risk management.

[2005]

Annual review: Keep the future in mind
and the past on file.



[Events in 2005]



January



January BRAIN FORCE employees in Vienna and Cologne move to new premises to meet the need for more space. Staff in Vienna move to the IZD Tower and Cologne staff to the Mediapark.

BRAIN FORCE continues its successful work with HVB Informationsverarbeitungs GmbH, a wholly-owned subsidiary of HypoVereinsbank. BRAIN FORCE has 30 staff working on User Helpdesks. The projects carried out since 2003 include the integration of VundW Bank, various rollouts and the introduction of several applications.

February



February 15 BRAIN FORCE is highly ranked on the white list of Gulp – an IT freelancer portal – for excellent quality in farming out IT projects.

February 18 Change in the Supervisory Board of BRAIN FORCE SOFTWARE AG. For professional reasons, DDr. Hermann Wenusch, Roman Gregorig and Josef Schmid announce their resignations in May and June.

March



March 8 Günther Reißmann leaves the Management Board. He remains within the firm as a member of the Management Board for Central Europe and as a managing director of BRAIN FORCE SOFTWARE GmbH Germany, responsible for the Technology and Infrastructure segment.

March 31 2004 figures of the BRAIN FORCE Group: Net sales EUR 64.42 million (prior year: EUR 60.01 million), EBIT of EUR 2.39 million (prior year: EUR 182 thousand) EBITDA amounted to EUR 4.13 million in the same period (prior year: EUR 3.01 million).

April



April 6 BRAIN FORCE SOFTWARE AG is conducting intense negotiations with five takeover candidates and is considering further investment opportunities.

April 14 At an extraordinary general meeting of BRAIN FORCE SOFTWARE AG, shareholders resolve to reregister BRAIN FORCE SOFTWARE AG as BRAIN FORCE HOLDING AG. Günther Pridt and Christian Wolff become Supervisory Board members. Dr. Christoph Senft is elected Chairman of the Supervisory Board.

April BRAIN FORCE Berlin improves on its location by moving to the Landsberger Forum.

May



May 30 Q1 figures of BRAIN FORCE HOLDING AG: with net sales of EUR 16.44 million (prior year: EUR 15.46 million), the operating result (EBITDA) was EUR 884 thousand (prior year: EUR 766 thousand). This is an increase in net sales of 6.4 percent and an increase of 15.4 percent in EBITDA.

June

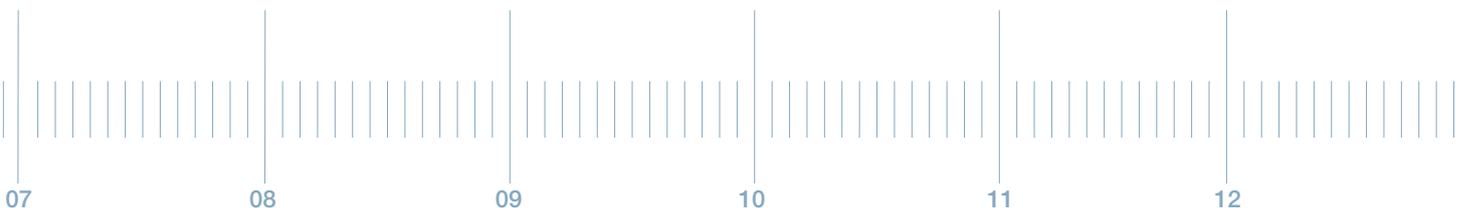


June 21 BRAIN FORCE takes over applications management for BHW Leben and establishes a new branch in Hamburg with 15 employees.

June 28 BRAIN FORCE HOLDING AG announces its planned takeover of the Dutch company VAI – a leading supplier of centralised IT management.

The INDIS systems house is acquired in Italy. INDIS supports Small and Medium Enterprises with its ERP solution *VSpace*.

June 30 BRAIN FORCE Financial Solutions AG passes an important milestone in the first half of 2005. For the first time, it records a positive net result of EUR 266 thousand.



July



July 19 The Condor insurance group decided in to purchase *BRAIN FORCE Vorsorgeoptimierung*. The decision to develop this product proved to be spot-on. Seven licences had been sold by the end of 2005.

July 26 By March 2006 BRAIN FORCE will design a new system to register fees and record costs for the Federal Capital of Munich. Its technology is based on the Linux version of *INKAS-SQL*. This will significantly improve transparency of telephone costs.

August



August 22 BRAIN FORCE HOLDING AG figures for the first half year: Orders 65 percent up on prior year. Net sales EUR 33.86 million (prior year: EUR 31.80 million), EBITDA EUR 1.79 million (prior year EUR 1.82 million) and EBIT EUR 842 thousand (prior year: EUR 1.03 million).

August 23 The first voluntary share swap offer of BRAIN FORCE HOLDING AG for new shares not traded on the stock exchange is made to BRAIN FORCE Financial Solutions AG shareholders. The offer will last until October 28.

September

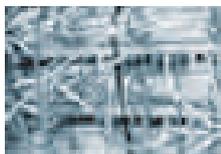


September 30 Ten-percent share in KEMP Technologies Inc., New York held in BRAIN FORCE HOLDING AG in the form of a cash increase. The investment contract stipulates further cash increases in three phases until an investment share of 30 percent has been reached at the end of the following three quarters.

Moreover, KEMP acquires all rights to the *B-100 Load Balancer* from BRAIN FORCE HOLDING AG for the U.S. market.

September 30 Hundred-percent takeover of VAI B.V. (NL).

October



October 6 In the third quarter, the BRAIN FORCE Group managed to win a major Italian business newspaper as its customer. The newspaper acquired a group licence for the *B-100 Load Balancer* and for *BRAIN FORCE CRM*.

November



November 3 At the end of the share swap offer to shareholders of BRAIN FORCE Financial Solutions AG, BRAIN FORCE HOLDING AG has a 95.15 percent share in the company. It thus has the necessary majority for a squeeze out.

November 8-10 At the exponent in Cologne, BRAIN FORCE presents its latest infrastructure solutions *BRAIN FORCE Migration out of the Box*, BRAIN FORCE Packaging Factory and the newly developed *BRAIN FORCE Net Organizer*.

November 21 BRAIN FORCE HOLDING AG figures for the third quarter of 2005: the best result in company history. Net sales EUR 20.76 million (prior year: EUR 16.17 million), EBITDA EUR 2.45 million (prior year EUR 1.17 million) and EBIT EUR 1.69 million (prior year: EUR 0.71 million).

December



December 6 Beginning of the rollout of *BRAIN FORCE Vorsorgeoptimierung* for the Berlinische Lebensversicherung AG, a subsidiary of the Delta Lloyd financial services group.

[Share performance]

	2005	2004
Share capital in EUR	10,257,828	10,257,828
Number of shares	10,257,828	10,257,828
Average number of shares traded daily*	60,215	60,503
Closing price (year-end) on XETRA in EUR	3.45	2.89
Market capitalisation (year-end)	35,389,507	29,645,123
Annual high in EUR	4.27	4.13
Annual low in EUR	2.71	2.28
Earnings per share in EUR	0.30	0.21
Distribution per share in EUR	0.08**	0.06

* at XETRA, Frankfurt and Vienna stock exchange

** proposed

Share performance

At the beginning of 2005, the BRAIN FORCE share clearly reflected that investors were waiting for the announced acquisitions.

The share recovered from its short dip in February within a month. However, it did not manage to set itself apart from the market trend. Nevertheless, the general price corrections of comparable indices in April did not impact adversely on the BRAIN FORCE share.

Share price rises on announcement of acquisitions

After the pre-announcement of acquisitions at the annual general meeting in spring and the actual announcement of the takeovers in mid-year the price took off. Amidst a generally favourable climate on the markets, the BRAIN FORCE share rallied in June. After a short consolidation phase the upwards trend continued in July and August. The share price subsequently hit its annual high.

Takeover speculations

The highs were fuelled by the rumour of an imminent takeover attempt by BEKO Holding AG. This speculation was supposedly triggered in the media by the fact the BEKO announced mid-June that it held more than 5 percent of BRAIN FORCE HOLDING AG.

Once the takeover speculations proved incorrect, the share price declined until the end of the year. Even the excellent results of the third quarter could not halt this decline. Although the results exceeded the already positive expectations of analysts and were probably the reason for the heaviest trading volume of the year – the BRAIN FORCE share only registered a slight increase in value. The share dropped back again with low trading in December.

The BRAIN FORCE share was up +19.4 percent year-on-year. This is an impressive value, but it could have been far higher considering the excellent operating results.

Lack of institutional investors

The reason for the unsatisfactory performance of the BRAIN FORCE share towards year-end is in our opinion due to the fact that not enough institutional investors invested in the share.

The share performance clearly illustrates that both share and trading volume develop positively when results are published. There is a great deal of public interest at these times – particularly among small and private investors. However, the share is not adequately monitored regularly by institutional investors. This explains why the share often falls back at other times during the year.

Outlook for 2006

Continuation of
growth trend

Two points are crucial in our opinion to awaken the interest of major institutional investors: firstly, we have to continue our tough plan for growth and secondly, we see a market capitalisation of EUR 50 million as a minimum, although we will aim for a significantly higher figure. Our continuing Buy&Build strategy also pursues this objective in addition to other strategic considerations.

Forthcoming capital
increase

BRAIN FORCE HOLDING AG announced on January 23, 2006 that a capital increase with a ratio of 3:1 would be carried out to finance further takeovers. The actual date of the subscription period had not been fixed when this report went to press, but is likely to begin on March 22 and end on April 5, 2006.

Two investors are guaranteeing the whole capital increase. In view of their high level of interest, the subscription is likely to be raised to 1:2.

As a further measure, we are placing the management of share trading in the hands of a major bank. We expect this move to improve quality significantly and bring new contacts to investors.

Share data

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

Share resale
programme

Treasury Stock

With an announcement on August 10, 2005, the share buy-back programme was extended until December 18, 2005. The price range was adjusted from EUR 2.50 to EUR 5.50.

All in all, 135,150 shares were bought back in 2005.

In addition, a share resale programme was initiated in April. A total of 280,636 shares were sold to part-finance the takeover of INDIS S.p.A. and as part of the swap offers to shareholders of BRAIN FORCE Financial Solutions AG.

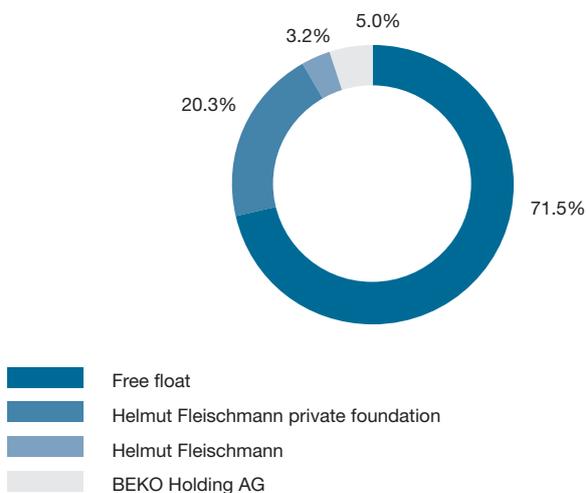
BRAIN FORCE HOLDING AG held 7,159 treasury shares at December 31, 2005.

Dividend announcement

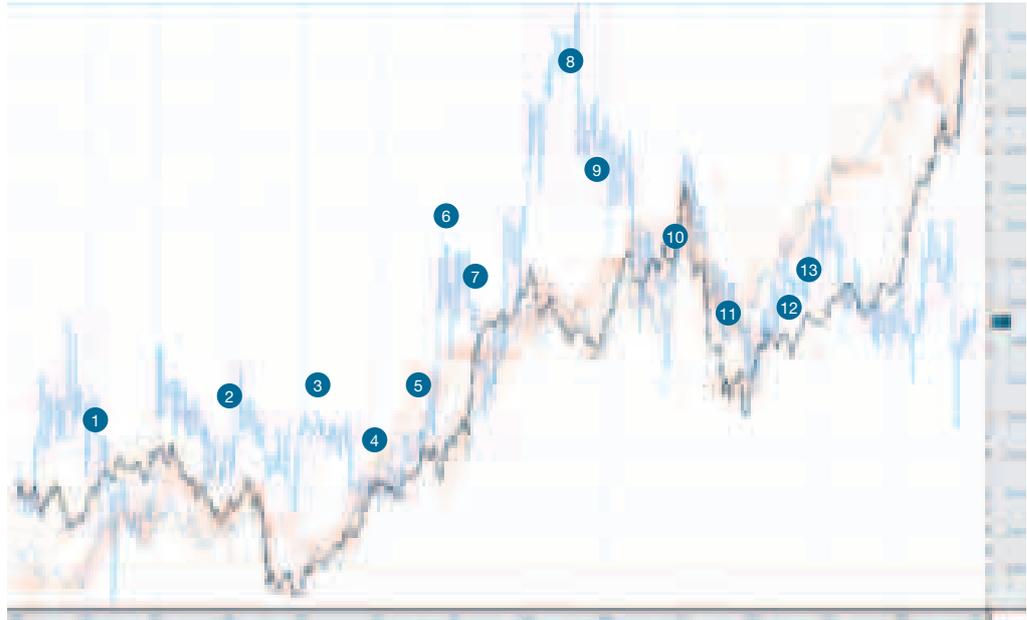
The Board of Management is proposing a dividend payment of EUR 0.08 per share at the annual general meeting on May 11, 2006. The increase in the dividend accounts for the increase in earnings per share.

Shareholders

Ownership structure



Share performance

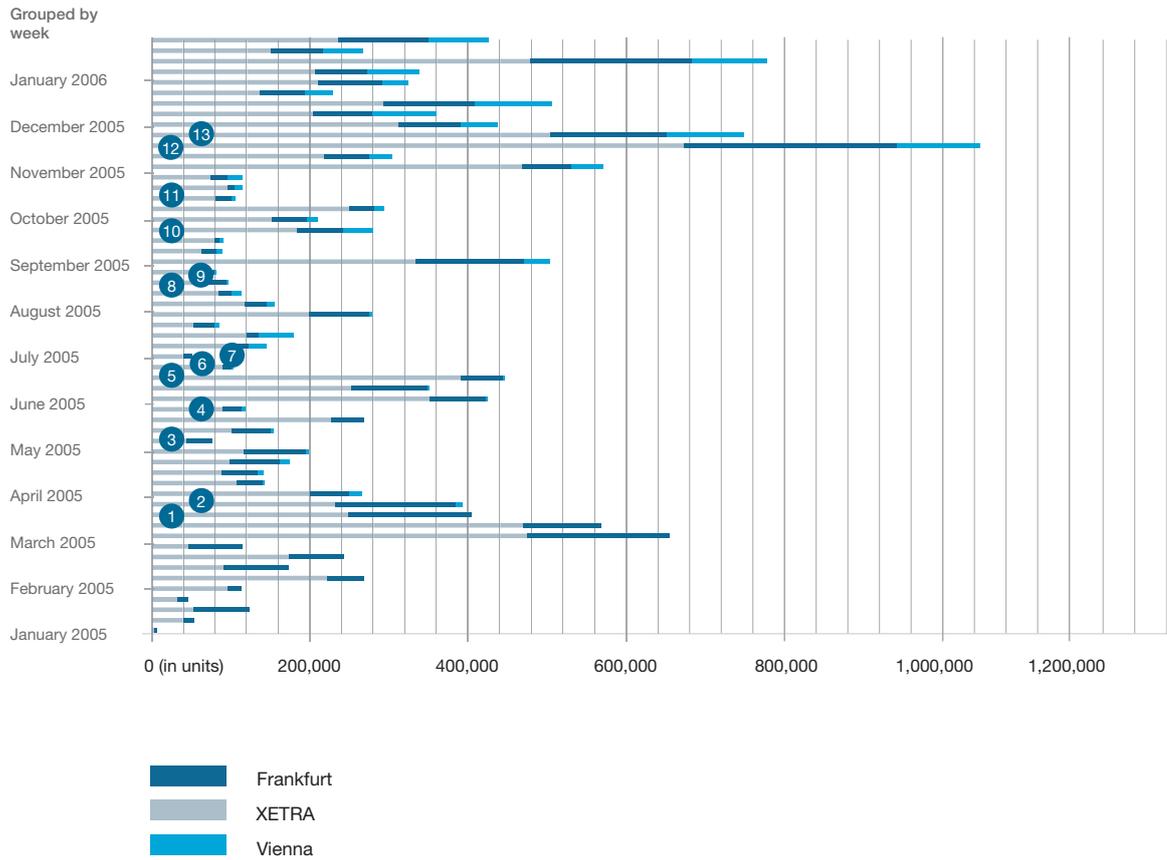


— BFS — TDX
— DAX — ATPX

Overview of events of relevance to investors

- 1 **February 1, 2005** – announcement of provisional results for 2004; earnings per share EUR 0.05 above forecast
- 2 **March 31, 2005** – publication of final figures for 2004; earnings per share at EUR 0.21 – proposed dividend EUR 0.06
- 3 **May 9, 2005** – announcement of provisional figures for the first quarter of 2005; net sales up 6.4 percent on the prior year
- 4 **May 30, 2005** – disclosure of final figures for the first quarter of 2005; EBITDA up 15.4 percent in the first quarter of 2005
- 5 **June 21, 2005** – takeover of applications management at BHW Leben; BRAIN FORCE Hamburg GmbH goes into business
- 6 **June 28, 2005** – BRAIN FORCE HOLDING AG announces M&A transactions

Development of trading volume



- 7** **July 6, 2005** – settlement of annulment action with BRAIN FORCE Financial Solutions AG
- 8** **August 22, 2005** – disclosure of provisional figures for the first half-year; orders 65 percent up on prior year
- 9** **August 29, 2005** – disclosure of final figures for the first half-year; provisional result confirmed for first half-year
- 10** **September 30, 2005** – announcement of investment in KEMP Technologies Inc.
- 11** **October 21, 2005** – investment share in BRAIN FORCE Financial Solutions AG above the 95 percent mark
- 12** **November 14, 2005** – announcement of provisional figures for the third quarter; EBIT more than doubles
- 13** **November 21, 2005** – disclosure of final figures for the third quarter; best result in company history

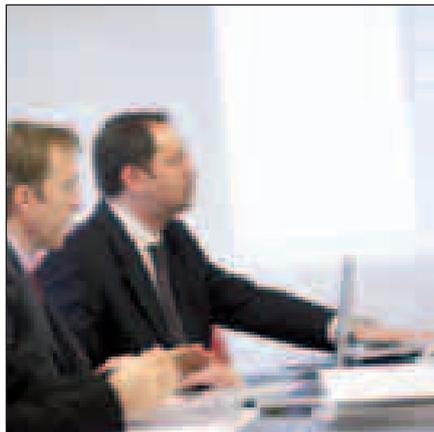
Competition: when two fight, one has to lose – otherwise the other cannot win. European IT markets are characterised by fierce competition. We are well equipped to face this with our customer-focused range.

[Group Management **Report**]

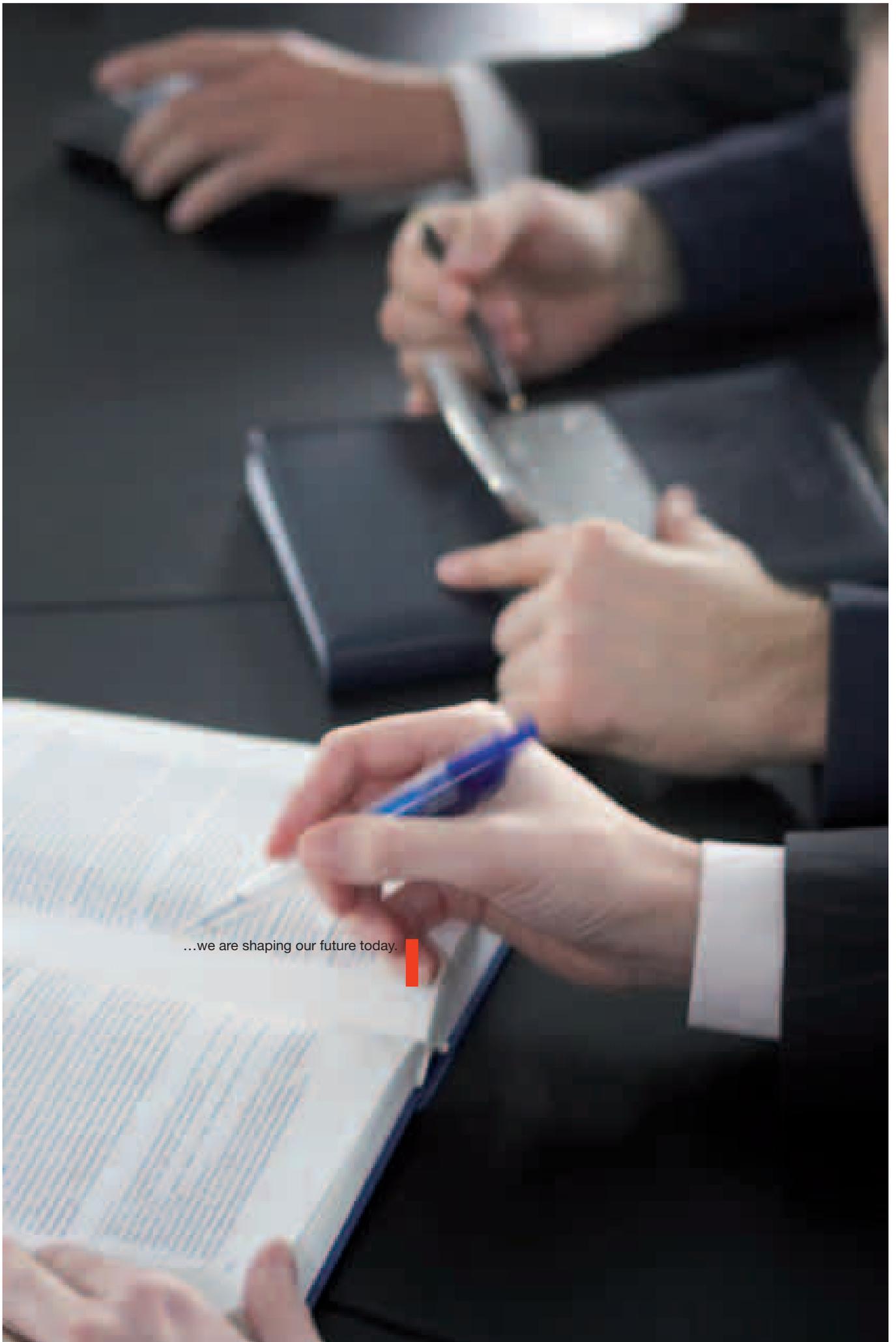
Structures

Business developments

Forecasts



Performance Meeting at BRAIN FORCE HOLDING AG



...we are shaping our future today.

[Group Management Report]

Economic Climate

Higher oil price depresses economic cycle and domestic demand

The analysts of six leading economic research institutes stated in their joint analysis published in autumn 2005 that economic growth in the first half-year had been very low. In detail, domestic demand was adversely affected by the high oil price and the appreciation of the euro continued to take its toll. Private consumption remained subdued. Capital expenditure rose only minimally, despite the fact that profits were good and interest rates extremely low. Capacity utilisation fell even further, discouraging further capital expenditure.

Exports recover

However, exports recovered in the first half of 2005, according to the experts. Demand picked up particularly in the new EU member states as well as in other European nations. Exports to oil-exporting countries, particularly to Russia, rallied significantly.

The six leading economic research institutes forecast real GDP growth across the whole of Europe at 1.3 percent for the whole of 2005 in their autumn analysis. This figure will probably rise to 1.8 percent in 2006.

Analysts arrive at different figures

By contrast, market intelligence experts from EITO (European Information Technology Observatory) calculated far stronger growth in the west European IT sector at 4.3 percent for 2005, also this figure includes the UK, Sweden and Denmark, which are not part of the euro zone. Experts valued the entire information technology market in Western Europe at 286 billion euros.

EITO researchers have identified the main drivers behind this positive development: European companies are no longer focusing on cost cutting alone. Investments aimed at achieving competitive advantage through innovation are now on the agenda.

In addition to this came the long-overdue modernisation of software infrastructure by companies, and this far outstripped the average growth for the software market. Moreover, outsourcing remained one of the most rapidly expanding IT service segments in 2005.

BRAIN FORCE portfolio covers the entire IT and telecom market

BRAIN FORCE has a wide portfolio in this sector. Starting with database management and services for computer centres, the portfolio ranges from application management and user helpdesks to the outsourcing of entire payroll accounting processes.

EITO also identified further points of focus, such as companies' growing demand for projects that enable them to cope with an increasing amount of legal requirements ("compliance") – for example, the Sarbanes-Oxley Act, Basle II or IFRS.

Positive economic momentum

BRAIN FORCE has a range of products and services designed to meet this business need. Security-related solutions and services as well as special services from the Enterprise Services and Business Solutions segments are relevant here. The BRAIN FORCE Group managed to translate this positive momentum from the economic upturn in this sector directly into stronger growth for the Group. Compared with 4.3 percent sectoral growth, growth in net sales including the BRAIN FORCE Group's acquisitions amounted to 18.9 percent.

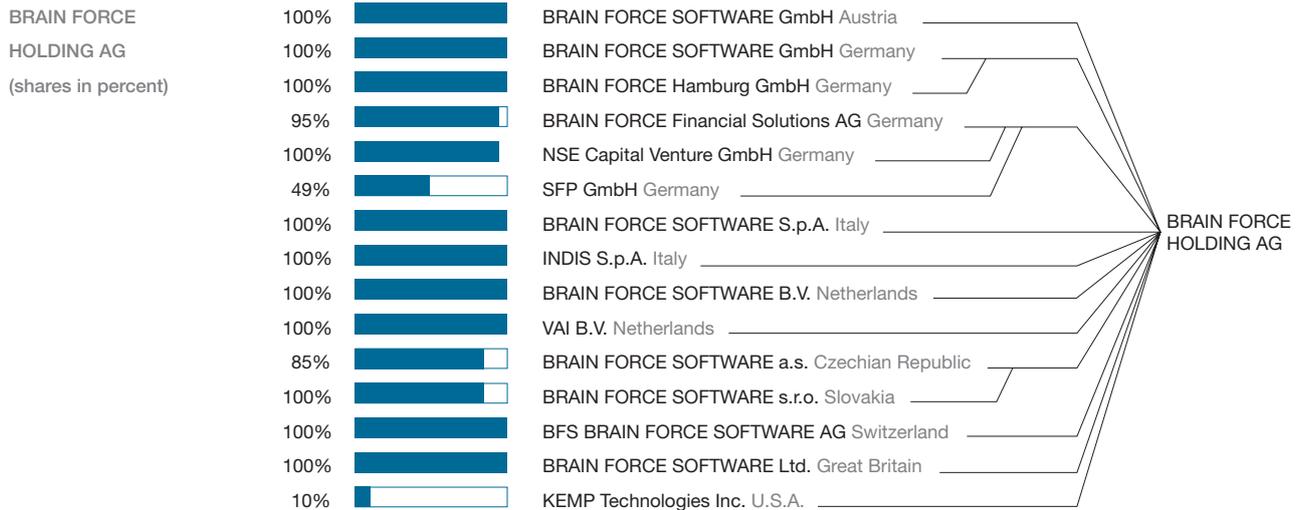
According to EITO, the IT sector is expected to grow by 4.3 percent in 2006, while telecoms are set to exceed the 3 percent mark, at 3.1 percent.

Group structure

The following changes were made to the group structure in 2005 and at the beginning of 2006.

- ▶ BRAIN FORCE SOFTWARE AG was reregistered as of April 25, 2005 as BRAIN FORCE HOLDING AG, triggered by the separation of operations and the holding function in Austria. Operations were transferred to the Austrian BRAIN FORCE Datenverarbeitungs GmbH, which was reregistered as BRAIN FORCE SOFTWARE GmbH as of May 19, 2005.
- ▶ BRAIN FORCE Datenverarbeitungs GmbH was reregistered as BRAIN FORCE Hamburg GmbH in Germany as of September 26, 2005, the reason being the commencement of operations and the receipt of an order from BHW Lebensversicherung AG. The shares in BRAIN FORCE Hamburg GmbH were transferred to the German BRAIN FORCE SOFTWARE GmbH as of December 15, 2005.
- ▶ In Italy, BRAIN FORCE HOLDING AG acquired INDIS S.p.A. as of June 30, 2005. The company was merged into the Italian BRAIN FORCE SOFTWARE S.p.A. as of January 1, 2006, which was reregistered as BRAIN FORCE S.p.A. as of February 6, 2006.
- ▶ In the Netherlands, BRAIN FORCE HOLDING AG acquired 100 percent of the shares in VAI B.V. in two stages (98.19 percent on shares were transferred on August 1, 2005).
- ▶ In the USA, BRAIN FORCE HOLDING AG acquired 10 percent in KEMP Technologies Inc. as of September 30, 2005. The investment agreement foresees that this share will be increased to 30 percent in the course of 2006.

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

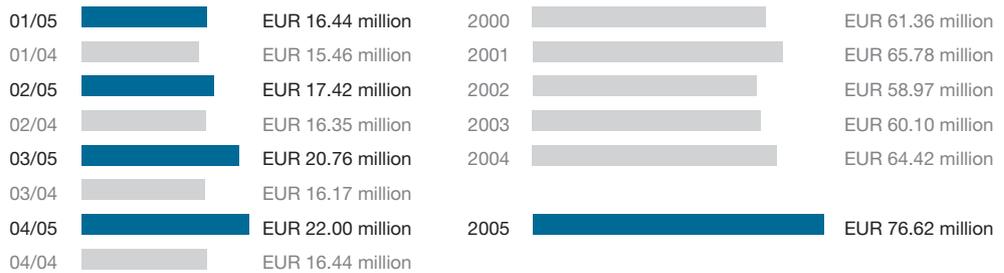


Net sales and earnings

Figures up on previous year

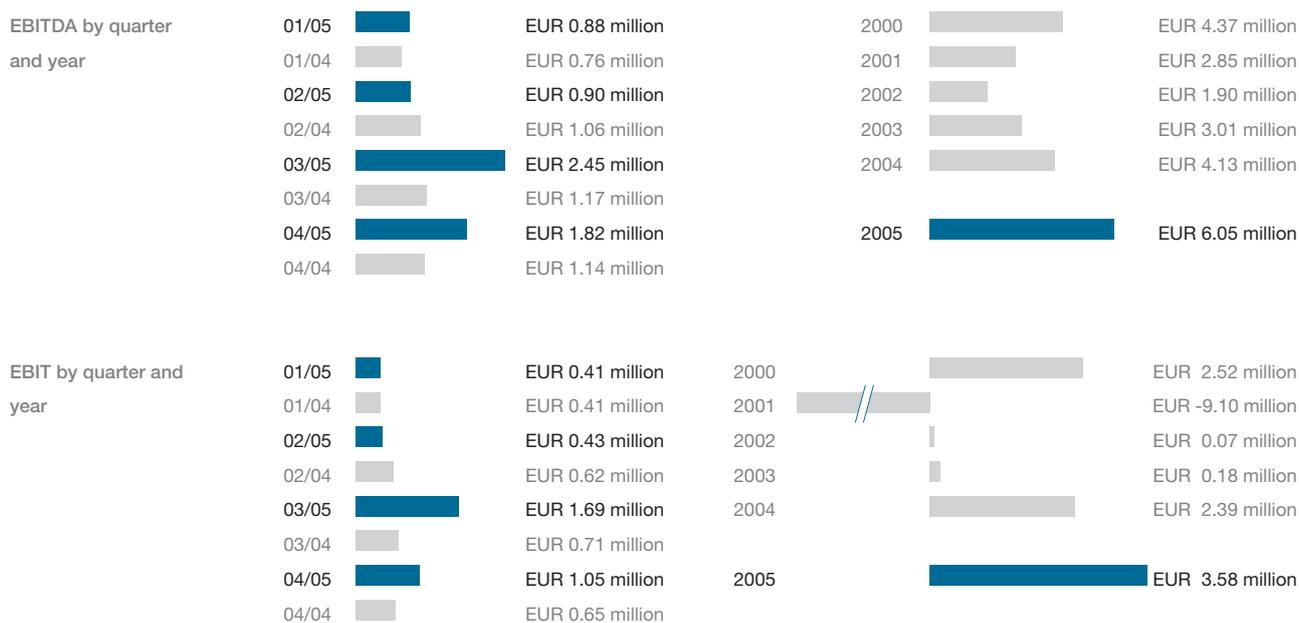
In 2005 the BRAIN FORCE Group achieved net sales of EUR 76.62 million (prior year EUR 64.42 million), exceeding the prior year’s figure by 18.9 percent. Together with the firm’s acquisitions in mid-year (INDIS S.p.A) and on August 1 (VAI B.V.) and organic net sales growth, net sales for the second half-year were significantly up on the first (26.3 percent).

Net sales by quarter and year



EBITDA and EBIT results reflect the success of the “Buy&Build” strategy, aimed at over-proportionate net sales growth and increasing margins. In 2005, we managed to achieved high net sales growth rates whilst improving margins at the same time. The EBITDA margin grew 6.4 percent to 7.9 percent, the EBIT margin from 3.7 percent to 4.7 percent. The outcome: absolute improvements in results close to the 50 percent mark.

EBITDA amounted to EUR 6.05 million (prior year EUR 4.13 million) and EUR 3.58 million EBIT (prior year EUR 2.39 million). EBITDA rose by 46.3 percent, EBIT is 49.8 percent up on the prior year.



Strong second half-year

The strong result overall was mainly realised in the second half of the year. The first half of 2005 was adversely affected by the following factors impacting results in the first half of 2004, which were accounted for in planning:

- ▶ The result from product development was EUR 836 thousand lower in 2005 as in 2004. This was due, on the one hand, to the fact that development costs capitalised were lower than own intangible assets, while amortisation of these intangible assets increased. The negative impact on results therefore relates mainly to the first half of 2004 and 2005.
- ▶ In addition, other operation income from the first half of 2005 was EUR 172 below the prior year's figure, as special effects increasing return (change in size of investment held in BRAIN FORCE Financial Solutions AG and reversal of provisions) were included in other operating income. In the second half of the year, other operating income remained at the prior year's level.

Good licence sales

Furthermore, the BRAIN FORCE Group was able to capitalise on the positive economic climate described above to increase sales excluding the effect of acquisitions by 10.3 percent on the first half year. Licence sales, in particular, yielded excellent results in the second half-year.

The companies acquired in 2005 in Italy and the Netherlands contributed EUR 573 thousand to EBITDA. The EBIT contribution was low at EUR 31, affected by amortisation of the assets identified in purchase price allocation (according to IFRS 3) amounting to EUR 437 thousand. The EBITDA margin of both companies was 10.6 percent above the group average.

EPS exceeds forecast

Earnings after minority interest increased EUR 1.25 million or by 70.6 percent in comparison to 2004 and amounted to EUR 3.03 million (prior year: EUR 1.78 million).

Earnings per share for 2005 amounted to EUR 0.30 (prior year EUR 0.21). EPS thus exceeded the original forecast of EUR 0.19 as well as the forecast of EUR 0.25 made in November.

Adjusted for the non-operating effects of the change in deferred taxes, triggered by the planned “squeeze out” of the subsidiary BRAIN FORCE Financial Solutions AG, and amortisation from the purchase price allocation (in accordance with IFRS 3), resulting from acquisitions in 2005, operating EPS amounts to EUR 0.20.

Earnings per share
by year



Development in primary segments

Structuring by
segments

As described in our 2004 annual report, we restructured our existing business segments at the beginning of the year. The competencies bank solutions, business process outsourcing, ERP and CRM systems are no longer bundled under Professional Services. These competencies now form the new segment Business Solutions (BS) together with the former Financial Solutions segment. In addition, all the operations of INDIS S.p.A., which was acquired in 2005, have been assigned to the BS segment.

The Technology and Infrastructure (TI) segment consists of the competencies organised in the former Communication Networks and the former Professional Services segments, namely Application Hosting, Security Solutions, Infrastructure Management and Storage Solutions. This segment grew as a result of an acquisition in the course of 2005. The results of VAI B.V., and all the activities of the BRAIN FORCE Group related to *BRAIN FORCE Packaging Robot* and *BRAIN FORCE Migration out of the Box* solutions, which also form part of this acquisition, are part of the TI segment.

The enterprise services segment (ES) covers the full range of services offered by the group in the fields of consulting, programming, infrastructure, integration, migration rollout, operation, support and maintenance.

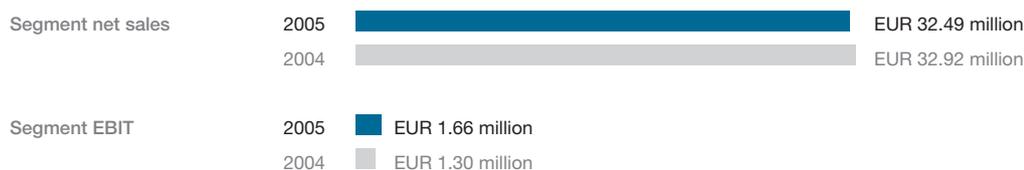
Cross-segment
distribution

Together with the restructuring of the segments according to content-based criteria into the solutions-based BS and TI segments and the ES segment geared towards individual services, we have organised distribution cross-segment. This enables us to better integrate the

activities within the Group that partly stem from organic growth and partly from acquisitions. The 2005 results show that the new structure is optimally geared towards the integration work needed with regard to acquisitions made and still outstanding.

Enterprise Services

The Enterprise Services (ES) segment generated net sales of EUR 32.49 million (prior year EUR 32.92 million). Net sales therefore fell slightly by 1.3 percent year-on-year. The decline was, however, more than offset by an increase in the EBIT margin from 3.9 percent in 2004 to 5.1 percent in 2005. Segment EBIT rose due to the improved margin by 28.2 percent from EUR 1.30 million to EUR 1.66 million in 2005. With a share of 42.2 percent (prior year 51.1 percent), this is the strongest sales segment in the BRAIN FORCE Group.



The German companies contributed EUR 23.35 million to the net sales of the ES segment (prior year EUR 22.28 million). Austria added EUR 9.14 million (prior year EUR 10.64 million) to segment net sales.

Successful business year in Germany

The financial year 2005 was an excellent one for the ES segment in Germany. In addition to the net sales allocated to the segment, the TI segment took over the project management of a user helpdesk project for a major international technology company, which therefore no longer counted towards this segment. A number of new customers were acquired during the business year which will set the foundation for growth potential in forthcoming years. The volume of business with major customers grew significantly in some cases. The successful conclusion of commercial and legal terms & conditions with AGIS Allianz Dresdner Informationssysteme GmbH, enabling BRAIN FORCE to remain a strategic IT partner in 2006, is an example of our excellent customer relations.

Important new customers acquired in Austria

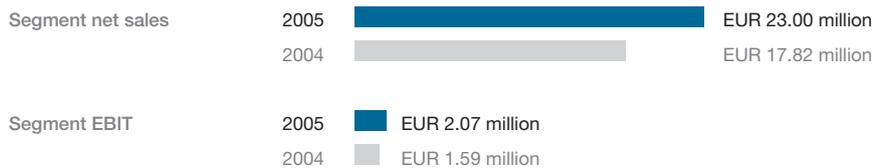
The decline in net sales in Austria is mainly due to the completion of a major project at the end of 2004. New orders were acquired during the year, and two new key accounts were acquired in the banking sector in the second half of the year. We are therefore expecting the trend to pick up in 2006.

Business Solutions

Business solutions net sales up 29%

The Business Solutions (BS) segment realised net sales of EUR 23.00 million (prior year: EUR 17.82 million) in 2005. The rise in net sales of 29.1 percent is only minimally attributable to the acquisition of INDIS S.p.A. Even without taking the net sales of this company into consideration, net sales growth amounts to 17.5 percent. The contribution of net sales of the BS segment to group net sales is 30 percent (prior year: 27.7 percent).

With an almost unchanged EBIT margin of 9 percent (prior year: 8.9 percent), segment EBIT rose EUR 1.59 million in 2004 to EUR 2.07 million in 2005.



The German companies contributed EUR 10.49 million to the BS segment (prior year: EUR 7.81 million). The Italian companies contributed EUR 10.23 million in net sales in 2005 (prior year: EUR 7.94 million). Austria is the third strongest country in the BS segment with net sales amounting to EUR 1.89 million (prior year: EUR 1.38 million). All other companies together generated a further EUR 397 thousand in net sales (prior year: EUR 696 thousand).

Major success factors

The success of the BS segment can be linked to several main success factors:

- ▶ The integration of major projects in the financial services sector from the former professional services segment into the BS segment, and the involvement of project specialists from the former Financial Solutions segment in these projects.
- ▶ The completion of *BRAIN FORCE Vorsorgeoptimierung*. New customers for BRAIN FORCE FINAS Suite were acquired with this product for the first time in several years. Moreover, this product can now be marketed to the financial advisors customer segment for the first time.
- ▶ The establishment of the new BRAIN FORCE branch in Hamburg once the contract with BHW Lebensversicherung AG was secured. The regional structuring of BRAIN FORCE in Germany has thus been supplemented by this important economic region.
- ▶ Further strengthening of our market position in the Enterprise Business Solutions field by the takeover of INDIS S.p.A. The specialist for ERP solutions completes our solutions portfolio. In addition to other products, customers and qualified employees we gained a new branch in Padua, a major industrial centre in Italy. In the first six months after the takeover we acquired several new contracts that both companies would probably not have won on their own.
- ▶ In Austria, the foundations were laid in the first quarter for an important order in the Business Process Outsourcing segment. The contract value is EUR 3.52 million with a 5-year term.

Significant improvement on prior year

Technology and Infrastructure

The Technology and Infrastructure (TI) segment accounted for 27.6 percent of group net sales in 2005 (prior year 21.2 percent). The TI segment generated net sales of EUR 21.12 million (prior year EUR 13.68 million) with segment EBIT of EUR 1.87 million (prior year EUR 965 thousand). The EBIT margin improved significantly in comparison to the prior year (7.1 percent) and amounts to 8.9 percent for the whole of 2005.

The Italian company generated net sales to a value of EUR 11.58 million (prior year EUR 8.87 million) in this segment. The German companies made up EUR 4.38 million (prior year EUR 3.46 million) of segment net sales, the Netherlands EUR 3.34 million for the first time, Austria EUR 983 thousand (prior year EUR 39 thousand) and other companies EUR 838 thousand (prior year EUR 1.31 million).



The TI segment developed better than all other segments in 2005. Growth in net sales was 54.4 percent. Adjusted for net sales from VAI B.V. acquired during the year, the increase is still a substantial 30 percent. Segment EBIT improved in comparison to the prior year even by 93.9 percent.

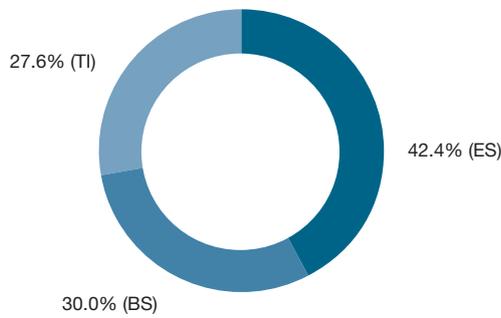
Several major factors are worthy of mention in this segment:

- ▶ Strong organic growth together with a clear improvement in EBIT generated by the Italian company. In addition, the location in Rome which survived a very difficult consolidation phase in 2004, finally stabilised in 2005 and is now back in the black.
- ▶ The good results from 2004 were reaffirmed in Germany and Switzerland with the products *beusenKNV*, *beusenBAS* and *INKAS-SQL*. The main success factors in 2005 were the successful handover of the BRAIN FORCE's largest project to date in this field to Swiss Federal Railways and the contract to implement *INKAS-SQL* in Munich, Germany.
- ▶ Version 1 of the new network documentation system *BRAIN FORCE Net Organizer* was realised for distribution at the end of 2005. Holborn refinery has already become the first customer to pilot the system.
- ▶ The sales of rights to *B-100 Load Balancer* to KEMP Technologies Inc. for approx. EUR 750 thousand. The BRAIN FORCE Group will continue to participate in the successful marketing of this product in future.
- ▶ The acquisition and integration of VAI B.V. into the TI segment.
- ▶ The establishment of a further BRAIN FORCE sales and service organisation centred around VAI B.V. *BRAIN FORCE Packaging Robot* and *BRAIN FORCE Migration out of the Box*. We expect a considerable impact on growth in the year 2006.

The following graphs illustrate the increasing significance of the BS and TI segments for the BRAIN FORCE Group. The ES segment is still the strongest in terms of net sales. Almost all three segments are more or less equal in EBIT terms.

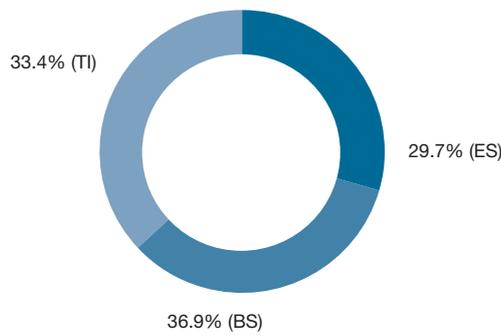
The group costs not included in the results of the three segments rose 38 percent to EUR 2.02 million (prior year EUR 1.46 million). The increase expenses for group controlling can be explained by the increased funds required for acquisitions made and outstanding. However, the increase in costs was significantly below the group's increase in results overall.

Net sales by segment



- Enterprise Services
- Business Solutions
- Technology and Infrastructure

Breakdown of net sales by segment



- Enterprise Services
- Business Solutions
- Technology and Infrastructure

High growth rates in almost all territories

Development of geographical segments

In Germany the BRAIN FORCE Group realised net sales amounting to EUR 38.21 million (prior year EUR 33.54 million), a rise of 13.9 percent.

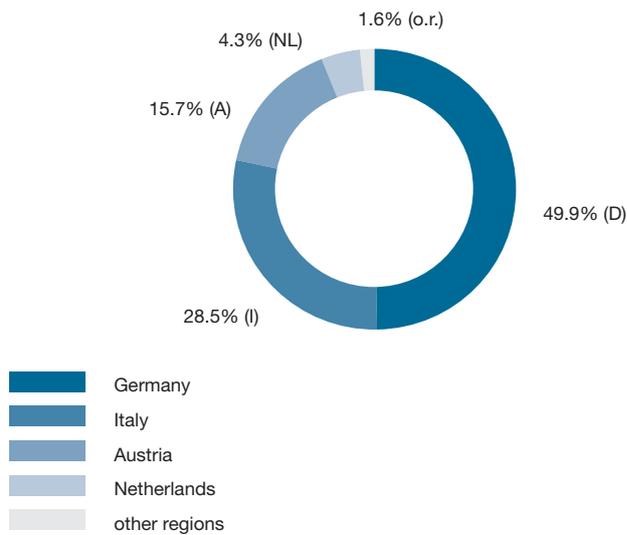
The Italian companies generated a rise of 29.8 percent in net sales to EUR 21.81 million (prior year EUR 16.81 million).

Net sales in Austria remained at last year’s level at EUR 12.02 million (prior year EUR 12.06 million).

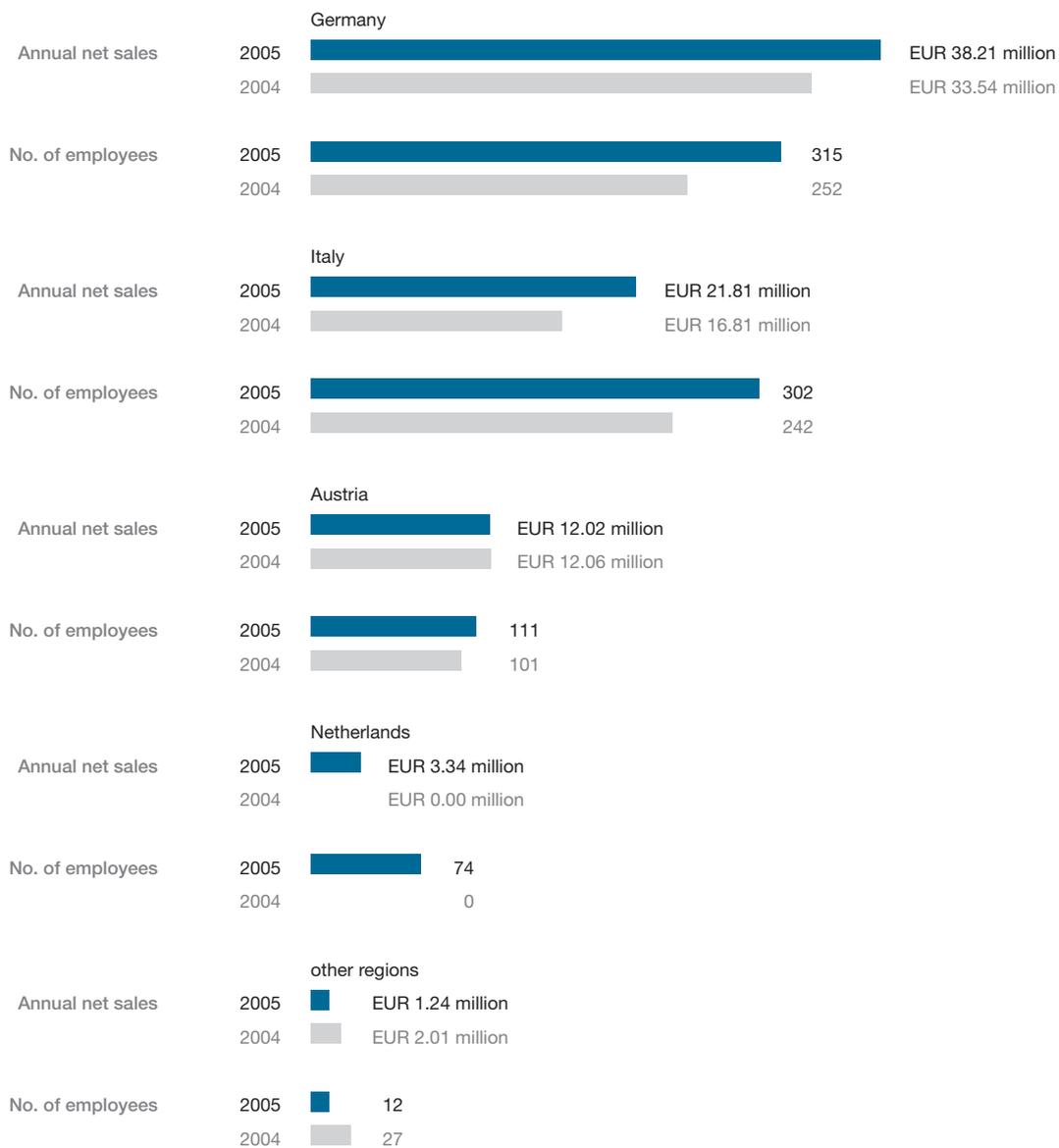
An operating result was generated for the first time in the Netherlands since the acquisition of the company in 2005. EUR 3.34 million in net sales was recorded due to the inclusion of VAI B.V. in the consolidated group as of August 1.

Net sales of EUR 1.23 million (prior year EUR 2.01 million) were generated in other regions.

Net sales by country



Net sales and employees



Orders increase by
82.1 percent

Orders

At December 31, 2005, the BRAIN FORCE Group had orders worth EUR 21.33 million (prior year EUR 11.71 million). This is an increase of 82.1 percent on the prior year. Adjusted for orders placed with VAI B.V. and INDIS S.p.A., the increase is 63.1 percent.

This volume of signed orders is our most conservative estimate.

The Enterprise Services segment accounts for EUR 7.32 million.

The Business Solutions segment accounts for EUR 10.62 million.

The Technology and Infrastructure segment accounts for EUR 3.39 million.

The increase in orders is evidence of the confidence customers have in the BRAIN FORCE Group and is an indicator of growth expectation in 2006.

Focus on *BRAIN*
FORCE FINAS Suite

Research and product development

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

The main focus with the BS segment was the development of *BRAIN FORCE FINAS Suite*, a sales-supporting solution for financial services providers focusing on pension provision, investment accumulation, risk analysis and health provision. In detail, developments in 2005 focused on:

- ▶ Completion of *BRAIN FORCE Vorsorgeoptimierung* in the Java Swing Version
- ▶ The *BRAIN FORCE CRM* module was extended to include an interface to a commission system, improving the attractiveness of the product for the insurance and financial advisor markets
- ▶ Further components of FINAS Suite, namely *BRAIN FORCE Risikoabsicherung* and BRAIN FORCE Finanzanalyse Center, were developed and made available for distribution.
- ▶ BRAIN FORCE Baufinanzierung was extended to include its first modules ÖMI (subsidiaries) in Austria.

VSpace supplements
solutions range

VSpace, an ERP system for small and medium-sized companies, was integrated into the BRAIN FORCE Groups solutions portfolio when INDIS S.p.A was taken over. For several years now, *VSpace* has been implemented at over 200 customers.

The TI segment completed development of the Net Organizer in 2005 (the project name CaMs was used in previous reports). The *BRAIN FORCE Net Organizer* supports companies in managing, documenting and planning their IT and Telecom networks. The product was presented to the public for the first time in November. It was extremely well received, a pilot customer has already been acquired, sales are to kick off in January 2006.

INKAS-SQL and
beusenBAS improved

In addition, the *INKAS-SQL* and *beusenBAS* solutions were adjusted to the latest technical standards, such as new database versions. The function scope of these solutions was retained.

INKAS-SQL is an integrated control and billing system for commercial telecom systems (PBX) in heterogeneous networks. These networks can be managed from one single platform with *INKAS-SQL*.

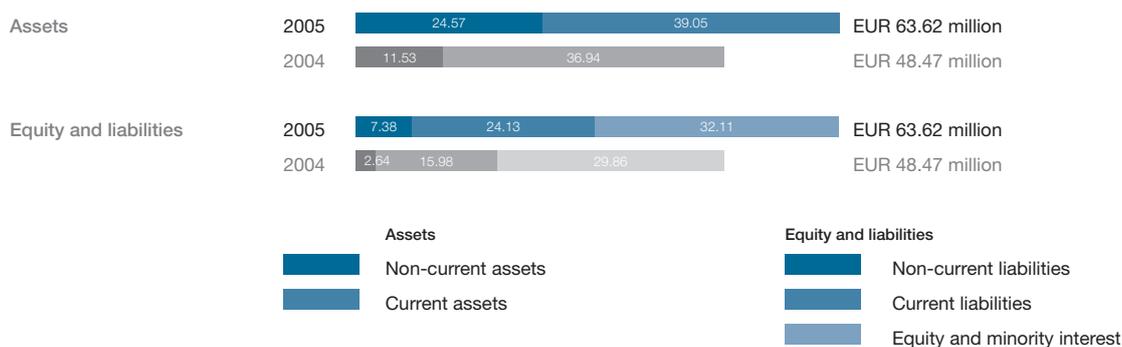
beusenBAS is a modern, high-performance system solution to record and process IT/Telecom costs.

BRAIN FORCE
Packaging Robot

The *BRAIN FORCE Packaging Robot* enables the preparation of fully automated installation of software systems in a whole company. All software programmes are standardised based on the Microsoft MSI format, and installation routines are reset. The product has been developed by VAI B.V., and developments continued after the takeover of the *BRAIN FORCE* Group on August 1, 2005.

Net worth and financial position

Balance sheet structure



Higher balance sheet
total

The balance sheet total rose year-on-year 31.2 percent to EUR 63.62 million (prior year EUR 48.47 million), mainly due to acquisitions.

Non-current assets account for 38.6 percent (prior year EUR 23.8 percent) of total assets. The share of property, plant and equipment is low at EUR 1.54 million (prior year EUR 970 thousand), which is typical for the sector. Capital expenditure amounting to EUR 1.21 million was offset against scheduled depreciation amounting to EUR 576 thousand.

Goodwill rose EUR 5.36 million to EUR 10.07 million (prior year EUR 4.71 million). The increase is due to the two acquisitions made in the past business year. IFRS 3 does not allow scheduled depreciation. The impairment test stipulated in the standard did not result in an impairment requirement for the goodwill.

Rise in development
expenditure

Other intangible assets contain software and rights, development costs and intangible assets identified as part of company acquisitions. Development costs account for 10.5 percent (prior year 8 percent) of total assets. Capital expenditure including the intangible assets acquired with the acquisitions amounted to EUR 5.94 million in 2005 (prior year EUR 1.83 million, offset by scheduled depreciation amounting to EUR 1.89 million (prior year EUR 1.17 million).

Other non-current assets – financial assets, other receivables and deferred tax assets – have risen from EUR 3.07 million to EUR 4.76 million (prior year EUR 1.69 million) in compa-

risson to the prior year. EUR 270 thousand can be attributed to the increase in other financial assets due to the acquisition of a 10 percent investment in KEMP Technologies Inc., New York, USA.

Other non-current receivables and assets rose EUR 1.43 million; EUR 583 thousand relate to an interest-bearing receivable from the acquisition of a long-term contract. EUR 760 thousand relate to a subscribed convertible bond issued by KEMP Technologies Inc.

Tax savings expected
from merger

Deferred tax assets rose EUR 1.50 million to EUR 2.30 million (prior year EUR 800 thousand). The main share of the rise results from additional deferred tax assets from tax loss carryforwards of BRAIN FORCE Financial Solutions AG, Munich. The additional recognition is due to the expected merger with BRAIN FORCE Software GmbH, Unterschleißheim and can be explained by the resulting future tax saving. We cannot exclude the risk that a change in tax legislation in Germany together with a delayed merger could restrict or prohibit the use of this tax advantage.

Current assets account for 61.4 percent of total assets and rose EUR 2.10 million to EUR 39.05 million (prior year EUR 36.95 million). The item trade receivables rose 42.1 percent to EUR 24.81 million (prior year EUR 17.46 million). The increase at the balance sheet date is partly due to the rise in net sales, but also to the impact of customers' exerting pressure to extend credit periods, a trend that can be seen in several countries.

Cash and cash equivalents fell year-on-year by 19 percent to EUR 11.79 million (prior year EUR 14.55 million); investments in non-current financial assets shown in the prior year's balance sheet with a value of EUR 3.94 million were sold in 2005.

Increase in group
equity

Group equity including minority interest rose to EUR 32.11 million (prior year EUR 29.86 million). The increase results from the result for the period amounting to EUR 3.13 million and to the sale of treasury stock amounting to EUR 380 thousand. A dividend amounting to EUR 606 thousand was distributed to the shareholders of BRAIN FORCE HOLDING AG.

Minority interest had fallen to EUR 426 thousand at December 31, 2005 (prior year EUR 960 thousand). The equity ratio including minority interest amounts to 50.5 percent at the balance sheet date (prior year 61.6 percent).

Non-current liabilities

Non-current liabilities amount to EUR 7.38 million at December 31, 2005 (prior year EUR 2.64 million), a rise of EUR 4.74 million. Financial liabilities amounting to EUR 750 thousand show the non-current share in financing from an acquired contract to carry out further development and maintenance. Provisions for non-current post-employment benefits (statutory severance payments and pension commitments) rose by EUR 1.62 million to EUR 3.78 million (prior year EUR 2.16 million). The rise is due to acquisitions made in the financial year amounting to EUR 1.25 million. Other provisions include expected purchase price obligations from an acquisition made. EUR 583 thousand of the deferred tax liabilities amounting to EUR 1.36 million (prior year EUR 456 thousand) relate to company acquisitions.

Current liabilities were up EUR 8.15 million to EUR 24.13 million (prior year EUR 15.98 million). This increase includes financial liabilities up EUR 2.94 million, trade payables up EUR 2.07 million, other liabilities up EUR 2.32 million and tax provisions which increased by EUR 726 thousand.

Working capital (current assets minus current liabilities) amounts to EUR 14.92 million (prior year EUR 20.97 million) at the balance sheet date.

Cash flow and investments

Cash flow from
operating activities
EUR 1.67 million

EUR 1.67 million in cash flow from operating activities was generated in the past financial year (prior year EUR 929 thousand). From a result before income tax amounting to EUR 3.68 million (prior year EUR 3.36 million), cash flow from operating activities was up 79.5 percent despite the negative impact of the rise in receivables from EUR 5.45 million (adjusted for the effects of acquisitions during the year). The rise in receivables at the balance sheet date is due on the one hand to the rise in net sales, and on the other to the adverse effect of longer credit periods agreed with customers. Payables rose EUR 1.56 million, provisions for non-current post-employment benefits and other provisions rose by EUR 409 thousand.

Cash outflow from investment activities amounts to EUR 5.83 million (prior year EUR 5.35 million). Payments amounting to EUR 5.75 million (prior year EUR 100 thousand) relate to the acquisition of subsidiaries. This figure contains the acquisitions of INDIS S.p.A., Italy, and VAI B.V., Netherlands as well as the acquisition of additional shares in BRAIN FORCE Financial Solutions AG, Germany. Capital expenditure on property, plant and equipment and other intangible assets amounts to EUR 2.43 million (prior year EUR 2.10 million). EUR 1.73 million (prior year EUR 7.05 million) was used for the acquisition of other financial assets. EUR 270 thousand of this figure relates to the acquisition of a 10 percent interest in KEMP Technologies Inc., USA, EUR 760 thousand to a convertible bond issued by KEMP Technologies Inc. Furthermore, cash outflows include funds paid as security to a credit institutions amounting to EUR 680 thousand. This security relates to a bank guarantee provided by the credit institution for the attempted squeeze-out of minority shareholders of BRAIN FORCE Financial Solutions AG. Cash flows from the sale of other financial assets amounted to EUR 4.02 million (prior year EUR 3.75 million).

Cash flow from financing activities amounts to EUR 719 thousand (prior year EUR 14.62 million). EUR 552 thousand was earmarked for buying back shares (prior year EUR 410 thousand); the dividends paid to shareholders of BRAIN FORCE HOLDING AG amount to EUR 606 thousand. Cash flow from new borrowings amounts to EUR 1.88 million.

In the prior year, EUR 15.49 million in cash flow was generated through a share issue. The funds and current financial assets available to the BRAIN FORCE Group at December 31, 2005, amount to EUR 11.79 million (prior year EUR 18.49 million). EUR 680 thousand of this amount relate to bank deposits that are not available on demand (prior year EUR 0).

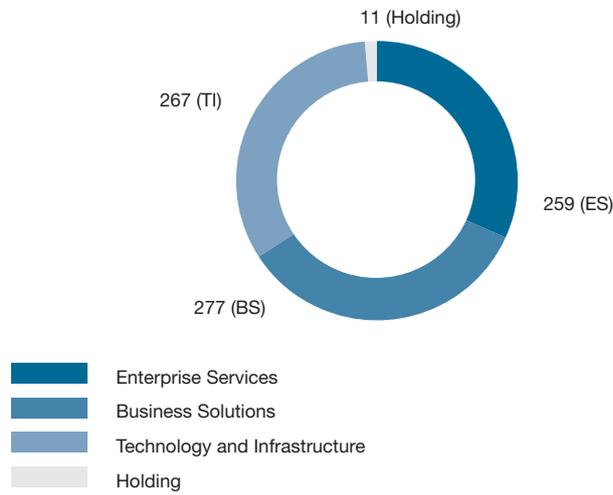
Human Resources

Increase in
headcount

At December 31, 2005, the BRAIN FORCE Group employed 814 people (prior year 622). In addition a further 290 freelancers were engaged in projects of the BRAIN FORCE Group at year-end.

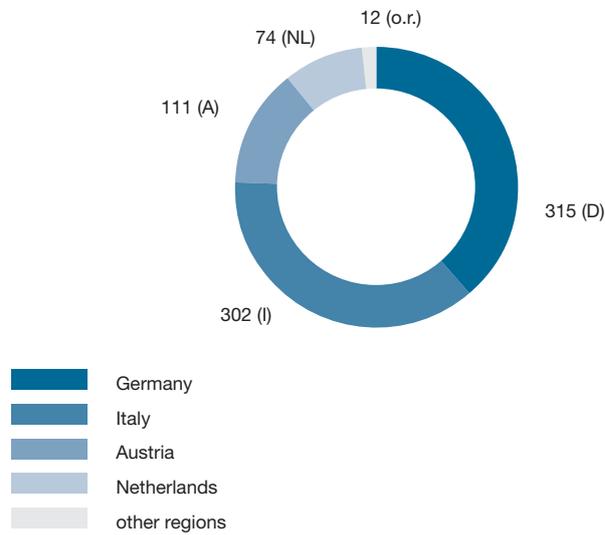
259 people were employed in the Enterprise Services segment at December 31, 2005, 277 in the Business Solutions segment and 267 in the Technology and Infrastructure segment. 11 employees are employed in group roles.

Employees by segment



Broken down by country, headcount has risen by 10 percent in Austria to 111 employees, by 25 percent in Germany to 315 employees. In Italy the number of employees rose by 60 employees – 48 due to the acquisition of INDIS S.p.A. – to 302 employees.

Headcount by country



Due to the acquisition of VAI B.V., Netherlands, headcount rose by 74. In total, 12 employees work for the BRAIN FORCE Group in other regions (Switzerland, Czech Republic and Slovakia).

Risiks and
consequences

Risk Management

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

- ▶ Liquidity risk is monitored by ongoing, detailed financial planning at management board level.
- ▶ As the group is mainly based in the euro zone, currency risk is of minor importance.
- ▶ Interest risk is of minor significance due to the fact that financing agreements are largely current. One interest swap has been undertaken to hedge the interest risk on medium-term financing. The BRAIN FORCE Group is mainly financed by its own funds.

Major, non-financial risks are:

- ▶ Market and competitive risk: the BRAIN FORCE Group operates on a market characterised by intense competition. In addition, the software and IT services market is subject to seasonal fluctuations. The group manages this risk through geographical and product diversification.
- ▶ The range of products offered by the BRAIN FORCE Group is varied and is subject to continuous and rapid technological change. It is also characterised by continuing changes in customer demands with short cycles. The group guards against this risk by continuing to develop and adapt its products to market requirements.
- ▶ The BRAIN FORCE Group's customer base is diverse. Therefore the group is not dependent on any one customer at present. However, the German market accounts the largest share in group net sales at 50 percent. The risk resulting from dependence on the German market will be reduced by expanding business in other regions.
- ▶ Risks relating to acquisitions: numerous company acquisitions were made in the past. The group intends to continue with this Buy&Build strategy in the future. External consultants regularly carry out the due diligence phases. The resulting risks are offset by active integration management and by intensive controlling of the new group companies.

- ▶ Unpredictability of future business developments: the growth of the BRAIN FORCE Group is dependent on factors such as customer potential and success in new markets. To exclude or minimise the risk of not meeting targets based on these factors, the group carries out regular market intelligence and analyses markets and potential acquisition targets.
- ▶ Risks relating to software security and system disruptions: the BRAIN FORCE Group either works together with its customers on installing and integrating individual software or sells standard software solutions, which it has usually developed in-house. In order to detect errors that could result in liability at an early stage, customers carry out an acceptance test on project completion and either confirm that the programmes are working properly or identify errors and necessary corrections. Programme errors are rectified within the warranty period. Regular project controlling ensures that liability risks from projects are kept to a minimum. Risk and change management is undertaken in line with the size and risk potential of the projects.
- ▶ Major operational risks stemming from the group's local operations are monitored by the parent company BRAIN FORCE HOLDING AG and are appropriately hedged. The local companies also have disclosure requirements to fulfil. Overall responsibility for monitoring risk management lies with the Board of Management at group level. A Support and Control Centre (SCC) was set up at the beginning of 2005 between group management and local companies. One of the main duties of this team, which is part of BRAIN FORCE HOLDING AG, is to report regularly to the Board of Management. The instruments used to monitor and control risk are planning and controlling processes and group guidelines. These are used for regular reviews and audits of local companies with subsequent reporting to the Board of Management.
- ▶ Insurance is taken out for specific liability risks and damages.

Favourable
conditions in 2006

Outlook

The Board of Management considers the economic climate for 2006 favourable and thus shares the forecast of the EITO mentioned at the beginning of this management report. The BRAIN FORCE Group is well positioned in its main focus areas to grow more quickly than the market overall in 2006.

This organic growth will be accelerated further by company takeovers in 2006. A capital increase was announced in January 2006 to finance the planned M&A transactions.

The 100-percent integration of BRAIN FORCE Financial Solutions AG into the Group will improve the group's structure in tax terms (see also note 61).

Events after the balance sheet date

INDIS S.p.A., Milan, Italy, merged with BRAIN FORCE SOFTWARE S.p.A., Milan, Italy in the register of firms on January 12, 2006 with retroactive effect as of January 1, 2006. Subsequently, BRAIN FORCE SOFTWARE S.p.A., Milan, Italy was renamed BRAIN FORCE S.p.A. as of February 6, 2006.

On January 17, 2006, the Supervisory Board approved a resolution drawn up by the Board of Management to undertake a capital increase from subscribed capital amounting to EUR 3,419,276. The issue price for the new shares was set at EUR 3.10. Rights have not been excluded.

On the basis of this resolution, the company concluded guarantee and placing agreements for the new shares with two investors for rights not taken up by shareholders. One of these investors is the march.sixteen FINANCE SERVICES LLP, London, UK. Christian Wolff, member of the Supervisory Board, is Managing Director and Shareholder.

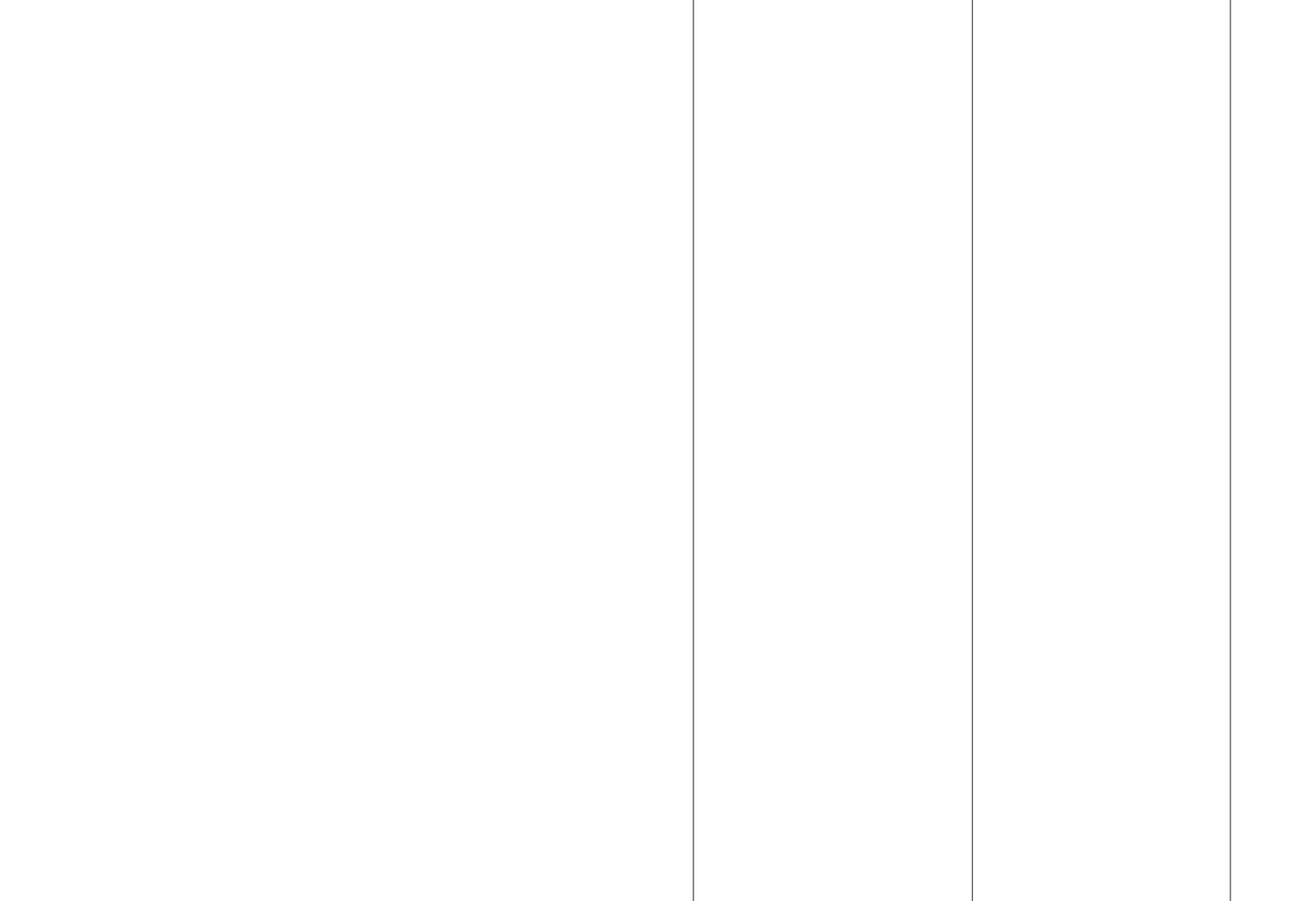
An extraordinary general meeting of BRAIN FORCE Financial Solutions AG, Munich, Germany, took place of February 23, 2006. The only item on the agenda – the resolution on the transfer of minority interest shares in BRAIN FORCE Financial Solutions AG to BRAIN FORCE HOLDING AG, Vienna, in exchange for appropriate cash compensation, was approved by shareholders. The minority shareholders present registered their objection at the extraordinary meeting.

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

IT: for some, information technology is an abstract term. For others, life without technology is unimaginable. And despite the quality of life that technology brings, life still contains many unsolved puzzles.

[Future potential]

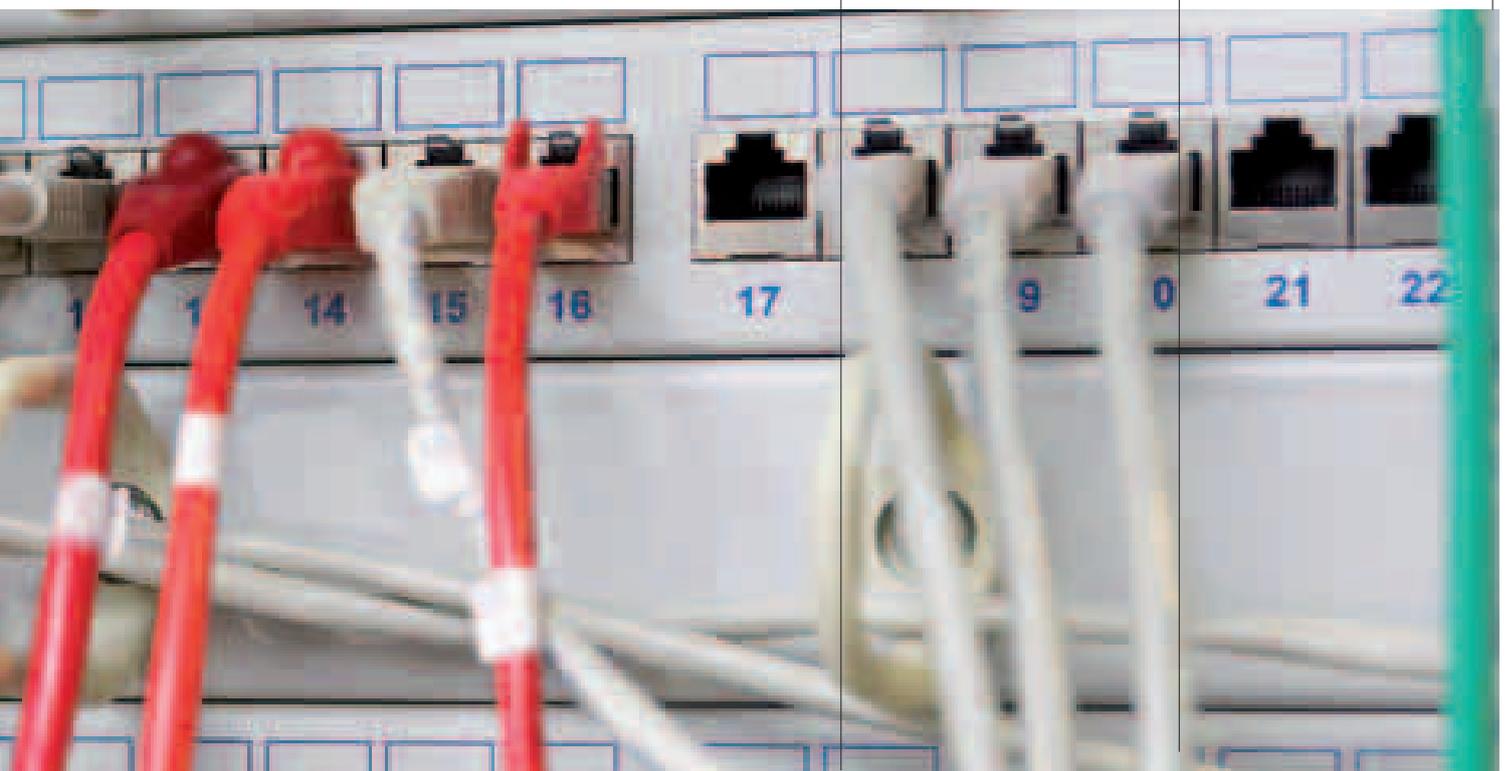




Enterprise Services

Technology and Infrastructure

Business Solutions



[Enterprise Services]



IT-services: the demand for IT services remains high. Companies modernise and try to gain competitive advantages with the help of innovations.



Martin Kastner: his name also stands for tailored solutions in our Austrian team.



Consulting
Development



Integration
Migration
Rollout



Operation
Support
Maintenance



Real-life example: with unconventional methods, Dr. Helmut Töpfer shows that a mathematical structure is behind every project idea.

[Enterprise Services]

[**Solutions** & **Services**]



Enterprise Services: we provide our customers with exactly the services they need. State-of-the-art technologies and best-practice methods such as ITIL form the foundation.



Robert Metz: everything in view from the IZD Tower – just like when working with customers.



Best-Practice-methods
Extremely flexible



Tailored services
Maximum focus on customer



Increase business value
Improved value chain

[Technology and Infrastructure]



Infrastructure: infrastructure is a sign of intelligence. Infrastructure can be planned using intelligence. And this can be networked globally with the aid of technology.



Migration out of the Box



Packaging Robot



Net Organizer



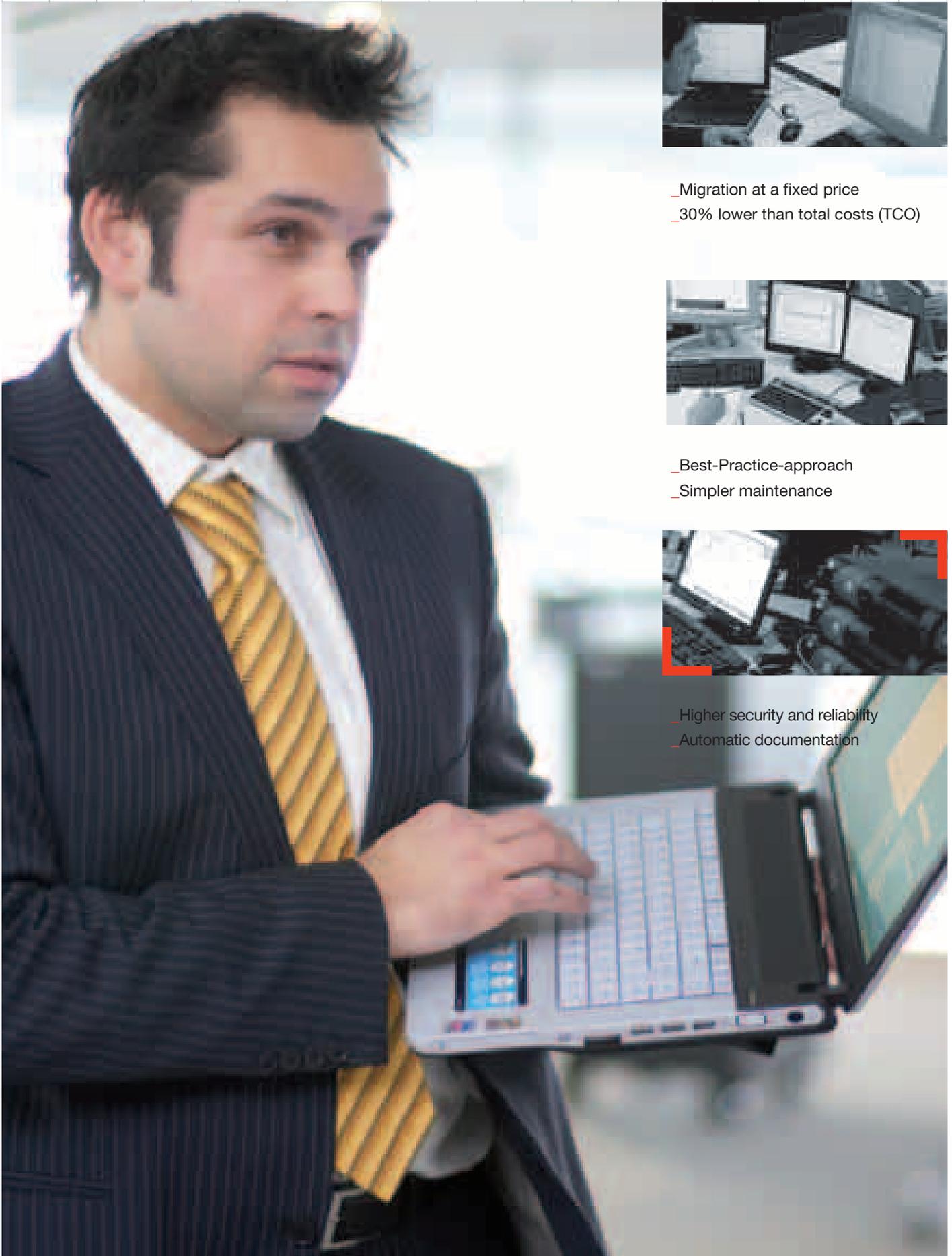
Direct network administration from the IZD Tower by our employees Mark Mayerhofer (left) and Joachim Knapp.

[Technology and Infrastructure]

[Migration out of the Box]



BRAIN FORCE Migration out of the Box is a best-practice method coupled with innovative software products, based on the experience of several hundred projects. This is the basis for an optimal firm-wide shift to a new Microsoft operating system such as Windows XP or Vista.



- _ Migration at a fixed price
- _ 30% lower than total costs (TCO)



- _ Best-Practice-approach
- _ Simpler maintenance



- _ Higher security and reliability
- _ Automatic documentation

[Technology and Infrastructure]

[**Packaging Robot**]



BRAIN FORCE Packaging Robot accelerates the process of software packaging six-fold. Our tried and tested best-practice methodology forms the basis for this. This is used in the leading MSI format Microsoft environment. The results are better efficiency and greater quality in the packaging process.



Developing the Packaging Robot: Jan Wagemakers (left) and Dennis Hoefakker programme and test the new version of the Packaging Robot SR1.



Full automation
 Increased efficiency
 Improved packaging process

Easy to use
 First Time Right 90%

Six-fold acceleration
 Leading MSI standard



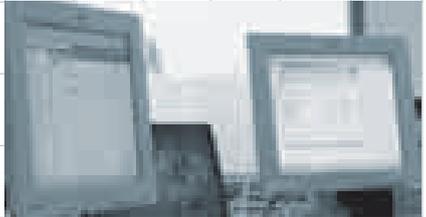
Packaging in the Packaging Factory: Dennis Drost (left) and Harry Elferink have got everything under control: every MSI package is a world of its own.

[Technology and Infrastructure]

[Net Organizer]



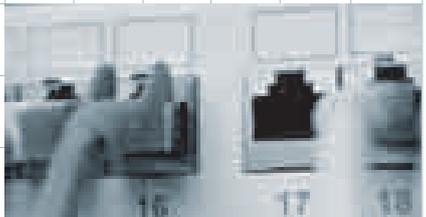
With **BRAIN FORCE Net Organizer** you can see network resource utilisation at any time. Information is immediately available and comprehensible to all those with access – an important condition for observing agreed Service Level Agreements (SLA). Service quality increases at any rate, because all relevant information is available at any time so that inquiries can be processed effectively.



Quick reaction in case of disruption
Improved planning



More efficient
More user-friendly
Better data migration

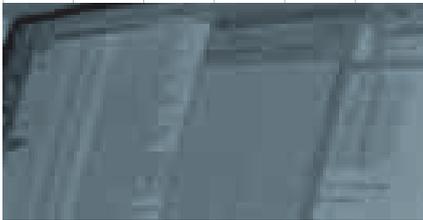


Simple customising
For Microsoft Windows or Linux

[Business Solutions]



Business: our business solutions support business processes from an IT perspective and so generate crucial competitive advantage for our customers.



Visual Space



Vorsorgeoptimierung



Financial Services



At the helm of Poseidon: Stewen Drösemeyer runs the Business Solutions branch in Hamburg.

[Business Solutions]

[**Visual** Space]



Visual Space is efficient, reliable and economical business software. The solution was developed specially for smaller companies in all sectors – it grows with the company and thus secures the long-term competitiveness of our customers.



Extended project portfolio: the *Visual Space* solution is a strategically important step towards becoming a European-wide competitive solutions provider.



Optimal processes



Simple to use
Modular extensions possible



Quick to introduce
Lower training requirements



Extended project portfolio: the ideal solution for medium-sized companies.

[Business Solutions]

[**Vorsorge**optimierung]



With **BRAIN FORCE Vorsorgeoptimierung** you can illustrate to customers the problem of the pension provision gap and find an ideal, individual pension provision solution. Complex connections are presented in a way which is easy to understand. It is based on current regulations such as the Pension Income Act (AltEinkG) and the EU Directive relating to financial advisers.



Documented interview with customer



High customer satisfaction
High quality of service



Cross-Selling
Quick processes



[Business Solutions]

[Harbour of knowledge in Hamburg]

The subsidiary BRAIN FORCE Hamburg GmbH founded in 2005 is responsible for the inventory system at BHW Lebensversicherung AG in Hameln. This illustrates BRAIN FORCE's expertise in business-critical systems in the financial services sector. We exactly fit financial advisers' requirements for a partner whom they can entrust with the applications on which their business depends.



Our employees are our potential for the future – the Hamburg team.



Expertise
One face to the customer

Experience
Innovative solutions

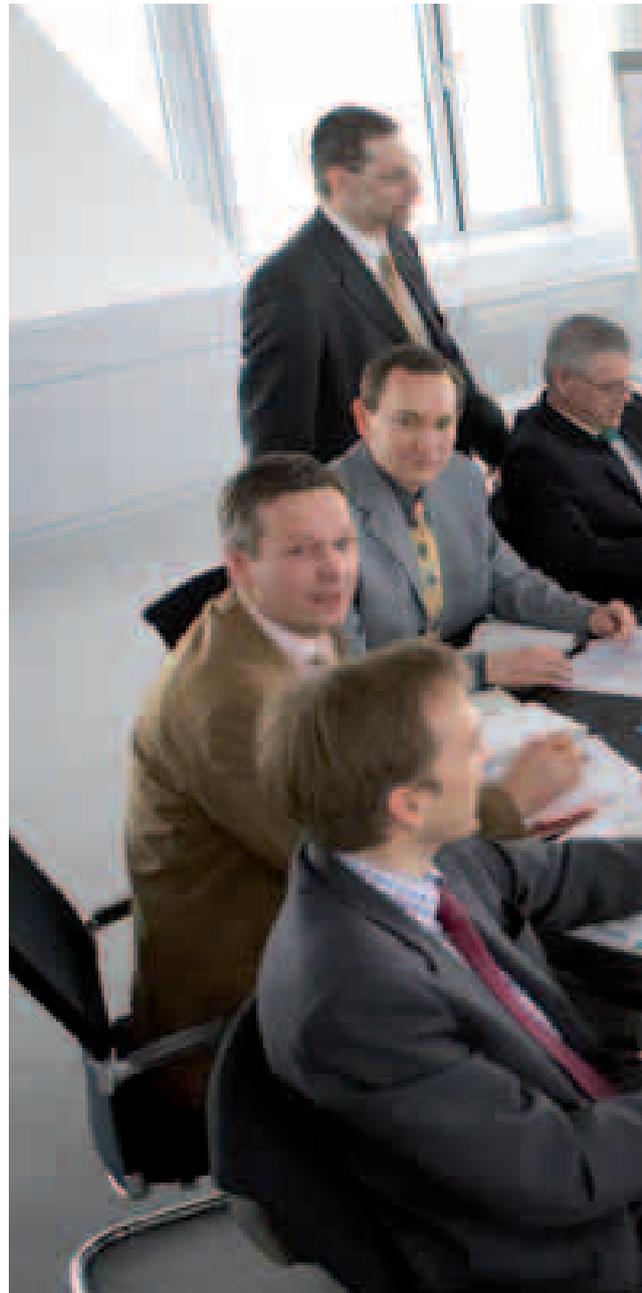
Close customer contact
Project teams on site



Petra Meier and Stewen Drösemeyer: individual business solutions at the highest level.

[Groupcontrolling]

Holding: in spring 2005, we decided to restructure the group. This was implemented without delay and improved our power to carry out further acquisitions enormously. The preparation of this and other strategic measures is now in the hands of BRAIN FORCE HOLDING AG.





Planning



Controlling

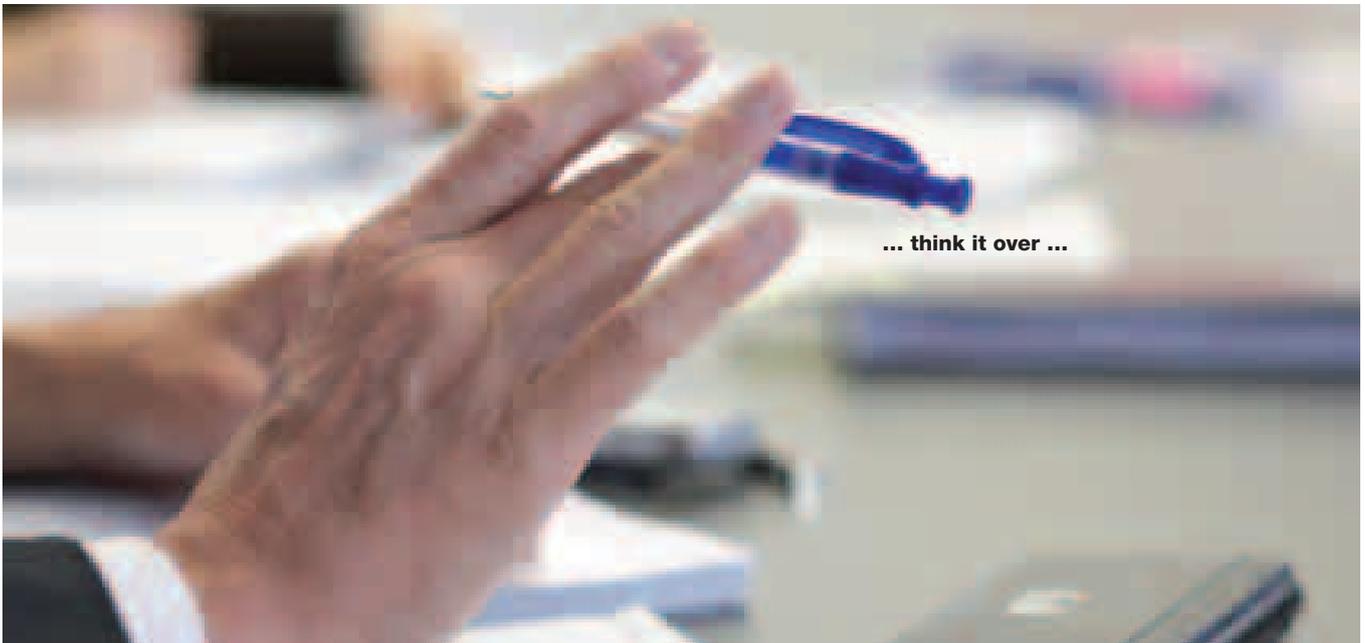


Control
Consulting



The success story of 2005 continues. We are keeping a lookout for markets that offer us new opportunities for further growth. We will enter these markets by means of further acquisitions and partnerships.

[**Strategic** direction]





... develop a strategy ...



... take decisions ...

The transactions that marked 2005 will have a sustainable effect on the BRAIN FORCE Group. They extend the group's portfolio and have already deepened existing points of focus.



[Strategic Direction]

Broadening horizons

New group structure

The year 2005 was characterised by a number of key milestones.

In spring, the decision to restructure the group was taken and the restructuring was implemented without delay. The objective is to achieve a consistent division between administrative holding tasks, on the one hand, and operations on the other. The individual countries are responsible for the latter, for example BRAIN FORCE SOFTWARE GmbH in Vienna. This greatly increased the group's power with regard to strategic development and further acquisitions. The preparation of such measures is now solely in the hands of BRAIN FORCE HOLDING AG.

Support and
Control Center

The Support and Control Centre (SCC) has the necessary expertise to carry out due diligence work, for example. Further tasks are the valuation of companies as acquisition targets and the planning and implementation of an integration process.

In addition, the SCC is in charge of finance, distribution and project controlling at group level. SCC staff also take over important consultancy services relating to legal and strategic matters as partners for operative management.

Since the SCC has taken over responsibility for these activities, operative management can focus on their core tasks. Conflicts between operative and strategic objectives will no longer arise.

The new organisation passed its first test in summer 2005 – the takeover of two companies at the same time plus an investment in another in three countries all over the world illustrates the efficiency of the new structure. This experience will benefit us in future M&A projects.

International acquisitions

Wider portfolio

The transactions towards the middle of the year 2005 will have a sustainable impact on the continuing BRAIN FORCE Group share price. This extension of the group's portfolio makes commercial sense and enables us to specialise further in existing areas of focus.

This holds particularly true for what is probably the most important acquisition of the year 2005 – the Dutch IT service provider and software producer VAI. Apart from the Netherlands, Italy was also in the middle of the action. Our focus here was the INDIS system house.

In addition, we acquired an initial 10 percent share in the US distribution partner KEMP. This is set to increase to 30 percent in 2006. By contrast, KEMP acquired the rights to the Load-Balancing product *B-100* from BRAIN FORCE.

Italy: extending our market leading position

Ideal extension

INDIS ideally complements the BRAIN FORCE range in Italy. Up to now the focus has been on the Microsoft Dynamics NAV environment (formerly: Microsoft Business Solutions-Navision). To this we added Microsoft Dynamics CRM. The target group is medium-sized enterprises.

Standard software for
small and medium-
sized enterprises

The newly acquired INDIS supplies its own ERP software with *Visual Space (VSpace)*. This is suitable for small businesses as well as larger ones. These customers can migrate to Microsoft Dynamics NAV at a later point as their business grows. In addition, INDIS has in-depth

know-how on launching Microsoft Dynamics AX (formerly: Microsoft Business Solutions-Axapta). In this field INDIS even had a partnership with the Redmonder Group, which has now been transferred to BRAIN FORCE S.p.A. – our Italian subsidiary.

So, all SME's in Italy are targets for BRAIN FORCE solutions. INDIS provided what had been the missing link with *VSpace*. BRAIN FORCE, Italy has therefore managed to position itself as a leading ERP systems house for SME's.

New location in
Padua

What's more: with its INDIS location in Padua, BRAIN FORCE has a new branch in the Venice industrial region. There are numerous firms located here that already are BRAIN FORCE customers and many potential new customers besides. In both cases, we will be able to provide a greatly improved service through this site.

Further focus on infrastructure

The solutions of the Dutch services and software provider VAI are BRAIN FORCE's new main focus in the IT infrastructure segment. This combines the outsourcing and services portfolio with the new range of products.

Best Practice
methods

VAI has developed best practice methods to realise software packaging projects and windows migration extremely efficiently. This includes, for example, the establishment of a centralised company-wide standard work desk. Services and special tools are offered to support implementation.

These solutions have only been available in the Netherlands up to now. In view of the roll-out of the new operating system Windows Vista planned for 2006, BRAIN FORCE will organise European-wide distribution. Sales and support teams were set up and trained in all country subsidiaries in the last quarter of 2005.

Market launch: *BRAIN FORCE Migration out of the Box* and *BRAIN FORCE Packaging Robot* were presented in Germany at the end of 2005 for the first time and on the Italian and Austrian markets at the start of 2006.

Channel distribution
in East and Southeast
Europe.

In addition, work began on installation of channel distribution in Eastern and South Eastern Europe. BRAIN FORCE infrastructure solutions are extremely well suited to selling through partners. All companies require them, irrespective of sector, for example those that are planning a Windows migration. In the next phase we are preparing specifically to open up distribution channels in Northern and North Western Europe.

The tremendous demand for such solutions promises high net sales of licences for BRAIN FORCE and product-related services for our partners. As these are real standard products, distribution can be rolled out with only a few employees at the beginning and can be stepped up very quickly as demand rises.

Product investments

BRAIN FORCE has invested heavily in multiplying the market potential of *BRAIN FORCE Migration out of the Box* and *BRAIN FORCE Packaging Robot*. The Netherlands, at first the only sales territory, has since been joined by Austria, Germany and Italy. These solutions will be offered in the short to medium-term in Northern, North Western, Eastern and South Eastern Europe – either directly from BRAIN FORCE or via its partners.

BRAIN FORCE
Net Organizer

Additional infrastructure solution

The third new solution in infrastructure will be distributed using the same channels: *BRAIN FORCE Net Organizer*. This application has been produced by the internal development department of the Technology and Infrastructure segment – as a successor to *beusenKNV*. *BRAIN FORCE Net Organizer* increases the efficiency of work processes from maintenance to the extension of networks for information technology and telecommunications. Cross-platform technology represents real progress, and can be used in Microsoft and Linux environments.

In addition, this development takes stock of the fact that telecom and IT are growing closer and closer together – independent telecom departments hardly exist any longer. *BRAIN FORCE Net Organizer* is tailored to current demands. The demand at trade fairs and other events during product rollout and right after its launch confirm this, as do our experiences with pilot customers.

New sector solutions for financial service providers

In relation to the range of products for the insurance, bank and building society sector, the year 2005 has been a break with tradition. First of all, the portfolio was extended to include *BRAIN FORCE Vorsorgeoptimierung*. This application supports the sales and consultancy process behind pension provision, and meets the latest legal requirements – such as documentation requirements in line with the EU Financial Adviser Directive. Seven companies have already adopted *BRAIN FORCE Vorsorgeoptimierung*.

Rollout *BRAIN
FORCE FINAS Suite*

The next step is to rollout the new *BRAIN FORCE FINAS Suite*. This comprises existing, improved and newly developed solutions. The core element is the *BRAIN FORCE Finanzanalyse Center* that enables financial advisers to provide comprehensive consulting services to private customers. *BRAIN FORCE FINAS Suite* was presented at CeBIT 2006.

Against the backdrop of current legal requirements, companies are increasingly demanding solutions that enable them to fulfil these requirements, in particular the EU Directive concerning financial services, the Insurance Contract Act and in future the Solvency II regulations. The high demand for *BRAIN FORCE Vorsorgeoptimierung* confirms this. In addition, the fact that *BRAIN FORCE Finanzanalyse Center* is being implemented for a pilot customer is a further indicator of demand.

High sector expertise

Our high level of expertise in relation to the financial services sector is also illustrated by the following project: BRAIN FORCE took over the management of the inventory system for BHW Lebensversicherung AG in Hameln in summer 2005. A new branch was founded in Hamburg in order to provide the best possible client service and to avoid the high costs of controlling the project from Munich.

The decision taken by BHW Leben's management illustrates that companies, particularly those from financial services – are willing to entrust BRAIN FORCE with core applications that are critical to their business. This is an excellent base from which we can win similar outsourcing deals in future – right across Europe.

[New York] [Padua] [Hamburg] [Utrecht]

New locations: the acquisitions, newly formed companies and investments carried out in mid 2005 will have a sustainable impact on the BRAIN FORCE Group. We will continue to keep our eye on markets that offer new opportunities for growth in the future.



Locations of BRAIN
FORCE HOLDING AG



First steps on the US
market

Worldwide prospects

With its investment in Kemp, BRAIN FORCE has now entered the US market. The demand for Load-Balancing solutions remains quite restricted in Europe. The reason for this is that sales via the Internet, for which this technology is primarily used, are seen as the domain of large-scale suppliers.

By contrast, a high-performance E-Commerce-line is a must – particularly considering the great distances in the US. This also applies to smaller companies. BRAIN FORCE has thus finally found an ideal selling ground for its *B-100*. And in doing so, it has managed to gain a first foothold in the new world.

In the first three months since our investment, Kemp has fully met our expectations. We therefore expect the company to gain a very strong market position in 2006. We have great expectations for forthcoming developments and are intending to extend our investment as planned.

Outlook

Continuation of
Buy&Build strategy

The success story of the year 2005, part of our Buy&Build strategy, will continue. We will keep a lookout for markets which offer new opportunities for further growth and will penetrate these markets through further acquisitions or partnerships.

The means for further acquisitions are already available – thanks to our most recent capital increase. With these takeovers we are pursuing our objective to increase the share of standard solutions in the value chain of the BRAIN FORCE Group. Such software products, after all, enable us to realise a far higher margin than with pure IT services.

The solutions we have recently added to our portfolio are particularly relevant here, namely *BRAIN FORCE Migration out of the Box* and *BRAIN FORCE Packaging Robot*, which is based on former VAI solutions and is part of the IT infrastructure segment.

These are complemented by solutions developed by BRAIN FORCE. For example, the new network management system *BRAIN FORCE Net Organizer* in the infrastructure field, or BRAIN FORCE Financial Center from the front-office solutions portfolio for financial advisers, and by *BRAIN FORCE Vorsorgeoptimierung*, which was launched successfully in 2005 as a key element of the portfolio.

Pan-European
distribution of
infrastructure
solutions

Infrastructure solutions will be sold right across Europe in future. BRAIN FORCE will gain access to new regions through indirect distribution channels.

This variety of new solutions that can be distributed in new markets will boost profitability and net sales substantially. Thanks to our stronger starting position, we expect to grow once again in 2006, namely to increase consolidated net sales by 20 percent to EUR 90 million. Regarding EBIT, our target is to reach the EUR 4.5 million mark. BRAIN FORCE is broadening its horizons in this respect, too.



... and all of a sudden, everything is moving!



Radical action: the secret of large-scale, radical action is to find the small step that may be small, but is strategic.

[Growth Expansion]



BRAIN FORCE stands for expertise, reliability, growth and expansion.

[Consolidated financial statements]

Consolidated balance sheet as at December 31, 2005

Assets	Notes	Dec. 31, 2005	Dec. 31, 2004
		EUR	EUR
Non-current assets			
Property, plant and equipment	3, 23	1,537,326.89	969,684.00
Goodwill	5, 24	10,066,500.26	4,706,826.78
Other intangible assets	5, 6, 25	8,206,118.97	4,160,161.38
Investments in associates	7, 26	403,880.80	535,221.85
Other financial assets	7, 27	461,352.44	187,180.22
Other receivables and other assets	11, 32	1,598,935.66	169,396.72
Deferred tax assets	20, 28	2,297,968.21	799,886.96
		24,572,083.23	11,528,357.91
Current assets			
Inventories	9, 29	274,956.68	295,634.98
Trade receivables	10, 11, 30	24,807,325.04	17,458,047.06
Financial assets	12, 31	0.00	3,941,418.00
Other receivables and other assets	11, 32	2,182,955.28	699,313.18
Cash and cash equivalents	13, 33	11,786,376.11	14,551,208.04
		39,051,613.11	36,945,621.26
		63,623,696.34	48,473,979.17

Equity and liabilities	Notes	Dec. 31, 2005	Dec. 31, 2004
		EUR	EUR
Equity			
Equity attributable to equity holders of the parent			
Share capital	34	10,257,828.00	10,257,828.00
Reserves	34	15,641,836.12	15,544,408.42
Retained earnings		5,812,121.08	3,506,217.91
Own shares		-29,924.62	-410,267.40
		31,681,860.58	28,898,186.93
Minority interest		425,830.27	959,956.25
		32,107,690.85	29,858,143.18
Non-current liabilities			
Financial liabilities	14, 36	750,000.00	0.00
Other liabilities	14, 38	27,449.07	16,558.00
Provisions for post-employment benefits	16, 35	3,781,674.08	2,163,242.00
Other provisions	15, 40	1,464,000.00	0.00
Deferred tax liabilities	20, 28	1,360,947.11	456,355.69
		7,384,070.26	2,636,155.69
Current liabilities			
Financial liabilities	14, 36	5,433,834.34	2,486,734.49
Trade payables	14, 37	7,604,542.86	5,527,841.90
Other liabilities	14, 38	9,774,733.87	7,452,360.60
Tax provisions	20, 39	1,205,824.16	480,035.08
Other provisions	15, 40	113,000.00	32,708.23
		24,131,935.23	15,979,680.30
		63,623,696.34	48,473,979.17

Consolidated income statement for the operating year ended 2005

	Notes	2005 EUR	2004 EUR
1. Net sales	17, 41, 53	76,618,004.52	64,420,929.13
2. Changes in work in progress		740.14	123,242.76
3. Other own work capitalised		1,343,235.62	1,664,900.06
4. Other operating income	42	929,125.37	1,109,964.05
5. Material and cost of purchased services	18, 43	-53,412,860.20	-46,203,842.12
6. Employee benefit costs	44	-12,772,226.88	-10,804,091.79
7. Depreciation and amortisation expense	45	-2,466,468.73	-1,743,029.32
8. Other operating expenses	46	-6,658,423.46	-6,177,796.29
9. Operating result		3,581,126.38	2,390,276.48
10. Financial result	47	62,861.39	570,242.69
11. Share of profit of associates	26	34,272.98	400,416.66
12. Result before income taxes		3,678,260.75	3,360,935.83
13. Income taxes	20, 48	-547,770.66	-1,334,779.65
14. Result for the period		3,130,490.09	2,026,156.18
Result for the period attributable to:			
Equity holders of the parent		3,028,127.98	1,775,039.40
Minority interest		102,362.11	251,116.78
		3,130,490.09	2,026,156.18
Earnings per share	55	0.30	0.21

Consolidated cash flow statement for the operating year ended 2005

	Notes	2005	2004
		EUR	EUR
Cash flow from operating activities	49		
Result before taxes		3,678,260.75	3,360,935.83
Adjustments for			
+ Depreciation and amortisation		2,466,468.73	1,743,029.32
+/- Financial result		-62,861.39	-570,242.69
- Share of profit of associates		-34,272.98	-400,416.66
-/+ Gains/losses from the disposal of property, plant and equipment and intangible assets		17,296.66	-95,644.68
+/- Changes in provisions for post-employment benefits and other provisions		408,875.85	-306,504.65
+/- Changes in inventories		20,678.30	-232,711.20
+/- Changes in receivables		-5,451,364.70	-2,234,134.33
+/- Changes in payables		1,555,970.81	126,807.79
+/- Currency translation differences		37,428.91	9,468.80
		2,636,480.94	1,400,587.53
Interests paid		-43,068.39	-93,939.41
Dividends received		187,115.57	243,273.54
Taxes on income paid		-1,113,540.83	-621,337.57
Net cash flow from operating activities		1,666,987.29	928,584.09
Cash flow from investing activities	50		
- Acquisition of subsidiaries		-5,751,325.53	-99,964.50
- Cash outflow for investments in property, plant and equipment and other intangible assets		-2,427,451.63	-2,095,472.99
- Cash outflow for investments in other financial assets		-1,731,739.38	-7,051,993.06
+ Cash inflow from the disposal of shares in group companies		0.00	141,543.31
+ Sale of property, plant and equipment and other intangible assets		60,095.98	8,725.20
+ Cash inflow from the disposal of other financial assets and current financial assets		4,019,208.20	3,751,539.84
Net cash flow from investing activities		-5,831,212.36	-5,345,622.20
Cash flow from financing activities	51		
+ Proceeds from issue of ordinary shares		0.00	15,488,575.19
- Purchase of own shares		-551,849.90	-410,267.40
- Dividends paid		-606,310.98	0.00
+/- Proceeds from borrowing/repayments of financial liabilities		1,877,276.38	-455,341.84
Net cash flow from financing activities	52	719,115.50	14,622,965.95
Increase / decrease in cash and cash equivalents		-3,445,109.57	10,205,927.84
Cash and cash equivalents at beginning of year		14,551,208.04	4,345,280.20
+/- Increase / decrease		-3,445,109.57	10,205,927.84
Cash and cash equivalents at end of year		11,106,098.47	14,551,208.04

Consolidated statement of changes in equity

	Notes	
Balance January 1, 2004		
Fair value adjustments of securities		
Currency translation differences		
Net income recognised directly in equity		
Result for the period		
Total result for the period		
Increase in share capital		
Transaction costs related to issue of share capital		
Purchase of own shares		
Other movements within minority interest		
Balance December 31, 2004	34	
Fair value adjustments of securities		
Currency translation differences		
Net income recognised directly in equity		
Result for the period		
Total result for the period		
Dividend		
Change of own shares		
Other movements within minority interest		
Balance December 31, 2005	34	

	Attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Own Shares	Total		Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	
	4,834,789.00	5,673,438.51	-226,452.87	1,731,178.51	0.00	12,012,953.15	687,292.30	12,700,245.45
	0.00	0.00	3,001.99	0.00	0.00	3,001.99	0.00	3,001.99
	0.00	0.00	28,884.60	0.00	0.00	28,884.60	-3,553.89	25,330.71
	0.00	0.00	31,886.59	0.00	0.00	31,886.59	-3,553.89	28,332.70
	0.00	0.00	0.00	1,775,039.40	0.00	1,775,039.40	251,116.78	2,026,156.18
	0.00	0.00	31,886.59	1,775,039.40	0.00	1,806,925.99	247,562.89	2,054,488.88
	5,423,039.00	10,846,078.00	0.00	0.00	0.00	16,269,117.00	0.00	16,269,117.00
	0.00	-780,541.81	0.00	0.00	0.00	-780,541.81	0.00	-780,541.81
	0.00	0.00	0.00	0.00	-410,267.40	-410,267.40	0.00	-410,267.40
	0.00	0.00	0.00	0.00	0.00	0.00	25,101.06	25,101.06
	10,257,828.00	15,738,974.70	-194,566.28	3,506,217.91	-410,267.40	28,898,186.93	959,956.25	29,858,143.18
	0.00	0.00	3,722.02	0.00	0.00	3,722.02	0.00	3,722.02
	0.00	0.00	41,023.18	0.00	0.00	41,023.18	3,607.32	44,630.50
	0.00	0.00	44,745.20	0.00	0.00	44,745.20	3,607.32	48,352.52
	0.00	0.00	0.00	3,028,127.98	0.00	3,028,127.98	102,362.11	3,130,490.09
	0.00	0.00	44,745.20	3,028,127.98	0.00	3,072,873.18	105,969.43	3,178,842.61
	0.00	0.00	0.00	-606,310.98	0.00	-606,310.98	0.00	-606,310.98
	0.00	52,682.50	0.00	0.00	380,342.78	433,025.28	0.00	433,025.28
	0.00	0.00	0.00	-115,913.83	0.00	-115,913.83	-640,095.41	-756,009.24
	10,257,828.00	15,791,657.20	-149,821.08	5,812,121.08	-29,924.62	31,681,860.58	425,830.27	32,107,690.85

[Consolidated notes for the operating year 2005]

The company

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

Accounting and measurement principles

(1) Accounting principles

Pursuant to § 245a HGB the consolidated financial statements at December 31, 2005 were compiled in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Presentation currency is the euro. The consolidated financial statements were compiled in keeping with the principle of historical cost, with the exception of derivative financial instruments, available-for-sale securities and financial assets held for trading, which are measured at their fair value on the balance sheet date.

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

The International Accounting Standards Board (IASB) published a number of changes with existing standards as well as new standards and interpretations in connection with the Improvement Project, which have to be applied as of January 1, 2005. These standards are also adopted by the EU.

- ▶ IAS 2 (revised 2003) Inventories
- ▶ IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- ▶ IAS 10 (revised 2003) Events after the Balance Sheet Date
- ▶ IAS 16 (revised 2003) Property, Plant and Equipment
- ▶ IAS 17 (revised 2003) Leases
- ▶ IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- ▶ IAS 24 (revised 2003) Related Party Disclosures
- ▶ IAS 27 (revised 2003) Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- ▶ IAS 28 (revised 2003) Investments in Associates

- ▶ IAS 31 (revised 2003) Financial Reporting of Interests in Joint Ventures
- ▶ IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- ▶ IAS 33 (revised 2003) Earnings per Share
- ▶ IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement
- ▶ IAS 40 (revised 2003) Investment Property
- ▶ IFRS 2 (2004) Share-based Payment
- ▶ IFRS 4 (2004) Insurance Contracts
- ▶ IFRS 5 (2004) Non-current Assets Held for Sale and Discontinued Operations
- ▶ SIC 12 (2004) Consolidation – Special Purpose Entities
- ▶ IFRIC 2 (2004) Members' Shares in Co-operative Entities and Similar Instruments

These changes and new standards as well as interpretations had no material effect on the financial position, financial performance and cash flows of the Group.

IASB issued further standards or amendments of published standards and interpretations, which are not yet mandatory in the operating year 2005. By the time the consolidated financial statements were prepared, the following standards and interpretations had been adopted by the EU and published in the official journal.

The amendments to "IAS 1 Presentation of Financial Statements" requires additional disclosures on capital, as for instance on capital structure and its determination and control by the management or on possible regulatory requirements relating to financial resources.

In December 2004 the IASB introduced an additional option in IAS 19 to immediately recognise actuarial gains and losses from defined benefit pension plans outside the income statement in the form of a "statement of total recognized gains and losses". The revised IAS 19 will be mandatory for all accounting periods beginning on or after January 1, 2006.

The amendments published in IAS 21 in December 2005, mandatory for all accounting periods beginning on or after January 1, 2006, stipulate that monetary assets and liabilities of a parent company or one of its subsidiaries in connection with foreign operations – irrespective of the underlying currency – have to be classified as part of the net investment in foreign operations. Consequently, any translation differences resulting from this shall be recognised in the consolidated financial statements (initially) in equity, not affecting net income.

In addition, IASB issued further amendments to IAS 39 which are mandatory for all accounting periods beginning on or after January 1, 2006. These amendments relate to the option to classify financial instruments as "at fair value through profit or loss" and to the accounting of cash flow hedges concerning the hedging of currency risks of highly probable forecast intragroup transactions. The amendments of IAS 39 in connection with IFRS 4 Insurance Contracts stipulate that obligations associated with financial guarantees have to be recognised as liabilities in the balance sheet of the liable company.

In August 2005 IASB issued IFRS 7. IFRS 7 requires information about the materiality of financial assets and liabilities for the financial position and the financial performance of the

company and includes new disclosure requirements concerning the exposure to risks arising from financial assets and liabilities. IFRS 7 is mandatory for accounting periods beginning on or after January 1, 2007.

In December 2004, the IASB published IFRIC 4. IFRIC 4 contains criteria for the identification of leasing elements in contracts which are not formally designated as leasing contracts. Contracts with elements that meet the criteria of IFRIC 4 have to be recognised as leasing contracts pursuant to the regulations of IAS 17. IFRIC 4 is mandatory for all accounting periods beginning on or after January 1, 2006.

The effects of these standards cannot yet be estimated reliably.

The first-time adoption of the other presented standards and interpretations, which are not explained in detail, is not expected to result in any effects on the BRAIN FORCE Group.

- ▶ IFRS 1 (revised 2005) First-time Adoption of International Financial Reporting Standards
- ▶ IFRS 4 (revised 2005) Insurance Contracts
- ▶ IFRS 6 (2004) Exploration for and Evaluation of Mineral Resources
- ▶ IFRS 6 (revised 2005) Exploration for and Evaluation of Mineral Resources
- ▶ IFRIC 5 (2004) Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- ▶ IFRIC 6 (2005) Liabilities Arising from Participating in a Special Market: Waste Electrical and Electronic Equipment

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

- ▶ IAS 21 (revised 2005) The Effects of Changes in Foreign Exchange Rates
- ▶ IFRIC 7 (2005) Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- ▶ IFRIC 8 (2006) Scope of IFRS 2

No effects on the BRAIN FORCE Group are expected to arise due to the first-time adoption of the other standards and interpretations.

(2) Principles of consolidation

The financial statements included in consolidation were all drawn up with a uniform consolidated balance sheet date at December 31, 2005.

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

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

Consolidated group

At the end of June 2005, 100 percent of the shares in INDIS S.p.A., Milan, Italy, were acquired.

At the end of July 2005, after the acquisition of almost all shares in VAI B.V., Veenendaal, Netherlands, control was transferred.

Furthermore, by agreement on a contribution in kind dated March 24, 2005 the business unit of BRAIN FORCE HOLDING AG which until that time had been in charge of the Austrian business was transferred to Brain Force Datenverarbeitungs GmbH, which was subsequently renamed BRAIN FORCE SOFTWARE GmbH. This reorganization had no effect on the financial and earnings position of the consolidated financial statements.

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

Company	Method of consolidation	Share in percent
BRAIN FORCE SOFTWARE GmbH (formerly Brain Force Datenverarbeitungs GmbH), Vienna	F	100
BRAIN FORCE Software GmbH, Unterschleißheim, Germany	F	100
Brain Force Financial Solutions AG, Munich, Germany ¹⁾	F	95.15
BRAIN FORCE Hamburg GmbH (formerly Brain Force Datenverarbeitungs AG) , Unterschleißheim, Germany ²⁾	F	100
BRAIN FORCE SOFTWARE S.p.A., Milan, Italy	F	100
INDIS S.p.A., Milan, Italy	F	100
Brain Force Software B.V., Amsterdam, Netherlands	F	100
VAI B.V., Veenendaal, Netherlands	F	100
BFS Brain Force Software AG, Kloten, Switzerland	F	100
Brain Force Software Ltd., Cambridge, Great Britain	F	100
Brain Force Software a.s., Prague, Czech Republic	F	85
Brain Force Software s.r.o., Bratislava, Slovakia ³⁾	F	100
NSE Capital Venture GmbH, Munich, Germany ⁴⁾	F	100
SFP Software für FinanzPartner GmbH, Munich, Germany ⁴⁾	E	49
CONSULTING CUBE s.r.l., Bologna, Italy ⁵⁾	E	25
F=Full consolidation		
E=Equity method of consolidation		

1) The share held at December 31, 2004 amounted to 76.13 percent.

2) In the reporting year the share was sold by BRAIN FORCE HOLDING AG to BRAIN FORCE Software GmbH, Unterschleißheim, Germany.

3) The share is held by Brain Force Software a.s.

4) The share is held by Brain Force Financial Solutions AG.

5) The share was acquired by BRAIN FORCE SOFTWARE S.p.A. in the reporting year 2005.

Methods of consolidation

Consolidation is carried out in accordance with the regulations of IFRS 3. All business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

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

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

Foreign currency translation

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

The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

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

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

The financial statements of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency at the respective year-end exchange rates. Due to the immaterial effects on earnings – less than 3 percent of the Group's net sales are denominated in currencies other than the euro, i.e. in Swiss francs, in Czech and Slovak crowns or the US dollar – average exchange rates were not applied in the translation of the income statements.

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

Currency	Rate at balance sheet date 2005	Rate at balance sheet date 2004
	1 EUR	1 EUR
CHF Swiss franc	1.5560	1.5470
GBP British pound	0.6868	0.7090
CZK Czech crowns	29.0500	30.5000
SKK Slovak crowns	37.8800	38.8500
USD US dollar	1.1850	1.3555

(3) Property, plant and equipment

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

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

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

If an asset is impaired, the carrying amount is reduced to its recoverable amount (see note 8).

Maintenance expenses

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

(4) Leases

Due to the nature of the contracts concluded, leases have to be classified as operating leases. Therefore, lease payments are recognised as an expense.

(5) Intangible assets

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

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

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

If an asset is impaired, the carrying amount is reduced to its recoverable amount (see note 8). In addition, goodwill shall be tested annually for impairment. Fully amortised goodwill is presented in the statement of fixed assets as a disposal.

(6) Research and development

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

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

(7) Financial assets

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

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

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

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

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

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

(8) Impairment of certain non-current assets

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

(9) Inventories

Inventories are recognised at the lower of cost or net realisable value in accordance with IAS 2.

(10) Construction contracts

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

(11) Receivables and other assets

Receivables and other assets are recognised at cost less provision for impairment. Receivables in foreign currencies are measured at the exchange rate prevailing at the balance sheet date December 31, 2005.

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

(12) Financial assets

Short-term financial assets are held for trading, price fluctuations are recognised in profit or loss in the current period.

(13) Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank deposits. Deposits held in foreign currencies are measured at the exchange rate prevailing at the balance sheet date December 31, 2005.

(14) Liabilities

Liabilities are recognised at cost or at the amount repayable, if different. Liabilities in foreign currencies are measured at the exchange rate prevailing at the balance sheet date December 31, 2005.

(15) Provisions

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

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

(16) Provisions for post-employment benefits

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

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

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

The calculation is based on local biometrical data.

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

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

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

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

of estimated pensionable age.

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

Severance payments relate to obligations under Austrian or Italian law.

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

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

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

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

(17) Net sales

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

(18) Material and cost for purchased services

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

(19) Borrowing costs

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

(20) Income taxes

Income taxes are recognised according to the source of tax and are based on the corresponding profit of the financial year. Deferred taxes are taken into consideration due to the temporary differences arising from the recognition of income and expenses in IAS and tax accounts.

Deferred taxes are calculated on the basis of all temporary differences arising from tax values and IFRS values of all assets and liabilities using the liability method and applying the relevant national tax rates (19 to approx. 41 percent). Deferred tax liabilities are recognised under long-term liabilities, deferred tax assets under long-term assets.

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

(21) Financial risk management

The BRAIN FORCE Group is exposed to a variety of financial risks (liquidity risk, foreign exchange risk, interest rate risk, credit risk). To limit the risks, a risk management is carried out centrally under policies approved by the Executive Board.

Liquidity risk

Liquidity risk refers to the risk that an entity will not have sufficient funds available at any given time to meet its obligations on time. As part of established management mechanisms, monthly rolling financial planning is monitored at management level. Statistical assessments of funds available at varying points in time are used on which to base funding decisions.

Foreign exchange risk

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

The BRAIN FORCE Group is not exposed to significant foreign exchange risks as part of its operating activities. About 97 percent of its sales are generated within the euro zone, the rest in Switzerland, the Czech Republic, Slovakia and the US.

2 percent of the foreign exchange exposure results from trade receivables not denominated in euros, and 1 percent from trade payables not denominated in euros.

The Group invested approx. EUR 1.03 million in USD by acquiring a shareholding and a convertible bond.

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

Interest rate risk

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

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

The BRAIN FORCE Group is predominantly self-financed. Financial liabilities are mainly short-term and carry variable interest rates. For the purpose of hedging the favourable interest conditions in the case of a loan with a maturity of approx. two years, an interest rate swap was concluded to turn the variable into fixed cash flows.

The income and operating cash flows of the BRAIN FORCE Group are not significantly affected by changes in market interest rates. Cash and cash equivalents are invested on a short-term basis.

Credit risk

With regard to the risk of default, the Group is not exposed to significant risks relating to individual customers. Transactions are concluded only after the creditworthiness of the business partners has been checked. Receivables are not insured. The credit and, for that reason, default risks are monitored on a constant basis, for materialised or recognisable risks adequate allowances are made and provisions set up.

Derivative financial instruments

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

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

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

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

Fair values

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

(22) Accounting estimates and assumptions

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

Impairment of goodwill

The effects of adverse changes of estimates made until December 31, 2005 of the interest rate by plus 10 percent or of the cash flow by minus 10 percent would not result in an impairment of the recognised goodwill.

Deferred taxes

If future taxable income within the plan period defined for the recognition and measurement of deferred taxes fell 10 percent short of the value assumed at the balance sheet date, the recognised net position of deferred tax assets would probably have to be reduced by EUR 388 thousand.

Provisions for post-employment benefits

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

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

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

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

Further material assumptions are in part based on market conditions.

If the assumptions were based on a discount rate which fell 10 percent short of the estimates made by management, the present value of the obligation for pensions and severance payments would have to be raised by EUR 187 thousand.

Other balance sheet items

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

Notes on balance sheet items

(23) Property, plant and equipment

Property, plant and equipment have changed as follows:

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

	Building investments in non-owned facilities	Office machines, IT equipment, other office equipment	Total
	EUR	EUR	EUR
Acquisition or production costs Jan. 1, 2004	685,086.81	3,632,538.13	4,317,624.94
Currency translation differences	711.23	13,417.80	14,129.03
Additions	25,233.37	328,501.04	353,734.41
Disposals	-1,800.79	-244,602.68	-246,403.47
Acquisition or production costs Dec. 31, 2004	709,230.62	3,729,854.29	4,439,084.91
Accumulated depreciation Jan. 1, 2004	443,635.39	2,669,238.22	3,112,873.61
Currency translation differences	42.68	12,934.28	12,976.96
Depreciation charge 2004	98,622.43	471,913.80	570,536.23
Disposals	-1,464.16	-225,521.73	-226,985.89
Accumulated depreciation Dec. 31, 2004	540,836.34	2,928,564.57	3,469,400.91
Carrying amounts Dec. 31, 2004	168,394.28	801,289.72	969,684.00

(24) Goodwill

Goodwill has changed as follows:

	2005	2004
	EUR	EUR
Carrying amount Jan. 1	4,706,826.78	4,721,141.78
Addition/Disposal	5,359,673.48	-14,315.00
Carrying amount Dec. 31	10,066,500.26	4,706,826.78

The goodwill at January 1 of the operating year results from past acquisitions of corresponding shares for BRAIN FORCE SOFTWARE S.p.A., Milan, Italy (formerly: TE Studio di Informatica S.p.A.), beusen Solutions GmbH, Berlin, Germany (meanwhile merged into BRAIN FORCE Software GmbH, Unterschleißheim, Germany) and Brain Force Financial Solutions AG, Munich, Germany (formerly: NSE Software AG).

The addition results from the acquisition of two companies and is composed as follows:

	EUR
INDIS S.p.A., Milan, Italy	768,783.56
VAI B.V., Veenendaal, Netherlands	4,590,889.92
Carrying amount Dec. 31, 2005	5,359,673.48

For further details on the acquisitions see note 54.

The disposal in the previous year results from the sale of 0.92 percent of the shares held in Brain Force Financial Solutions AG, Munich, Germany.

At the beginning of the operating year 2004, the Group decided to apply IFRS 3, IAS 36 and 38 (revised 2004) early. Goodwill was therefore no longer systematically amortised but tested for impairment. No impairment requirement was identified. In accordance with the provisions of IFRS 3, accumulated amortisation amounting to EUR 6,696,507.56 at the beginning of the operating year 2004 was eliminated and acquisition costs were reduced accordingly from EUR 11,417,649.34 to EUR 4,721,141.78.

The impairment tests in the operating year 2005 were carried out based on the following cash-generating units:

	Allocated goodwill
	EUR
Network, Communication and Security Solutions	1,504,242.00
BRAIN FORCE SOFTWARE S.p.A.	2,029,773.00
Brain Force Financial Solutions AG	1,172,811.78
INDIS S.p.A.	768,783.56
VAI B.V.	4,590,889.92
Carrying amount Dec. 31, 2005	10,066,500.26

The cash-generating unit Network, Communication and Security Solutions operates in the Technology and Infrastructure (TI) segment in Germany and Switzerland; in the previous year this was the Communication Networks (CN) segment. BRAIN FORCE SOFTWARE S.p.A. operates in the Business Solutions (BS) and TI segments. Brain Force Financial Solutions AG operates exclusively in the BS segment. INDIS S.p.A. also operates in the BS segment. VAI B.V. operates in the TI segment.

The recoverable amount of the cash-generating units was determined based on value-in-use calculations. These calculations use cash flow projections based on the financial budget for 2006 approved by management and the resulting medium-term planning for the following three to four years. Cash flows beyond this four to five-year period are extrapolated using the estimated growth rates stated below, which do not exceed the long-term average growth rate for the respective business segments.

Key assumptions used for value-in-use calculations:

	Gross margin	Growth rate	Discount rate
	%	%	%
Network, Communication and Security Solutions	43.9	1.5	13.8
BRAIN FORCE SOFTWARE S.p.A.	28.6	1.5	25.8
Brain Force Financial Solutions AG	47.8	1.5	11.9
INDIS S.p.A.	47.6	2.0	24.8
VAI B.V.	50.5	1.0	18.0

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

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

(25) Other intangible assets

Other intangible assets have changed as follows:

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

	Development costs	Other	Total
	EUR	EUR	EUR
Acquisition or production costs Jan. 1, 2004	3,602,716.73	1,185,793.28	4,788,510.01
Currency translation differences	0.00	7,386.61	7,386.61
Additions	1,749,711.50	76,838.52	1,826,550.02
Disposals	-5,811.00	-28,806.29	-34,617.29
Acquisition or production costs Dec. 31, 2004	5,346,617.23	1,241,212.12	6,587,829.35
Accumulated amortisation Jan. 1, 2004	507,301.60	773,643.77	1,280,945.37
Currency translation differences	0.00	3,035.80	3,035.80
Amortisation charge 2004	953,156.46	219,336.63	1,172,493.09
Disposals	0.00	-28,806.29	-28,806.29
Accumulated amortisation Dec. 31, 2004	1,460,458.06	967,209.91	2,427,667.97
Carrying amounts Dec. 31, 2004	3,886,159.17	274,002.21	4,160,161.38

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

(26) Investments in associates

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

	2005	2004
	EUR	EUR
Carrying amount Jan. 1	535,221.85	510,154.30
Addition upon acquisition	21,501.54	0.00
Distribution	-187,115.57	-211,738.86
Profit share before taxes	56,555.01	400,416.66
Share in taxes	-22,282.03	-163,610.25
Carrying amount Dec. 31	403,880.80	535,221.85

The carrying amount at the beginning of the operating year relates to the 49 percent share in SFP Software für FinanzPartner GmbH, Munich, Germany, held by Brain Force Financial Solutions AG, Munich, Germany.

The additions include the acquisition of a 25 percent share in CONSULTING CUBE s.r.l., Bologna, Italy, which was established in the operating year.

On the level of the presentation of the share in the result of the year in the income statement, with regard to the share in taxes the gross presentation in 2004 was replaced by a net presentation in 2005.

Selected financial data of the companies are as follows:

	EUR
Assets	2,656,836.71
Liabilities	1,855,488.88
Net sales	5,850,289.38
Result for the period	70,926.85

(27) Other financial assets

Other financial assets changed as follows:

	Securities	Investments	Total
	EUR	EUR	EUR
Carrying amount Jan. 1, 2005	187,180.22	0.00	187,180.22
Addition	0.00	270,450.20	270,450.20
Adjustment to fair value	3,722.02	0.00	3,722.02
Carrying amount Dec. 31, 2005	190,902.24	270,450.20	461,352.44

The securities (shares in investment funds) serve to cover provisions for pensions as stipulated by the Austrian tax law. These securities are classified as available-for-sale and are carried at fair value (stock price at the balance sheet date).

The addition to investments relates to the acquisition of a 10 percent share (preferred shares series A) in KEMP Technologies Inc., New York, USA. The purchase price amounted to USD 200,000. The purchase agreement was concluded on September 30, 2005 and provides for the option that the BRAIN FORCE Group can acquire additional shares up to a maximum amount of 30 percent in the next operating year. If KEMP in the course of its business activities fulfils certain ratios defined in the agreement, BRAIN FORCE will be obliged to purchase shares up to a total amount of 30 percent. The purchase price to be paid in this case in the amount of USD 400,000 equals EUR 377,552.74, if the USD exchange rate prevailing at the balance sheet date is applied. Furthermore, a convertible bond issued by KEMP Technologies Inc. in the amount of USD 900,000 was subscribed for (see note 32).

Due to the fact that at the time the consolidated financial statements were drawn up neither the fulfilment of the ratios nor the probability of BRAIN FORCE executing the option could be estimated reliably, the investment was recognised at acquisition costs and measured at the exchange rate ruling at the balance sheet date. The value of the option cannot be determined reliably due to existing uncertainties.

(28) Deferred taxes

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

Deferred taxes are calculated as follows:

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

	Jan. 1, 2004	Currency translation	Addition due to acquisition	Change in income statement	Dec. 31, 2004
	EUR	EUR	EUR	EUR	EUR
Deferred tax assets					
Provisions for post-employment benefits	106,132.65	0.00	0.00	23,311.82	129,444.47
Tax loss carryforwards	1,691,514.20	1,078.81	0.00	298,308.30	1,990,901.31
Other	46,528.00	0.00	0.00	13,484.54	60,012.54
	1,844,174.85	1,078.81	0.00	335,104.66	2,180,358.32
Deferred tax liabilities					
Development costs and other intangible assets	1,234,297.00	0.00	0.00	157,158.81	1,391,455.81
Other non-current assets	107,370.18	0.00	0.00	-19,324.25	88,045.93
Receivables	151,482.81	0.00	0.00	164,160.65	315,643.46
Other	0.00	0.00	0.00	41,681.85	41,681.85
	1,493,149.99	0.00	0.00	343,677.06	1,836,827.05

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

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

	2005	2004
	EUR	EUR
Deferred tax assets	2,297,968.21	799,886.96
Deferred tax liabilities	-1,360,947.11	-456,355.69
Carrying amount Dec. 31	937,021.10	343,531.27

Within the next 12 months deferred tax assets to be recovered amount to EUR 699,263.72, deferred tax liabilities to EUR 461,709.53.

Deferred tax assets are recognised for the carryforward of unused tax losses only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Estimates are based on the available budgeted figures.

No deferred tax assets have been recognised for unused tax losses that can be carried forward for an unlimited period, nor for deductible differences:

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

	Basis	Deferred tax assets
Dec. 31, 2004	EUR	EUR
Tax loss carryforwards	64,522,876.09	25,061,475.25
Deductible temporary differences	5,695,204.22	1,423,801.00
	70,218,080.31	26,485,276.25

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

Effective from January 1, 2005, the corporate income tax rate in Austria was reduced from 34 percent to 25 percent.

(29) Inventories

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

Inventories comprise the following items:

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Work in progress	274,956.68	294,411.23
Goods for resale	0.00	1,223.75
	274,956.68	295,634.98

(30) Trade receivables

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Trade receivables already invoiced	20,962,530.12	14,990,944.18
Less allowance for doubtful accounts	-250,198.02	-135,804.11
Receivables for services not yet invoiced	3,127,105.03	1,923,536.39
Receivables from contract work	673,488.87	608,700.06
Receivables from associates	294,399.04	70,670.54
	24,807,325.04	17,458,047.06

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

Total contract costs incurred and profits recognised amount to EUR 1,486,124.07 at the balance sheet date (prior year: EUR 1,374,568.07). Advances received amount to EUR 492,567.27 (prior year: EUR 161,758.24).

(31) Financial assets

Financial assets in the operating year 2004 show short-term investments in a cumulative investment fund.

(32) Other receivables and other assets

Other receivables and other assets comprise the following items:

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Non-current:		
Fair value of insurance cover for pension commitments	49,038.00	36,708.00
Deposits	183,062.06	114,921.84
Convertible bond	759,510.00	0.00
Receivable BHW Lebensversicherung AG	583,319.04	0.00
Other	24,006.56	17,766.88
	1,598,935.66	169,396.72
Current:		
Prepayments	61,502.28	23,535.37
Revenue authorities	83,365.71	70,019.26
Maintenance and other prepaid expenses	642,183.89	466,462.99
Receivable BHW Lebensversicherung AG	1,166,638.15	0.00
Other	229,265.25	139,295.56
	2,182,955.28	699,313.18

The fair value of insurance cover for pension commitments is considered a plan asset when calculating the provision for pensions to be recognised in the balance sheet (see note 35), as long as the insurance is pledged in favour of the employee.

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

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

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

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

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

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

(33) Cash and cash equivalents

Cash and cash equivalents comprise the following:

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Cash in hand	22,251.40	16,018.12
Cash at bank	11,764,124.71	14,535,189.92
	11,786,376.11	14,551,208.04

EUR 680,227.64 of cash at bank is pledged as security.

(34) Equity

The share capital amounts to EUR 10,257,828 and is divided into 10,257,828 individual no-par value bearer shares.

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

At the balance sheet date the authorised capital amounts to EUR 5,128,914 (previous year: EUR 5,128,914).

In the operating year, no shares from authorised capital were subscribed for (previous year: EUR 2,423,039).

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

	Share capital	Reserves
	EUR	EUR
Balance Jan. 1, 2005	10,257,828.00	15,544,408.42
Other movements	0.00	97,427.70
Balance Dec. 31, 2005	10,257,828.00	15,641,836.12

	Share capital	Reserves
	EUR	EUR
Balance Jan. 1, 2004	4,834,789.00	5,446,985.64
Capital increase by cash contribution in accordance with a resolution by the Management Board dated Feb. 12, 2004, authorised on Jan. 23, 2004 at the shareholders' meeting and approved by the Supervisory Board on Feb. 23, 2004, registration in the commercial register on March 18, 2004	2,417,394.00	4,834,788.00
Transaction costs related to the increase in share capital	0.00	-174,937.65
Capital increase by cash contribution in accordance with a resolution by the Management Board dated April 23, 2004, authorised on April 14, 2004 at the shareholders' meeting and approved by the Supervisory Board on April 26, 2004, registration in the commercial register on June 5, 2004	3,005,645.00	6,011,290.00
Transaction costs related to the increase in share capital	0.00	-605,604.16
Other movements	0.00	31,886.59
Balance Dec. 31, 2004	10,257,828.00	15,544,408.42

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

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Fair value reserve for securities	5,616.68	1,894.66
Revaluation reserve	110,262.00	110,262.00
Reserve for currency translation differences	-265,699.76	-306,722.94
	-149,821.08	-194,566.28

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

In the operating year, 135,150 own shares with a nominal value of EUR 551,849.90 were purchased at a price of between EUR 3.50 and EUR 4.27 per share. Furthermore, 280,636 own shares measured at cost of EUR 932,192.68 were transferred. As the fair value of the own shares amounted to EUR 984,875.18 at the time of the transaction, the difference in the amount of EUR 52,682.50 was recognised under share premium.

138,889 own shares were used to pay a portion of the purchase price in connection with the acquisition of INDIS S.p.A., Milan, Italy. 147,747 own shares were used to purchase further shares in Brain Force Financial Solutions AG, Munich, Germany, predominantly by launching public exchange offers.

The other movements in minority interests in the amount of EUR 640,095.41 result from the increase in investment in Brain Force Financial Solutions AG from 76.13 percent to 95.15 percent in connection with the participation in a capital reduction with subsequent capital increase and from the purchase of shares in Brain Force Financial Solutions AG in connection with two public exchange offers and other acquisitions. That portion of the purchase price exceeding amortised minority interests was offset against the retained earnings.

(35) Provisions for post-employment benefits

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

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Provisions for pensions	192,240.00	179,785.00
Provisions for severance payments	384,729.00	326,180.00
Provisions for severance payments (TFR)	3,204,705.08	1,657,277.00
	3,781,674.08	2,163,242.00

Provisions for pensions

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

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

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Actuarial present value of defined benefit obligation	575,315.00	427,677.00
Fair value of plan assets	-233,101.00	-175,745.00
	342,214.00	251,932.00
Unrecognised past service cost	0.00	-2,653.00
Unrecognised actuarial losses	-149,974.00	-69,494.00
Liability in the balance sheet	192,240.00	179,785.00

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

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

	2005	2004
	EUR	EUR
Current service cost	48,496.00	36,228.00
Interest expense	21,384.00	19,716.00
Amortisation of past service cost	2,653.00	2,652.00
Effects of actuarial gains	1,847.00	0.00
	74,380.00	58,596.00

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

	2005	2004
	EUR	EUR
Balance Jan. 1	179,785.00	183,226.00
Pension costs for defined benefit obligations	74,380.00	58,596.00
Pension settlements	0.00	0.00
Pension payments/paid contributions	-61,925.00	-62,037.00
Balance Dec. 31	192,240.00	179,785.00

The basic actuarial assumptions are as follows:

	2005	2004
Discount rate	4.5 %	5 %
Future salary increases	3 %	3 %
Future pension increases	2 %	2 %
Pensionable age	60 - 62, 65 years	60 - 62, 65 years
Mortality tables - Austria	AVÖ 1999-P, employees	AVÖ 1999-P, employees
Germany	Heubeck 2005	Heubeck 1998

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

Total pension costs comprise the following:

	2005	2004
	EUR	EUR
Pension costs – defined benefit plan	74,380.00	58,596.00
Pension costs – defined contribution plan	51,502.80	45,185.07
Capitalisation of premium reserves	-12,330.00	-12,224.00
	113,552.80	91,557.07

Provisions for severance payments (Austria)

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

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Actuarial present value of defined benefit obligation	438,399.00	319,608.00
Unrecognised actuarial gains/losses	-53,670.00	6,572.00
Liability in the balance sheet	384,729.00	326,180.00

The expense recognised in the income statement includes the following:

	2005	2004
	EUR	EUR
Current service cost	42,571.00	64,523.00
Interest expense	15,978.00	2,240,100.00
Amortisation of actuarial losses	0.00	3,473.00
	58,549.00	90,397.00

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

	2005	2004
	EUR	EUR
Balance Jan. 1	326,180.00	331,741.02
Expenses for severance payments	58,549.00	90,397.00
Payments of severance payments	0.00	-95,958.02
Balance Dec. 31,	384,729.00	326,180.00

The basic actuarial assumptions are as follows:

	2005	2004
Discount rate	4.5 %	5 %
Future salary increases	3 %	3 %
Average labour turnover	Age-related	Age-related
Pensionable age	According to pension reform 2004	According to pension reform 2004
Mortality tables	AVÖ 1999-P, employees	AVÖ 1999-P, employees

Provisions for severance payments (TFR)

In the operating year 2005, the values of provisions for severance payments (TFR) were computed in the same way as the provisions for pensions. The balance recognised at December 31, 2005 amounting to EUR 3,204,705.08 corresponds to the actuarial net present value of the obligation for severance payments (defined benefit obligation).

The expense recognised in the income statement includes the following:

	2005	2004
	EUR	EUR
Current service cost	429,964.92	365,630.00
Interest expense	92,166.47	60,620.00
Recognition of actuarial losses	38,431.00	63,048.82
	560,562.39	489,298.82

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

	2005	2004
	EUR	EUR
Balance Jan. 1	1,657,277.00	1,377,639.82
Addition from change in consolidated group	1,253,848.08	0.00
Expenses for severance payments	560,562.39	489,298.82
Payments of severance payments	-266,982.39	-209,661.64
Balance Dec. 31	3,204,705.08	1,657,277.00

The provision includes irrevocably granted severance payments in the amount of EUR 426,108.08.

The basic actuarial assumptions are as follows:

	2005	2004
Discount rate	4.25	4.5 %
Future salary increases	3.0-3.5 %	3.5 %
Inflation	2 %	2 %
Growth rate TFR	3 %	3 %
Labour turnover	12.5 %	12.5 %
Pensionable age	65	65
Mortality tables	ISTAT 2002	80 % of ISTAT 1992, updated 1996

(36) Financial liabilities

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Non-current:		
Loan from Deutsche Bank	750,000.00	0.00
Current:		
Convertible bonds	0.00	38,858.40
Loan from Deutsche Bank	1,250,000.00	0.00
Subordinate loan	855,201.41	0.00
Bank overdrafts	3,328,632.93	2,447,876.09
	5,433,834.34	2,486,734.49

In connection with the acquisition of the contract to develop and maintain the insurance contract management system of BHW Lebensversicherung AG, Hameln, Germany, a loan was taken out with Deutsche Bank AG, Munich, Germany. The loan carries variable interest rates and has a maturity of 24 months. An interest rate swap was concluded to hedge a fixed interest rate. The total charge including credit margin amounts to 3.55 percent. At the balance sheet date the swap has a fair value of EUR 6,961.83, which is recognised under other receivables.

The item “convertible bonds” relates to the interest-bearing bonds issued by Brain Force Financial Solutions AG, Munich, Germany, to its employees with the option to convert the bonds into ordinary shares of Brain Force Financial Solutions AG. As this amount is not material, it was not broken down into equity and debt components pursuant to IAS 32.

The subordinate loan exists vis-à-vis existing shareholders of VAI B.V., Veenendaal, Netherlands. For the redemption of the loan the condition applies that solvency– defined as the relation of total equity, provisions and subordinate loan to total capital – must not be jeopardised. The loan carries 7.5 percent interest.

Interest on overdrafts is currently charged at 5.0 to 8.125 percent (2004: 5.5 to 7.75 percent).

(37) Trade payables

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Trade payables already invoiced	5,318,695.99	4,056,633.42
Prepayments	809,162.15	392,194.99
Trade payables not yet invoiced	1,476,684.72	1,079,013.49
	7,604,542.86	5,527,841.90

(38) Other liabilities

Other liabilities include the following:

	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR
Non-current:		
Other	27,449.07	16,558.00
Current:		
Taxes	2,263,089.37	1,782,214.77
Social security contributions	1,493,259.31	1,226,316.96
Holiday entitlements and overtime payables	1,476,578.57	1,072,659.61
Bonuses	1,055,849.03	777,066.09
Payroll-accounting	1,116,886.87	752,127.01
Deferred income from maintenance contracts	1,525,931.83	1,166,341.97
Other	843,138.89	675,634.19
	9,774,733.87	7,452,360.60

(39) Tax provisions

	Balance Jan. 1, 2005	Utilisation	Addition from acquisition	Allocation/ Reversal	Balance Dec. 31, 2005
	EUR	EUR	EUR	EUR	EUR
2004	480,035.08	-64,882.07	0.00	-32,947.92	382,205.09
2005	0.00	0.00	13,520.00	810,099.07	823,619.07
	480,035.08	-64,882.07	13,520.00	777,151.15	1,205,824.16

(40) Other provisions

	Balance Jan. 1, 2005	Utilisation	Reversal	Allocation	Balance Dec. 31, 2005
	EUR	EUR	EUR	EUR	EUR
Non-current					
Outstanding purchase price obligations from the acquisition of shares	0.00	0.00	0.00	1,464,000.00	1,464,000.00
Current					
Outstanding purchase price obligations from the acquisition of shares	0.00	0.00	0.00	36,000.00	36,000.00
Guarantee	6,000.00	0.00	-6,000.00	17,000.00	17,000.00
Other	26,708.23	-13,739.69	-12,968.54	60,000.00	60,000.00
	32,708.23	-13,739.69	-18,968.54	113,000.00	113,000.00

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

Notes on income statement items**(41) Net sales**

Net sales are broken down into the following items:

	2005	2004
	EUR	EUR
Current services	59,837,126.93	51,815,452.52
Construction/service contracts	7,026,970.61	6,076,667.69
Products	9,753,906.98	6,528,808.92
	76,618,004.52	64,420,929.13

(42) Other operating income

Other operating income includes:

	2005	2004
	EUR	EUR
Agency income	255,978.19	246,677.48
Rental income	93,094.45	140,855.99
Income from the disposal of shares in group companies	0.00	102,127.25
Reversal of other provisions and derecognition of other liabilities	187,030.04	249,569.78
Other	393,022.69	370,733.55
	929,125.37	1,109,964.05

The income from the disposal of shares in group (consolidated) companies related to the effects from the sale of 0.92 percent of the shares in Brain Force Financial Solutions AG, Munich, Germany.

(43) Material and cost for purchased services

This item is broken down as follows:

	2005	2004
	EUR	EUR
Cost of materials		
Cost of goods sold	164,860.28	1,210,794.57
Maintenance	507,037.06	530,663.01
Licenses	862,524.31	118,574.62
	1,534,421.65	1,860,032.20
Cost for purchased services		
Project staff	30,719,471.98	23,651,986.13
Subcontractors	21,158,966.57	20,691,823.79
	51,878,438.55	44,343,809.92
	53,412,860.20	46,203,842.12

(44) Employee benefit costs

Employee benefit costs are broken down as follows:

	2005	2004
	EUR	EUR
Salaries	10,202,352.36	8,520,147.74
Expenses for severance payments	653,440.27	626,478.94
Expenses for pensions	113,552.80	91,557.07
Expenses for statutory social security, payroll-related taxes and mandatory contributions	1,641,745.25	1,424,281.39
Other fringe benefits	161,136.20	141,626.65
	12,772,226.88	10,804,091.79

Expenses for severance payments in addition to statutory entitlements (see note 35) also include contributions payable to a MVK ("Mitarbeitervorsorgekasse" – a multi-employer fund as defined by the new statutory scheme for severance payments) in the amount of EUR 34,328.88 (previous year: EUR 20,267.87). No severance payments were paid on a voluntary basis (previous year: EUR 26,515.25).

(45) Depreciation and amortisation expense

The depreciation and amortisation expense includes the following:

	2005	2004
	EUR	EUR
Depreciation of property, plant and equipment	576,244.74	570,536.23
Amortisation of other intangible assets	1,890,223.99	1,172,493.09
	2,466,468.73	1,743,029.32

(46) Other operating expenses

Other operating expenses include:

	2005	2004
	EUR	EUR
Rents and energy costs	2,027,788.04	2,102,624.32
Maintenance	160,811.20	315,809.09
Mail and communication charges	509,394.07	457,540.89
Travel expenses	546,980.44	321,636.88
Insurance	109,072.42	101,090.04
Legal, audit and consulting fees	722,545.29	723,471.12
Marketing	805,251.41	516,081.07
Vehicle costs	627,823.08	953,573.95
Office expenditure	183,247.56	120,966.24
Other sundry expenses	965,509.95	565,002.69
	6,658,423.46	6,177,796.29

(47) Financial result

The financial result is computed as follows:

	2005	2004
	EUR	EUR
Income from the disposal of financial assets	77,790.20	600,313.39
Interest and similar income	275,930.47	220,615.82
Interest and similar expenses	-290,859.28	-250,686.52
	62,861.39	570,242.69

The income from the disposal of financial assets relates to the sale of shares in TOPCALL International Aktiengesellschaft, Vienna, in the previous year.

(48) Income taxes

	2005	2004
	EUR	EU
Current tax expense	1,833,405.15	1,162,597.00
Deferred tax income/expense	-1,285,634.49	8,572.40
Share of tax of associates	0.00	163,610.25
	547,770.66	1,334,779.65

The income tax expense for the year is by EUR 371,794.53 lower (previous year: by EUR 192,061.47 higher) than the calculated income tax expense of EUR 919,565.19 (previous year: EUR 1,142,718.18), which would result from applying a tax rate of 25 percent (previous year: 34 percent) (=the corporate income tax rate applicable to the parent company) on the result before taxes. The reasons for the difference between calculated and recognised income tax expenses are as follows:

	2005	2004
	EUR	EUR
Result before income taxes	3,678,260.75	3,360,935.83
thereof 25 percent (previous year: 34 percent) = calculated income tax expense	919,565.19	1,142,718.18
Effects of different tax rates in other countries	1,137,837.04	578,849.99
Effects of changes in tax rates	0.00	1,840,012.90
Income not subject to tax	-10,788.50	-12,873.67
Expenses not deductible for tax purposes	208,069.63	60,194.47
Other permanent differences	6,569.34	-145,357.28
Write-down of deferred tax assets	183,176.02	0.00
Utilisation of unrecognised temporary differences and tax loss carryforwards	-533,873.19	-636,353.50
Subsequent capitalisation of deferred tax assets not recognised in the year in which they originated	-1,342,550.91	-1,498,642.25
Income tax expense – current period	568,004.62	1,328,548.84
Aperiodic income tax expense/income	-20,233.96	6,230.81
Recognised income tax expense	547,770.66	1,334,779.65

Notes on individual items of the consolidated cash flow statement

The cash flow statement was prepared using the indirect method.

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

(49) Cash flow from operating activities

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

(50) Cash flow from investing activities

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

With regard to the disclosures pursuant to IAS 7 on the acquisition of subsidiaries, reference is made to note 54.

(51) Cash flow from financing activities

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

(52) Fund of cash and cash equivalents

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

The company has pledged cash at bank in the amount of EUR 680,227.64 as security. Consequently, the fund of cash and cash equivalents is derived from the amount recognised in the balance sheet as follows:

	EUR
Cash and cash equivalents according to balance sheet	11,786,376.11
Cash at bank, restricted	-680,227.64
Fund of cash and cash equivalents	11,106,148.47

Other disclosures

(53) Segment reporting

At the beginning of the operating year 2005, a new Group governance was implemented. Simultaneously, the business segments of the BRAIN FORCE Group were restructured.

a) Business segments

As of now, the BRAIN FORCE Group operates in the following three business segments:

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

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

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

The **Technology and Infrastructure (TI)** segment of the BRAIN FORCE Group offers products and services for the operation, optimisation and the automation of IT and TK computers and networks. The TI segment comprises the following competence centres: network solutions, communication solutions and security solutions. The services and products offered up to now are complemented by the new competence centre VAI Solutions which was acquired recently in connection with the acquisition of the company. VAI Solutions offers complete solutions for Windows-based workstations and servers (products, project-related services and outtasking services) related to the subjects "centrally controlled system management" (version and release management) and "software migrations and rollout projects".

The ratios of the operating year 2004 were adjusted to the restructured business segments.

The ratios for the operating year 2005 and the previous year are as follows:

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

	Enterprise Services	Business Solutions	Technology and Infrastructure	Unallocated	Total
Ratios by segment 2004	EUR	EUR	EUR	EUR	EUR
Segment net sales (consolidated)	32,923,798.05	17,820,933.12	13,676,197.96	0.00	64,420,929.13
Segment operating result	1,295,726.50	1,590,752.83	964,695.17	-1,460,898.02	2,390,276.48
Financial result					570,242.69
Share in profit of associates		400,416.66			400,416.66
Result before taxes					3,360,935.83
Income taxes					-1,334,779.65
Result for the period					2,026,156.18
Segment assets	9,461,347.02	10,361,189.94	12,741,741.21	15,909,701.00	48,473,979.17
Segment liabilities	5,699,549.72	5,349,391.97	6,749,873.96	817,020.34	18,615,835.99
Segment capital expenditure	202,366.76	613,134.89	1,362,429.64	0.00	2,177,931.29
Segment depreciation and amortisation	212,277.79	699,584.15	831,167.38	0.00	1,743,029.32

b) Geographical segments

Geographical segments contain the figures allocated to individual group companies for activities primarily based in the countries where the company's headquarters are located. Other regions comprise the group companies in Switzerland, Great Britain, the Czech Republic and Slovakia. From the operating year 2005 on, the Netherlands is presented separately, in the previous year the Netherlands was included under other regions.

	Segment net sales		Segment assets		Segment capital expenditure	
	2005	2004	2005	2004	2005	2004
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Austria	12,019	12,058	8,649	17,907	397	64
Germany	38,211	33,544	25,415	16,474	1,495	1,751
Italy	21,813	16,809	18,458	12,265	2,656	242
Netherlands	3,340	0	9,601	9	7,925	0
Other regions	1,235	2,010	1,501	1,819	37	121
	76,618	64,421	63,624	48,474	12,510	2,178

(54) Acquisitions

By signing the purchase agreement dated June 27, 2005 BRAIN FORCE HOLDING AG acquired 100 percent of the shares in INDIS S.p.A., Milan, Italy. The purchase price including incidental acquisition costs amounts to EUR 1,808,387.83.

According to the purchase agreement it was stipulated that a portion of the purchase price amounting to EUR 1,250,000 should be paid in cash and another portion amounting to EUR 450,000 by transfer of BRAIN FORCE HOLDING shares. The number of shares to be transferred was 138,889 and, in accordance with the purchase agreement, was based on the average weighted XETRA closing rate of the preceding 10 days before June 27, 2005. The share price at the date of the transfer amounting to EUR 3.47 was relevant for determining the value of the portion of the purchase price to be recognised, resulting in a share portion of the purchase price of EUR 481,944.83. Incidental acquisition costs amount to EUR 76,443.

The acquired goodwill is determined as follows:

	EUR
Purchase price	1,731,944.83
Incidental expenses	76,443.00
Total price	1,808,387.83
Less fair value of acquired net assets	-1,039,604.27
Goodwill (note 24)	768,783.56

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

	Fair values	Carrying amounts
	EUR	EUR
Property, plant and equipment	70,362.00	70,362.00
Product development	807,700.00	0.00
Orders on hand	171,542.00	0.00
Customer relationships	485,590.00	0.00
Software	5,833.00	5,833.00
Deferred tax assets	0.00	44,037.00
Trade receivables	1,078,873.25	1,078,873.25
Other receivables	140,121.66	140,121.66
Cash and cash equivalents	1,300,150.00	1,300,150.00
Provisions for post-employment benefits	-1,253,848.00	-1,253,848.00
Deferred tax liabilities	-501,613.00	0.00
Trade payables	-193,058.56	-193,058.56
Other liabilities	-1,058,528.08	-1,058,528.08
Tax provisions	-13,520.00	-13,520.00
Fair value of acquired net assets	1,039,604.27	120,422.27

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

	EUR
Total purchase price	1,808,387.83
Less acquired cash and cash equivalents	-1,300,150.00
Less incidental expenses not yet paid	-865.85
Payment by own shares	-481,944.83
Net cash flow from acquisition	25,427.15

The acquired company contributed to the result of the reporting period as follows: Between July 1 and December 31, 2005 net sales in the amount of EUR 2,066,591.06 were generated and a result for the period amounting to EUR -40,555.72 was earned. At December 31, 2005 total assets amounted to EUR 4,049,300.37, liabilities to EUR 3,050,251.82. Before the acquisition by BRAIN FORCE HOLDING AG, the subsidiary had not prepared accounts pursuant to IFRS. Consequently, consolidated net sales and the consolidated result under the perspective as if the company had already been acquired at the beginning of the year cannot be determined at reasonable expense and are therefore not provided.

On the basis of the purchase agreement signed on June 27, 2005 BRAIN FORCE HOLDING AG acquired 100 percent of the shares in VAI B.V., Veenendaal, Netherlands. The total price is made up of a fixed cash consideration in the amount of EUR 5,500,000 and variable purchase price components. Up to EUR 1,750,000 of these primarily results from the future development of the results of the acquired company. In addition, a variable purchase price component exists relating to a product where a certain percentage of the licence fee earned within the next three years has to be paid. A subsidiary of VAI B.V is to be established for this product within one year. With regard to this company mutual purchase options exist for BRAIN FORCE and the previous shareholders, the values of which cannot be determined reliably at the balance sheet date, as the probability of exercising the option cannot be assessed. Incidental acquisition costs amount to EUR 180,028.41.

The acquisition date is August 1, 2005. At this date 98.19 percent of the shares were acquired, the remaining shares amounting to 1.81 percent were acquired on September 30, 2005.

Goodwill was calculated as of August 1, 2005 for 100 percent of the shares and is determined as follows:

	EUR
Purchase price	7,000,000.00
Incidental expenses	180,028.41
Total price	7,180,028.41
Less fair value of acquired net assets	-2,589,138.49
Goodwill	4,590,889.92

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

	Fair values	Carrying amounts
	EUR	EUR
Property, plant and equipment	475,981.50	475,981.50
Product development	2,118,000.00	0.00
Customer relationships	514,000.00	0.00
Software	73,800.13	73,800.13
Deferred tax assets	0.00	600,000.00
Trade receivables	2,597,013.58	2,597,013.58
Other receivables	214,099.83	214,099.83
Cash and cash equivalents	148,702.92	148,702.92
Deferred tax liabilities	-189,600.00	0.00
Financial liabilities	-1,819,823.47	-1,819,823.47
Trade payables	-797,389.95	-797,389.95
Other liabilities	-745,646.05	-745,646.05
Fair value of acquired net assets	2,589,138.49	746,738.49

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

	EUR
Total purchase price	7,180,028.41
Less acquired cash and cash equivalents	-148,702.92
Less outstanding purchase price obligations	-1,500,000.00
Less incidental expenses not yet paid	-15,000.00
Net cash flow from acquisition	5,516,325.49

The acquired company contributed to the result of the reporting period as follows: Net sales amounting to EUR 3,339,640.61 were generated and a result of EUR -27,454.05 was earned for the period from July 1 to December 31, 2005. Total assets at December 31, 2005 amounted to EUR 5,608,250.43, liabilities to EUR 3,046,565.99. Before the acquisition by BRAIN FORCE HOLDING AG, the subsidiary had not prepared accounts pursuant to IFRS. Consequently, consolidated net sales and the consolidated result under the perspective as if the company had already been acquired at the beginning of the year cannot be determined at reasonable expense and are therefore not provided.

(55) Earnings per share

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

	2005	2004
	EUR	EUR
Result for the period attributable to the equity holders of the parent	3,028,127.98	1,775,039.40
Weighted average number of ordinary shares (basic and diluted)	10,161,755	8,393,184
Earnings per share (in EUR)	0.30	0.21

Together with the preparation of the financial statements the Management Board has submitted a proposal relating to the profit distribution, which provides for the payment of dividends on the share capital less a proportionate amount for own shares amounting to EUR 0.08 per share. The financial statements and the proposal on profit distribution will be dealt with in the Supervisory Board Meeting on March 21, 2006 (see note 62). This proposal, which has to be submitted together with the report of the Supervisory Board, is subject to approval by the ordinary general meeting, which is expected to take place on May 11, 2006.

(56) Notes on related party transactions

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

Remunerations paid to members of the Management Board in the reporting year amounted to EUR 646,024.66, the variable portion of which was EUR 107,968 (previous year: EUR 948,684.26, variable portion of which EUR 50,400). Remunerations paid to members of the Supervisory Board amounting to EUR 44,002 (previous year: EUR 39,650) were recognised in profit or loss.

In addition, expenses for severance payments and pensions for members of the Management Board in the amount of EUR 21,486.51 (previous year: EUR 86,331.72) were recognised in profit or loss.

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

Fees for services rendered (consulting) in the amount of EUR 17,745.69 (which corresponds to the fees normally charged for such external services) were paid to companies in which members of the Supervisory Board hold shares.

After the balance sheet date, a guarantee and placement agreement relating to the upcoming capital increase was concluded with march.sixteen FINANCE SERVICES LLP, London,

Great Britain, in which the Supervisory Board member Christian Wolff is a member of the Executive Board and a shareholder (see note 61).

The following service relations exist between BRAIN FORCE Group and its associate SFP Software für FinanzPartner GmbH, Munich, Germany (see note 26):

Brain Force Financial Solutions AG, Munich, Germany, renders services to SFP Software für FinanzPartner GmbH, Munich, Germany, under an agency agreement. These services comprise the provision of a general manager, the performance of the accounting including payroll-accounting and services in the areas of controlling and back office, as well as provision of office space. Brain Force Financial Solutions AG, Munich, Germany, earns agency fees in the amount of EUR 255,978.19 (previous year: EUR 246,677.48) from these service relations. Furthermore, Brain Force Financial Solutions AG rendered project and maintenance services as well as product sales amounting to EUR 967,650 to SFP Software für FinanzPartner GmbH. At the balance sheet date receivables amount to EUR 294,399.04 (previous year: EUR 70,670.54).

(57) Share-based compensation

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

Brain Force Financial Solutions AG has issued stock options in 3 tranches for members of the Management Board and executive employees. In the past operating year the exercise period for tranches 1 and 2 expired; no options were exercised.

The terms of tranche 3 issued at the balance sheet date are as follows:

	Units	Basic price in Euro	Earliest exercise date
Tranche 3	2,602	100.00	Dec. 5, 2003

Due to the capital decrease in the operating year 2005 by the proportion that 100 no-par bearer shares were reduced to one no-par bearer share year-on-year, the number of option rights issued was also reduced by the same proportion. By contrast, the basic price per unit rose from previously EUR 1 to currently EUR 100.

(58) Financial instruments

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

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

(59) Commitments from leasing transactions

	2005	2004
	EUR	EUR
Not later than one year	2,962,045.44	2,354,036.95
Later than 1 and not later than 5 years	3,748,808.67	3,728,434.05
Later than 5 years	0.00	36,847.16

(60) Notes on employees

	Average		At Dec. 31	
	2005	2004	2005	2004
Number of employees (salaried)	740	614	814	622

(61) Events after the balance sheet date

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

By a resolution dated January 17, 2006 the Supervisory Board approved the decision passed by the Management Board on January 16 to increase the capital from authorised capital in the nominal amount of EUR 3,419,276. The price for the new shares was set at EUR 3.10. The purchase right is not precluded.

Based on this resolution, the company concluded guarantee and placement agreements with two investors relating to the rights issue, which are not subscribed for based on the shareholders' purchase rights. One of the two investors is march.sixteen FINANCE SERVICES LLP, London, Great Britain, in which the Supervisory Board member Christian Wolff is a member of the Executive Board and a shareholder.

On February 23, 2006, an extraordinary shareholders' meeting of Brain Force Financial Solutions AG, Munich, Germany, was held. The only item on the agenda, the resolution on the transfer of the shares of the minority shareholders of Brain Force Financial Solutions AG to BRAIN FORCE HOLDING AG, Vienna, in return for an adequate cash consideration, was passed by the shareholders. Minority shareholders present at the extraordinary shareholders' meeting expressed their opposition, which was included in the minutes.

Apart from the aforementioned, there have been no significant events after the balance sheet date.

(62) Authorisation for issue

These consolidated financial statements were prepared, signed and authorised for issue by the Management Board at the date indicated below. The individual financial statements of the parent company, which after the adoption of the accounting standards were also included in the consolidated financial statements, will be submitted to the Supervisory Board for review and adoption on March 21, 2006. The Supervisory Board and, in case of submittal to the general meeting, the shareholders can change these individual financial statements in a way which also affects the presentation of the consolidated financial statements.

Members of the Management and Supervisory Boards

The following persons served on the Management Board in the operating year 2005:

- ▶ Helmut Fleischmann, Kitzbühel, CEO
- ▶ Wolfgang Lippert, Langenzersdorf, Deputy CEO
- ▶ Günter Pridt, Vienna (until December 31, 2004)
- ▶ Gunter Reißmann, Fürstenfeldbruck, Germany (until March 8, 2005)

The following persons served on the Supervisory Board in the operating year 2005:

- ▶ Dr. Christoph Senft, Angerberg, Chairman (since June 12, 2003; term of office until the end of the ordinary general meeting which decides on the operating year 2005)
- ▶ Roman Gregorig, Vienna, Chairman (until May 31, 2005)
- ▶ Günter Pridt, Vienna, Deputy Chairman (since April 14, 2005; term of office until the end of the ordinary general meeting which decides on the operating year 2008)
- ▶ DDr. Hermann Wenusch, Vienna, Deputy Chairman (until February 17, 2005)
- ▶ Mag. Wolfgang M. Hickel, Vienna (since June 14, 2000; term of office until the end of the ordinary general meeting which decides on the operating year 2007)
- ▶ Mag. Christian Schamburek, Brunn am Gebirge (since June 11, 2003; term of office until the end of the ordinary general meeting which decides on the operating year 2006)
- ▶ Christian Wolff, Switzerland (since April 14, 2005; term of office until the end of the ordinary general meeting which decides on the operating year 2008)
- ▶ Josef Schmid, Pfaffstätten (until June 10, 2005)

Vienna, March 6, 2006

The Management Board:

signed:



Helmut Fleischmann
Chief Executive Officer

signed:



Wolfgang Lippert
Chief Financial Officer

[Auditor's report]

We have audited the consolidated financial statements of BRAIN FORCE HOLDING AG, Vienna for the fiscal year from January 1 to December 31, 2005. The Company's Management Board is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards/IFRSs as adopted by the EU and with section 245a (1) of the Austrian Commercial Code, as well as for the preparation of the management report for the group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the group corresponds to the consolidated financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing and supplementary International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether the management report for the group is consistent with the consolidated financial statements. In determining audit procedures knowledge of the business activities, the economic and legal environment of the group as well as expectations as to possible errors are taken into account. An audit includes procedures to obtain evidence about amounts and other disclosures in the consolidated financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements as well as with the articles of association and present fairly, in all material respects, the financial position of the group as of December 31, 2005 and the results of its operations and its cash flows for the fiscal year from January 1 to December 31, 2005 in accordance with International Financial Reporting Standards/IFRSs as adopted by the EU and with section 245a (1) of the Austrian Commercial Code. The management report for the group corresponds to the consolidated financial statements.

Vienna, March 6, 2006

PwC INTER-TREUHAND GmbH
Wirtschaftsprüfungs- und
Steuerberatungsgesellschaft

signed:

Mag. Karl Hofbauer
Certified Public Accountant

signed:

Mag. Gerhard Prachner
Certified Public Accountant

[Information]

Important dates

Date	Event
March 22, 2006	Annual report 2005
March 22, 2006	Financial Results Press Conference
May 11, 2006	Annual shareholders' meeting
May 16, 2006	Ex-dividend-date
May 18, 2006	Payment of dividend
May 29, 2006	Q1 Quarterly report
August 28, 2006	Semi annual report
November 27, 2006	Q3 Quarterly report

[Imprint]

Content:

BRAIN FORCE HOLDING AG
IZD Tower
Wagramer Straße 19
A-1220 Vienna

Produced by:

BRAIN FORCE SOFTWARE GmbH
Carl-von-Linde-Straße 38
D-85716 Unterschleißheim

www.brainforce.com

Concept/Design:

Paul Lauer

Editors:

Klaus Göbbel, Martin Kögel

Layout/Lithography:

Uwe Köhler

Photos:

Fotostudio Franz Pfluegl (Wien)

Jakobsen Picture work (Hamburg)
Sven Jakobsen

Raoul Kramer (Nijmegen)

Print:

Mediahaus Biering GmbH

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

[Glossary]

Ratios

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

Segments

ES	Enterprise Services
BS	Business Solutions
TI	Technology and Infrastructure

Solutions and Services

Application management	Services ranging from business process and architecture consulting, design and development of applications, maintenance and management of applications to application operations
B-100 Load Balancer	Product to ensure high availability of server farms
beusenBAS	Billing & Accounting solution, through-invoicing of telecommunications services
BRAIN FORCE FINAS Suite	Front office solutions for financial service provider
BRAIN FORCE Vorsorgeoptimierung	Application for the selling and consulting process pension scheme products
BRAIN FORCE Net Organizer	Network management system for ICT networks
BRAIN FORCE Packaging Robot	Solution consisting of best practice and software tools for automated software packaging
BRAIN FORCE Migration out of the Box	Solution consisting of best practice and software tools for Windows migrations
Business process outsourcing	Outsourcing of one or several business processes to an external provider, i.e. payroll accounting
BRAIN FORCE CRM	Customer relationship management solution
INKAS-SQL	Integrated control and billing system – PBX management
Outsourcing	Outsourcing of extensive areas/processes to external service providers
Outtasking	Outsourcing of individual tasks to external providers
User help desk	Single point of contact; all user requirements are expressed via this central telephone number
VSpace	ERP-system for small and medium-sized enterprises



BRAIN FORCE HOLDING AG
IZD Tower
Wagramer Straße 19
A-1220 Vienna

Tel.: +43 1 263 09 09 0
Fax: +43 1 263 09 09 40
info@brainforce.co.at

www.brainforce.com