

Tipp24de

*NEVER MISS A LOTTERY  
OPPORTUNITY **WITH THE NO. 1***

*ANNUAL REPORT 2006*

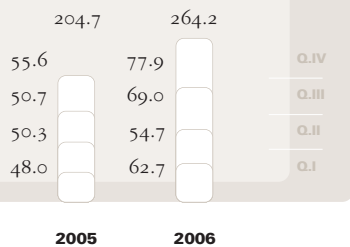


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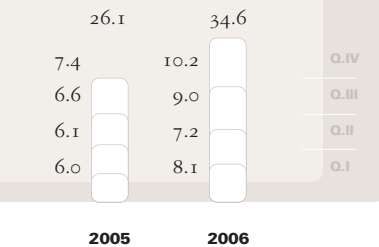
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**TIPP24 IS GERMANY'S LEADING ONLINE LOTTERY BROKER WITH A MARKET SHARE OF 40-50% AND 1.8 MILLION REGISTERED CUSTOMERS FOR WHOM WE PROVIDE A WIDE RANGE OF STATE-OWNED LOTTERY PRODUCTS. OUR BUSINESS BOASTS DYNAMIC GROWTH, RIGHT FROM THE START, COUPLED WITH HIGH SCALABILITY AND PROFITABILITY.**

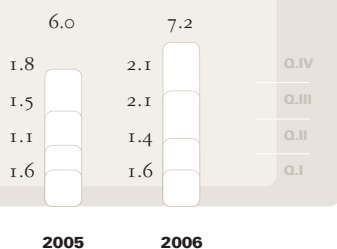
**BILLINGS** IN EUR M



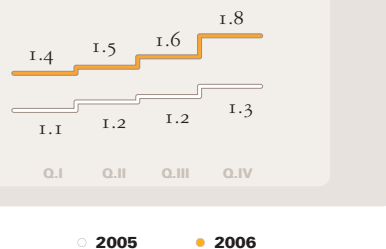
**REVENUES** IN EUR M



**EBIT** IN EUR M



**REGISTERED CUSTOMERS** IN MILLION



## FOREWORD

### **LADIES AND GENTLEMEN,**

2006 was a very successful fiscal year for Tipp24 AG. In spite of the adverse conditions caused by ongoing political and legal discussions about the German gaming market, we succeeded in continuing our stable growth.

**Sustainable growth.** In 2006 we once again succeeded in achieving double-digit growth in billings (+29.1%), revenues (+32.4%) and EBIT (+19.8%).

The slight decline in the EBIT margin to 21% was the result of three special effects. On the one hand, earnings were burdened by lobbying costs in connection with the regulatory situation and the omission of the »ExtraLotto« New Year's Eve lottery. In addition, we used the positive environment of the outstanding jackpot situation – in October there was a record jackpot of EUR 35 million – to achieve an exceptional increase of new customers, at the expense of above-average marketing costs. In the first week of October alone, we gained over 100 thousand customers in Germany and thus exceeded our upper forecast of 400 thousand new customers in 2006 by over 10%.

We are proud of the continued increase in the proportion of non-German revenue to almost 13%. The fact that our Spanish subsidiary has now reached the break-even point proves that our operating business can be successfully transferred to international markets – even though regulatory factors in Italy continue to represent a considerable limitation to our activities there.

**Market changes present new opportunities.** The fierce debate about the future permissibility of online brokers in Germany, resulting from mounting pressure on the state lottery and betting monopoly, obviously left its mark on Tipp24 in 2006. Firstly, the uncertain situation had a dampening effect on our business and the Tipp24 share price reached its all-time low in December – despite our positive fundamentals. We expect these discussions to continue and believe that our legal position is backed up by numerous expert opinions regarding the German constitution and EU legislation, as well as by various verdicts of the German Cartel Office and opinions publicly expressed by the EU Commission. Despite all short-term risks arising from the current discussions, we expect Tipp24 to emerge stronger from the current market changes in the medium to long term, as a well-positioned international corporation able to benefit more than most from any deregulation in Europe. Such a deregulation would give our German customers access to highly attractive products abroad and allow us entry into new markets with our existing products. The share buy-back programme we launched in February 2007 underlines our belief that Tipp24 is excellently positioned to exploit this exceptional potential. The shares will be used primarily as an acquisition currency.

**Positive outlook.** We currently expect that business will continue to make strong progress in 2007: Tipp24 is active in the dynamic online lottery market, which offers tremendous sustainable potential with global growth forecasts of 27% per year. We aim to stabilize our market share in this dynamic environment and expect – assuming the legal permissibility of our core activities in Germany remains unchanged – billings and revenues to continue to grow at around 30%. We want to achieve this growth primarily by gaining 300–400 thousand new customers. Due to the scalability of our business model, we also expect a similarly strong increase in EBIT.

**Many thanks!** The strong progress made by the Tipp24 Group in 2006, amid great market uncertainties, would not have been possible without the continued exceptional dedication and hard work of our employees in all three countries. We would like to take this opportunity to thank them for their efforts and for their loyalty to the company.

We also thank our shareholders for their trust as well as intensive and ongoing support in our second year on the stock exchange – we look forward to further successful cooperation in future!

With best regards,

*Dr. Hans Cornehl, Marc Peters, Jens Schumann*



Management Board of TIPP24 AG, from left: Jens Schumann, Dr. Hans Cornehl, Marc Peters

**Dr. Hans Cornehl** | 39, *Finance, Investor Relations & Human Resources*

Dr. Hans Cornehl has a doctorate in chemistry. He has been head of the finance department at Tipp24 AG since June 2002. After completing a degree in chemistry at the Technical University of Munich and a doctorate at the Technical University of Berlin, he started his career as an adviser to start-up, high-tech and spin-off companies at McKinsey & Company. Dr. Cornehl then gained management experience by working as a turnaround manager at a hospital. Before joining Tipp24, he was a senior investment manager at the venture capital company Earlybird, where he specialised in investments in the media and telecommunications sector.

**Marc Peters** | 36, *Marketing & Sales*

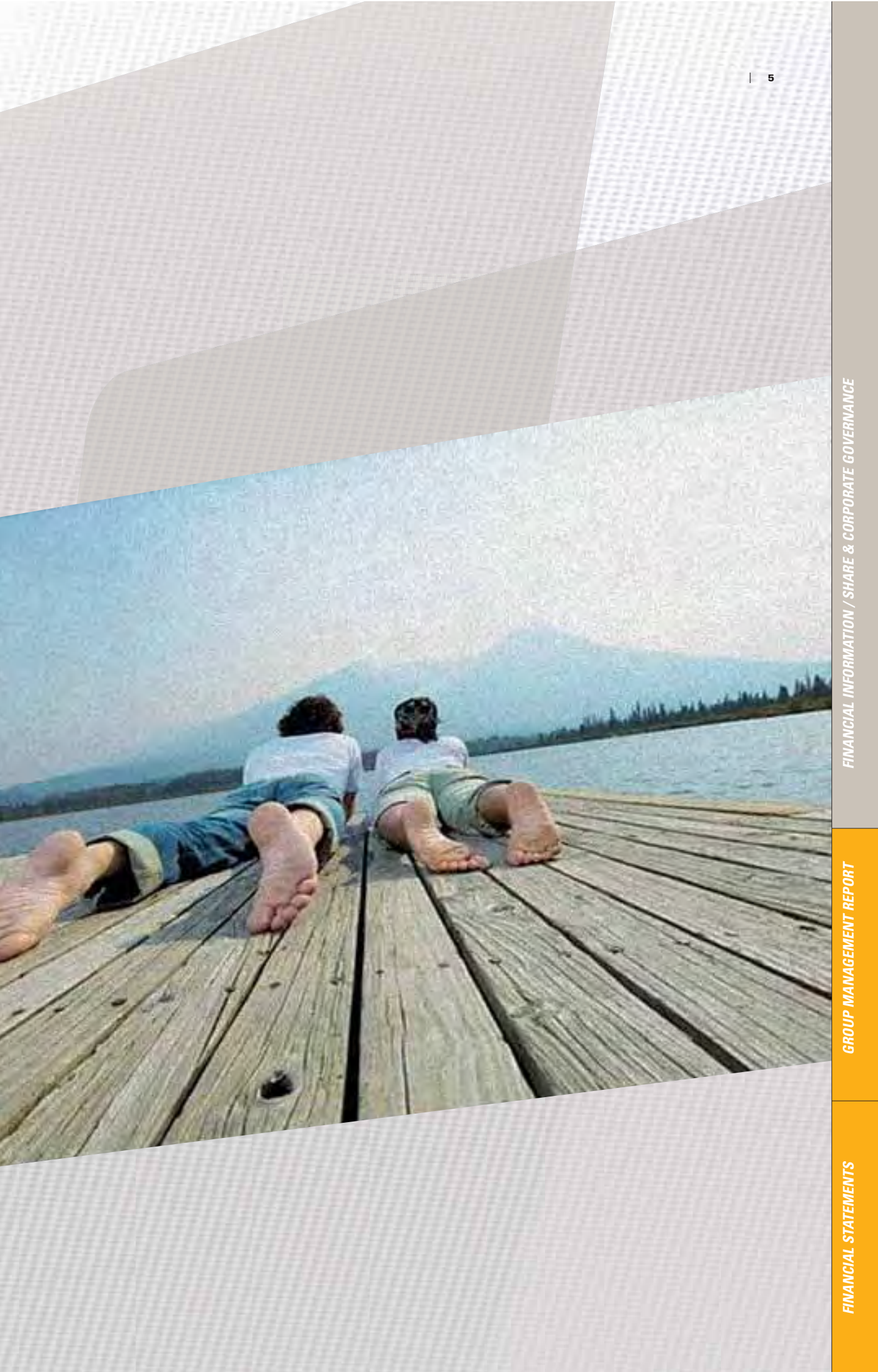
Marc Peters, who holds a degree in business administration (Dipl.-Kaufmann), is a co-founder of Tipp24. Between 1993 and 1997, Mr Peters studied business administration at the University of Münster. During his studies, he was a marketing assistant at the German-American Chamber of Commerce in the United States. He also coordinated the establishment of the website of the German embassy in Japan. In 1998, Mr Peters gained professional experience working as a junior product manager for the Schneekoppe brand at Laurens Spethmann AG. Between the end of 1998 and the formation of Tipp24, he worked as a consultant at Icon Medialab AG.

**Jens Schumann** | 33, *Product, Technology & Strategy*

Jens Schumann, lawyer, is a co-founder of Tipp24. Between 1993 and 1998, he studied law at the University of Münster, passing the first State Exam. Mr Schumann also completed four semesters of business administration. During his time as a student, Mr Schumann worked in the communications department at the German embassy in Japan. Between December 1998 and the formation of Tipp24, he worked as a consultant at Icon Medialab AG.

# ***LOTTO WITH TIP24 TOTALLY RELAXED AND UNCOMPLICATED!***

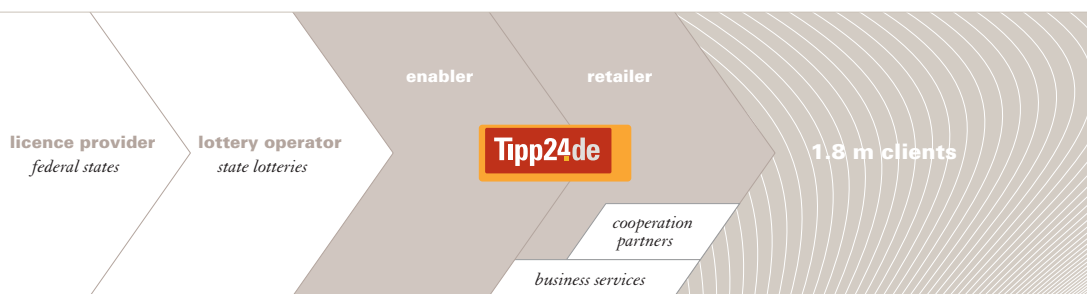
***WE MAKE IT EASY TO PLAY LOTTO: LOG ON, PLACE YOUR BET, FINISHED!  
WE ALSO OFFER A WIDE RANGE OF SERVICES WITH ATTRACTIVE  
ADDITIONAL OFFERS – SUCH AS BETTING CLUBS, JACKPOT ALARM  
AND HOROSCOPE BETS.***



## **BUSINESS MODEL & POSITIONING**

# **TIPP24 – NO. 1 FOR ONLINE LOTTERY**

*TIPP24 IS GERMANY'S LEADING ONLINE LOTTERY BROKER WITH A MARKET SHARE OF 40–50%. THANKS TO OUR OWN HIGH-PERFORMANCE PLATFORM, OUR LONG-TERM AND STABLE PARTNERSHIPS WITH SALES PARTNERS AND STATE LOTTERY COMPANIES AND OUR EXTENSIVE PROCESS KNOW-HOW, WE CAN OFFER SOME 1.8 MILLION REGISTERED CUSTOMERS A FIRST-CLASS LOTTO SERVICE WHICH ENSURES SAFE AND CONVENIENT PARTICIPATION IN STATE-LICENSED LOTTERIES. WE ENABLE OUR BUSINESS SERVICE PARTNERS TO RUN LOTTERY PRODUCTS UNDER THEIR OWN BRAND AND SUPPORT THEM WITH RELIABLE TECHNICAL AND ORGANIZATIONAL PROCESSING.*





**WELL POSITIONED IN GERMANY AND EUROPE**

As an independent broker of gaming agreements between our customers and the respective state gaming operators, we are exposed to no significant product risks and, above all, no bookmaking risks. Our strong brand is built on the good contacts we enjoy with our loyal customers. High billings and extensive advertising have secured our strong position in the value chain. This business model has also proved highly successful abroad: our subsidiaries Ventura24 in Spain and Puntogioco24 in Italy offer local lottery products and generated some 13% of total revenue in 2006.

**DIRECT CONTACT TO LOYAL CUSTOMERS**

Our positioning as a reliable service provider operating on the customer's behalf gives us a decisive advantage: we have direct contact with the customer. We know the detailed profile and gaming behavior of each of our customer groups – a key prerequisite for efficient marketing and successful long-term customer relationships.

**SUCCESSFUL BUSINESS SERVICES**

For a one-time setup fee, we provide our Business Service partners with Tipp24's own transaction platform. They receive a permanent share of the commissions received and the additional fees charged.

**EFFECTIVE AND EFFICIENT MARKETING**

Our business is driven by strong new customer marketing. With the aid of detailed knowledge gained from years of experience and an established network in the new media, our activities focus on effective response-oriented online advertising. In order to evaluate success, we regularly check the effectiveness of our marketing spend.

**POWERFUL TECHNOLOGY**

Our proprietary high-performance software guarantees trouble-free game processing – even during major jackpot periods with heavy visitor traffic. Our systems are safe, scalable, highly reliable and well equipped for the future growth.

**EXCELLENT RELATIONS TO LOTTERY OPERATORS**

Long-term, stable partnerships with eight state lottery companies ensure our commercial independence and process reliability.

**ROBUST, SCALABLE BUSINESS MODEL**

Our business model provides the basis for profitable growth: with minimal effort we can launch new products, market existing ones via new sales channels or – in the case of expected deregulation – introduce them in other European markets.



***LOTTO WITH TIPP24***  
***SIMPLY PLAY WHEREVER***  
***YOU WANT!***

***FOR ALL THOSE WHO ENJOY THEIR FREEDOM, BUT DON'T WANT  
TO MISS OUT ON POSSIBLE WINNINGS: AT [WWW.TIPP24.DE](http://WWW.TIPP24.DE) YOU CAN  
PLAY LOTTO WHEREVER AND WHENEVER YOU CHOOSE – EVEN VIA  
YOUR MOBILE PHONE!***

## SUCCESS FACTORS

# POSITIVE CUSTOMER EXPERIENCE

TIPP24 ENABLES CUSTOMERS TO CREATE THEIR OWN GOOD FORTUNE.

OUR USER-FRIENDLY SERVICE MAKES IT EASY FOR ANYONE TO PLAY LOTTO

– WHEREVER AND WHENEVER THEY LIKE WITHOUT ADDITIONAL CHARGE –

AND THUS TO HAVE A CHANCE OF WINNING THE JACKPOT. OUR WIDE RANGE

OF PRODUCTS ARE EASILY ACCESSIBLE, THE TECHNOLOGY WORKS SEAMLESSLY

AND OUR ADDITIONAL SERVICES ADD TO THE FUN. OUR ULTIMATE OBJECTIVE

IS TO ENSURE TIPP24 CUSTOMERS HAVE ONLY POSITIVE GAMING EXPERIENCES.



**WIDE AND ESTABLISHED PRODUCT RANGE**

The Tipp24 websites offer customers access to a largely complete and well-established product range: in Germany we act as agent for Lotto, Oddset, Glücksspirale, Keno, NKL/SKL and scratch cards. In Spain, the range includes all state lottery products and in Italy, the national »SuperEnalotto«. In addition, we also offer clubs for various lottery products in all countries.

**STANDARD PRODUCTS WITHOUT ADDITIONAL CHARGE**

The standard products Lotto, Oddset, Glücksspirale and Keno do not cost customers any more than buying them at the kiosk.

**SAFE AND RELIABLE TRANSACTION TECHNOLOGY**

Our transaction technology is geared to meeting every challenge and can maintain its high level of performance even during record jackpot periods. The systems are highly reliable and easily scalable.

**CONVENIENT ACCESS – ANY TIME, ANY PLACE**

Customers can easily access our website from anywhere in the world and at any time, in to ensure they never miss a chance of winning the jackpot.

**FREE NOTIFICATION AND AUTOMATIC CREDITING OF WINNINGS**

Nothing goes missing with Tipp24: on request, winners can be notified immediately by text message or e-mail, game tickets are sent electronically and winnings credited automatically to the player's personal gaming account.

**USER-FRIENDLY WITH CONVENIENT PAYMENT TERMS**

Our services are all designed to be user-friendly – making usage fast and easy for our customers. The same applies to our payment terms, which allow the customer to choose freely between direct debit, bank transfer and credit card payment.

**FUN FACTOR**

Last but not least, we also like to entertain our customers with extra attractions: such as additional game modules for Lotto, e.g. the »horoscope bet« which uses the player's date of birth and star sign to generate their own »lucky numbers«. For regular players, we aim to raise the fun factor by offering skills games which enable them to create an unlimited amount of new »lucky numbers« for their Lotto tickets. Apart from the fun, the decisive factor is the variety of instruments with which players can shape their our good fortune.

# ***LOTTO WITH TIPPI24*** ***JUST ENJOY IT!***

***YOU DON'T HAVE TO WORRY ABOUT A THING: WE CONTACT WINNERS IMMEDIATELY AND FREE OF CHARGE! AND WINNINGS ARE AUTOMATICALLY CREDITED TO YOUR ACCOUNT.***

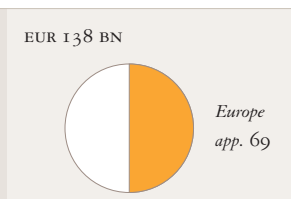


**MARKETS**

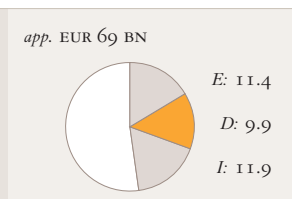
# WELL PLACED IN AN ATTRACTIVE MARKET

THE ONLINE LOTTERY MARKET CONTINUES TO OFFER TREMENDOUS GROWTH POTENTIAL. ANNUAL GROWTH OF OVER 27%<sup>1)</sup> IS FORECAST FOR THE YEARS UP TO 2008. WITH A JOINT GLOBAL MARKET SHARE OF 26%, ITALY, SPAIN AND GERMANY ARE EUROPE'S THREE MOST IMPORTANT MARKETS. IN EUROPE, AND ESPECIALLY GERMANY, THE MARKET IS CURRENTLY EXPERIENCING CONSIDERABLE REGULATORY UNCERTAINTY. INTENSIVE POLITICAL AND LEGAL DISCUSSIONS ARE BEING HELD ABOUT THE FUTURE SCOPE FOR SERVICES PROVIDED BY PRIVATE GAMING BROKERS SUCH AS TIPP24.

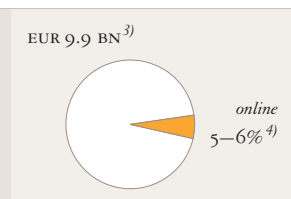
**GLOBAL LOTTERY MARKET**<sup>2)</sup>



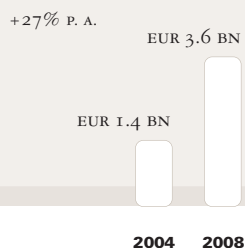
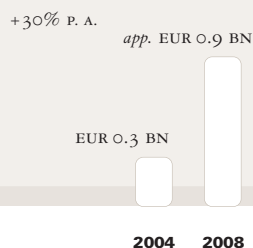
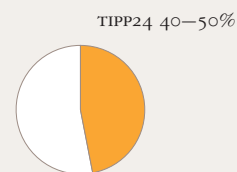
**EUROPEAN LOTTERY MARKET**<sup>2)</sup>



**GERMAN LOTTERY MARKET**





**ONLINE LOTTERY GLOBAL<sup>1)</sup>****ONLINE LOTTERY IN GERMANY<sup>2)</sup>****MARKET SHARE TIPP24 2006<sup>3)</sup>****THE GLOBAL LOTTERY MARKET**

The global lottery market<sup>2)</sup> is the largest segment of the world gaming market with 31% – growing by an average of 3.3% in the last few years. With a market volume of nearly EUR 69 billion, Europe makes up about 50% of this total. Within Europe, the three most important nations – Germany, Spain and Italy – account for some EUR 33 billion or 50% of the market. Online lotteries are estimated to account for about 1.5 to 2% of total sales.

**OUR CORE MARKET: GERMANY**

According to our calculations, the online share of the German lottery market amounted to around 5–6% in 2006. Providing that the current uncertainty surrounding future legislation is ended in a positive way for the sector, we expect it grow by over 30% p. a. until 2008 and to reach as much as EUR 1 billion. This would correspond to a market share of around 10%. Tipp24 currently dominates the market with a share of 40–50%<sup>4)</sup> – followed by the online services of state-owned lottery companies and other private providers. Toward the end of the past fiscal year, the state lottery companies – with the exception of Lower Saxony and North Rhine Westphalia – temporarily withdrew their online services as a result of regulatory discussions. As a result, Tipp24's market share at year-end rose to well over 60%.

**OUR FOREIGN MARKETS: SPAIN AND ITALY**

The Spanish lottery market – with a market volume of around EUR 11.4 billion (2005), Europe's second largest after Italy (2005: EUR 11.9 billion) – has displayed average annual growth of 4.4% in the past eight years. Over the same period, the Italian market posted average growth rates of 11% p. a. – albeit with considerable fluctuations<sup>3)</sup>. We believe that the online share of both lottery markets is still largely insignificant and results mainly from our own pioneering activities. Moreover, the e-commerce markets in both countries are still under development and approximately 3–5 years behind the German market.

1) Source: Global Betting and Gambling Consultants, *The Global Betting and Gambling Report 2004/05*, »GBGC.«

2) Total volume 2004: EUR 138 billion; source: *La Fleur's 2005 World Lottery Almanac*, »La Fleur's«

3) Source: *La Fleur's*

4) Source: TIPP24's own estimates, based on billings and subject to stable legal conditions

### **MARKET DEVELOPMENT**

There is currently a heated debate in Germany about the future of online brokers such as Tipp24. The dispute results from the increasing pressure on the current state-owned gaming operators regarding their monopoly on lotteries and betting. As is the case with all monopolies whose dominance is challenged, there is bitter resistance from those who benefit most of all from the status quo. These reactions are often excessive and lacking a certain degree of economic logic. This is reflected to some extent in the resulting draft legislation – in particular the current draft State Treaty on Gaming. In addition to regulations which are highly detrimental to the state's lottery revenues and thus to the budgets of the federal state governments, the bill contains some extremely contradictory rulings which are highly unlikely to stand up to close legal examination. In our opinion, these rulings represent a flagrant violation of constitutionally guaranteed rights as well as European legislation. This view has been confirmed by several high-ranking constitutional lawyers.

Should the new State Treaty on Gaming be signed by all state premiers and ratified by all state parliaments – despite considerable objections – and thus become law, Tipp24 will pursue all available avenues of appeal in order to mitigate any negative consequences for Tipp24. At the same time, we are already developing alternative strategies in order to secure our existing business in Germany. We cannot rule out the possibility of suffering the occasional setback. However, we are convinced that Tipp24 will eventually emerge strengthened from the current upheaval in the German gaming market. In the past, various formerly monopolistic markets, such as the telecom market, have proven that market forces can prevail.

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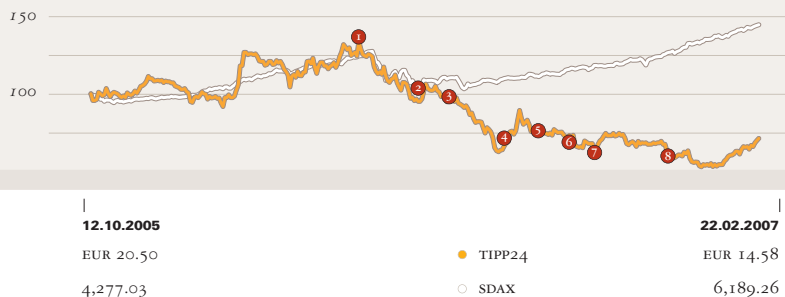
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## **SHARE & CORPORATE GOVERNANCE**

# **SHAKEN BY EXTERNAL FACTORS**

*A CHANGEABLE STOCK EXCHANGE YEAR CLOSED WITH A HAPPY END IN 2006: INVESTORS WHO HAD KEPT FAITH IN GERMAN BLUE-CHIP SHARES (DAX INDEX) – EVEN DURING STRONG PRICE FALLS IN SPRING – WERE REWARDED AT YEAR-END AS POSITIVE ECONOMIC INDICATORS, A STRONG RISE IN GDP AND GROWING CORPORATE PROFITS DROVE THE INDEX TO A 5-YEAR-HIGH. THE DAX CLOSED SOME 21% UP ON THE PREVIOUS YEAR-END FIGURE. OTHER KEY INDICES ONCE AGAIN PERFORMED EVEN BETTER: MDAX (+29%), SDAX (+31%) AND TECDAX (+25.5%).*

## PERFORMANCE OF THE TIPP24 SHARE



- 1 May 2006 – Start of regulatory discussions.
- 2 22 June 2006 – Minister President Conference in Berlin decides to draft new State Treaty on Gaming.
- 3 Second half 2006 – Intensification of regulatory discussions.
- 4 23 August 2006 – Federal Cartel Authority notifies Germany's regional lottery companies and the »Lotto- und Totoblock« (DLTB) of various infringements of German and European antitrust law.
- 5 September 2006 – Amended draft version of a new State Treaty on Gaming is published which provides for significant restrictions in the marketing and advertising of all forms of gaming, especially via the internet.
- 6 6 October 2006 – Tipp24 publishes ad-hoc announcement (in accordance with §15 WpHG (German Stock Trading Law)) that – contrary to previous assumptions – it no longer expects the New Year lottery »ExtraLotto« to be played.
- 7 20 October 2006 – At the Minister President Conference, Germany's state premiers emphasize that they intend to maintain the state's monopoly on gambling and betting with a new State Treaty on Gaming. The draft contains amongst other a clause forbidding the advertising and marketing of gaming products on the internet in general, albeit with exceptions for lottery products with two or less draws per week.
- 8 13 December 2006 – Contrary to plans, a revised State Treaty on Gaming is not signed by the state premiers at their conference in Berlin. The draft included a complete ban on the online advertising and marketing of gaming products.

## DEVELOPMENT OF TIPP24 SHARE

The Tipp24 share price was strongly influenced in 2006 by discussions concerning the regulatory environment, especially in Germany. After opening the year close to its issue price at EUR 20.30, the Tipp24 share rose to an all-time high of EUR 27.84 in early May. At this point, there was great interest from institutional investors in Tipp24's equity story, underlined by the corresponding results published in its Annual Report 2005 and first Quarterly Report 2006. Following the verdict of the Federal Constitutional Court on the state's sports betting monopoly, however, intensive discussions began in May about a revision of the regulatory conditions for the German gaming market. These discussions are still continuing today. In the wake of this uncertainty, the Tipp24 share fell to a year-end price of EUR 12.57 – after having experienced an all-time low of EUR 10.51.

**KEY SHARE FIGURES  
(XETRA)**

Day of initial listing	<b>12.10.2005</b>
Year-opening price	<b>EUR 20.30</b>
Market capitalization (01.01.2006)	<b>EUR 180.11 m</b>
Year-end price	<b>EUR 12.57</b>
Market capitalization (31.12.2006)	<b>EUR 111.53 m</b>
Highest price (02.05.2006)	<b>EUR 27.84</b>
Lowest price (20.10.2006)	<b>EUR 10.51</b>
Number of shares	<b>8,872 thsd.</b>
Average daily trading (until 31.12.2006)	<b>31,617 shares</b>
Earnings per share (undiluted and diluted)	<b>EUR 0.84</b>

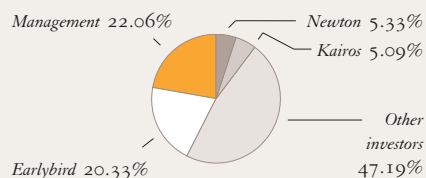
**SHAREHOLDER SERVICE**

WKN	<b>784714</b>
ISIN	<b>DE0007847147</b>
Ticker symbol	<b>TIM.DE</b>
Stock exchange	<b>Frankfurt</b>
Market segment	<b>Official Market, Prime Standard</b>
Designated Sponsors	<b>Deutsche Bank, Morgan Stanley</b>
Coverage	<b>Berenberg, Citigroup, Deutsche Bank, Morgan Stanley, Sal. Oppenheim, Warburg/SES</b>
Reuters	<b>TIMGn.DE</b>
Bloomberg	<b>TIM GR</b>

**IR ACTIVITIES**

In 2006, investor relations activities continued to focus on fast and open communication with analysts, as well as institutional and private investors.

We were on hand to answer questions from institutional target groups in Europe's financial centres during 22 roadshows and investor conferences. The main topics were the company's planned foreign expansion, the development of our product portfolio and the regulatory uncertainties. On 18 May 2006 we successfully held our first annual shareholders' meeting. All proposed resolutions were adopted with majorities in excess of 99% of represented capital.

**SHAREHOLDER STRUCTURE**

## **CORPORATE GOVERNANCE**

### *Responsible and sustained value growth*

Good corporate governance is a central aspect of our corporate policy which extends to every area of the company: a management and control system based on responsible and long-term value growth. In addition to organizational and business policy principles, it comprises the internal and external mechanisms for controlling and monitoring the company. These include, in particular, the efficient cooperation between Executive Board and Supervisory Board, the transparent communication of company activities and the respect of shareholder interests. Good corporate governance promotes the trust of national and international investors, financial markets, business associates, employees and the general public in the management and monitoring of a company. Tipp24 has always attached great importance to these principles.

Tipp24 follows the recommendations of the German Corporate Governance Code in its current version of 12 June 2006 ([www.corporate-governance-codex.de](http://www.corporate-governance-codex.de)). The exceptions are listed and explained in our Declaration of Conformity. The currently valid version of our Declaration of Conformity (together with our company articles and codes of procedure) is also posted on our website at [www.tipp24-ag.de](http://www.tipp24-ag.de) and thus permanently available to all shareholders.

We would like to highlight certain key aspects of our Corporate Governance Code below.

### *Close cooperation between Executive Board and Supervisory Board*

The Executive Board and Supervisory Board of Tipp24 AG work closely together. The Executive Board reports regularly, prompt and comprehensively to the Supervisory Board about all relevant questions of corporate planning and strategic development, as well as about the course of business and the Group's current position, including an assessment of risks. All deviations in the development of business from targets and budgets, as well as the Group's strategic alignment and future development, are immediately reported to the Supervisory Board. The company's articles include provisions regarding the necessary approval of the Supervisory Board for significant business transactions.

### *Directors' dealings acc. to §15a WpHG*

According to §15a WpHG, members of the Executive Board and Supervisory Board must immediately declare any purchase or sale of Tipp24 shares, as well as related financial instruments, to their company. Directors' Dealings and Directors' Holdings for fiscal year 2006 are listed in detail on page 82 of this annual report.

### *Executive Board and Supervisory Board remuneration*

Details on the individual remuneration of members of the Executive Board and Supervisory Board, including an explanation of the respective remuneration structures, are provided in the notes to the annual financial statements (no. 28 »Other disclosures according to German Commercial Law«). The structure of our remuneration system for Executive Board and Supervisory Board members is also summarized in the Management Report on page 30. The company's Executive Board members have no sideline activities.

**DECLARATION BY THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD OF TIPP24 AG ON THE RECOMMENDATIONS OF THE COMMISSION OF THE GERMAN CORPORATE GOVERNANCE CODE AS PER § 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)**

After due examination, the Executive Board and Supervisory Board of Tipp24 AG issue the following Declaration of Conformity:

Tipp24 AG complies with the following exceptions with the 12 June 2006 version of the conduct recommendations made by the governmental Commission of the German Corporate Governance Code for corporate management and monitoring as published by the German Ministry of Justice in the official part of the electronic Federal Gazette and will continue to comply with them with the following exceptions:

**3.8 – D&O insurance deductible**

Tipp24 AG has taken out a D&O insurance for its executive bodies that does not include a deductible. The Executive Board and Supervisory Board take the view that a D&O insurance deductible does not constitute an adequate means of achieving the code's objectives. As a rule, deductibles of this kind are insured by Executive Board and Supervisory Board members themselves, so the actual purpose of the deductible is nullified and therefore ultimately all that matters is the level of compensation paid to the Executive Board and the Supervisory Board.

**4.2.1 – Appointment of a Board Chairman**

The Executive Board of Tipp24 AG has neither a Board Chairman nor a Board Spokesman. Establishing an office of this kind would be contradictory to the organizational structure that has existed until now, comprising three board members enjoying equal rights who are jointly responsible for the strategic alignment and development of the business enterprise.

**4.2.3 – Variable compensation of Executive Board members including long-term incentive**

The compensation package of Executive Board members does not include variable compensation with long-term incentives and risk elements. Executive Board members' significant shareholdings already constitute a long-term financial incentive with elements of risk.

**5.3.1 and 5.3.2 – Formation of committees, setting up of an audit committee**

Since in accordance with the company statute the Supervisory Board of Tipp24 AG comprises only three persons the Supervisory Board has formed no committees, and in particular no audit committee.

**7.1.4 – Publication of operating results of companies in which the Company has a shareholding**

The list published by the Company of third-party companies in which it has a shareholding that is not of minor importance for the enterprise contains the statutory information.

Since submitting its last Declaration of Conformity in January 2006, Tipp24 AG has complied with all recommendations of the German Corporate Governance Code in the version dated 2 June 2005, with the exception of recommendations made under 3.8, 4.2.1, 4.2.3, 5.3.1, 5.3.2 and 7.1.4.

Hamburg, 9 January 2007



**GROUP MANAGEMENT REPORT**

# ***DYNAMIC GROWTH CONTINUES***

*AGAINST A BACKDROP OF ONGOING POLITICAL AND LEGAL DISCUSSIONS ABOUT THE GERMAN GAMING MARKET, WE SUCCEEDED IN RAISING REVENUE OF THE TIPP24 GROUP BY OVER 32% IN THE PAST YEAR. AS A RESULT OF SPECIAL ITEMS, HOWEVER, THE EBIT MARGIN FELL SLIGHTLY TO 21%: IN ADDITION TO LOBBYING COSTS RELATING TO THE CURRENT REGULATORY DISCUSSIONS AND THE OMISSION OF THE NEW YEAR'S EVE LOTTERY »EXTRALOTTO«, THE DIP WAS CAUSED BY ABOVE-AVERAGE MARKETING EXPENSES DURING THE HIGH JACKPOT PERIOD. THIS PERIOD ALSO HELPED PROVIDE AN EXCEPTIONAL INCREASE IN NEW CUSTOMERS. THE ONLINE LOTTERY MARKET OFFERS TREMENDOUS LONG-TERM POTENTIAL WITH REGARD TO CUSTOMER DEMAND. DEREGULATION OF THE MARKETS WOULD PROVIDE FURTHER ATTRACTIVE GROWTH OPPORTUNITIES, WHICH TIPP24 IS EXCELLENTLY POSITIONED TO EXPLOIT.*

## BUSINESS & ECONOMIC CONDITIONS

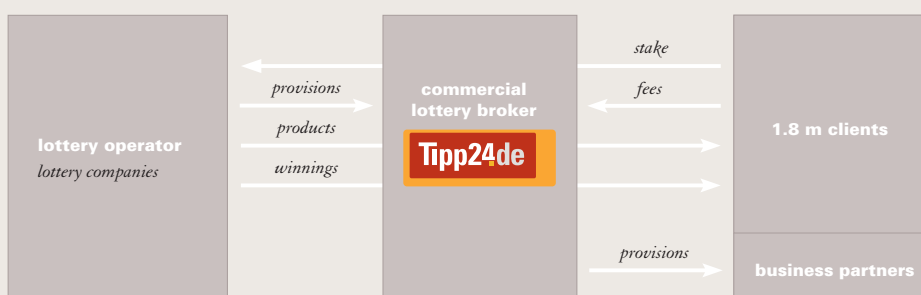
### BUSINESS MODEL

Tipp24 markets state-licensed and guaranteed gaming products via electronic media, especially the internet. Its product portfolio comprises the products of the »Deutscher Lotto- und Totoblock (DLTB)«, the class lotteries, the German TV lottery and value-added combined products. We also offer selected partners with high-reach websites the complete handling of their internet lottery activities. We have also been active on the Spanish market since 2002 with Ventura24 S.L. and on the Italian market – with restrictions – since early 2005 with Puntogioco24 s.r.l., which both offer comparable product portfolios and business models. According to our own estimates, we enjoy a leading position in the online brokerage of state-owned and state-licensed lottery products in Germany with a market share of 40–50% (measured by billings and before the closure of state lottery online offers). Our successful initial public offering on the Frankfurt Stock Exchange (Prime Standard) in October 2005 provided us with additional capital with which we intend to accelerate the development of our business.

### End user business in Germany

The processing of our business is handled by our 100% subsidiary GSG Lottery Systems (GSG), which maintains business relations with the partner lottery companies. On the basis of GSG's receiving agent agreements with eight federal state lottery companies (Baden-Württemberg, Brandenburg, Bremen, Hamburg, Hesse, Lower Saxony, Rhineland-Palatinate and Schleswig-Holstein), we are able to acquire any amount of any of the products offered by the »Deutscher Lotto- und Totoblock (DLTB)« on behalf of our customers. Any technical difficulties affecting a particular partner can be seamlessly bypassed through the use of completely separate connection systems.

The handling of »Klassenlotterie« tickets is governed by a corporate agreement with the state-accredited lottery agency Schumann OHG, which is owned by the Executive Board members Jens Schumann and Marc Peters. It conducts its operations on the basis of a sales agreement with the management of the North German State Lottery (Norddeutsche Klassenlotterie – NKL) and by way of appointment by the management of the South German State Lottery (Süddeutsche Klassenlotterie – SKL). As with the »Deutscher Lotto- und Totoblock (DLTB)« products, there are no restrictions as to the quantity of lottery tickets purchased. Due to the monthly turnover of the »Klassenlotterie« draws, system redundancy requirements are relatively low.



### *End user business abroad*

In **Spain** our 100% subsidiary Ventura24 currently offers the national 6 out of 49 lottery (La Primitiva) and related betting and system clubs, the Christmas lottery (Sorteo de Navidad), the European lottery »Euromillones« and a number of other lotteries. The product range of our 100% subsidiary in **Italy** (Puntogioco24) currently comprises – with restrictions – the national 6 out of 90 lottery (SuperEnalotto) as well as related betting and system clubs. Our revenues in Spain and Italy are mainly generated by additional fees which we charge players.

### *Business services*

In addition to our end user business, we also offer our business service partners in Germany the operation of a lottery service on their own websites and under their own names, using Tipp24's transaction platform for technical processing. We generally receive a one-time setup fee for this service from our business service partners and grant them a share of the commissions from the lottery companies based on billings for the relevant customers and of the additional fees they charge, in each case in accordance with the relevant agreement between the parties.

### *Success factors*

The competitive strengths of Tipp24 lie especially in our marketing expertise, our integration in a proven network of numerous state lottery companies and online sales partners, our high degree of processing know-how, the reliability of our proprietary technology and the business expertise of our management.

## **SIGNIFICANT ECONOMIC AND LEGAL FACTORS AFFECTING BUSINESS**

### *Large jackpots*

Tipp24 regularly experiences particularly large increases in the number of registered customers and in billings when potential players have greater expectations of higher prizes, for example during times of large jackpots.

Such large jackpots are comprised of stakes bet by players who did not meet the conditions for winning prizes and which are then paid out to the winners on top of regular prizes at the next draw. In the German 6 out of 49 number lottery, this relates in particular to the combination of six correct numbers and the bonus number: If the jackpot has not been won after several consecutive draws, it grows consistently larger and the players have the prospect of a higher prize for substantially the same probability of winning.

### *Product portfolios of the lottery companies*

The development of our revenues may be positively influenced by the further development of product portfolios offered by the German, Spanish and Italian lottery companies. Against a backdrop of ongoing regulatory discussions in 2006, however, there were no significant new product launches by the lottery operators. On the contrary, the »ExtraLotto« New Year's Eve lottery successfully launched in 2005 was not repeated in late 2006 – despite previous assurances – due to the above-mentioned discussions.

### *Regulatory environment of the European gaming market*

The business success of Tipp24 is dependent on there being no changes to the regulatory framework under which Tipp24 operates that would restrict our activities. The current regulatory discussions in Germany may lead to a significant restriction of our present business model, at least in the medium term. On the other hand, there are also strong indications that the gaming market in Germany and the rest of Europe may be liberalized in the medium term, coming from the European Community and legislation of the European Court of Justice. As part of such a »deregulation« we see an opportunity for us to market products from other European countries in the countries where Tipp24 is already active, thereby increasing our revenues. We would also have the opportunity to penetrate markets in additional European countries, offering both our existing product range and products from different European countries.

### *Using the internet as a sales channel*

The use of the internet as a sales channel for the European lottery markets is still in its infancy. We estimate, however, that the online share of the lottery market will experience significant growth in the future. Favourable factors influencing this growth include the increasing use of the internet and the growing willingness to make purchases of goods and services online.

## **VALUE-DRIVEN CORPORATE DEVELOPMENT**

### *Basis: value of customer base*

The development of the Tipp24 Group is focused mainly on raising the value of our customer base. This value is derived from the accumulated contributions of active customers to total billings, and thus to revenues and earnings, as well as from the estimated future development of the intensity and duration of customer relationships.

The key indicators which we use to guide the development of customer value are: number of registered and active customers, billings per active customer, gross margin, acquisition costs per new customer, personnel expenses and the development of key return ratios.

### *Number of registered and active customers*

Our aim is to raise the number of registered customers in the current year and over the medium term by 300 to 400 thousand p. a. At the same time, we want to stabilize the average activity rate within the statistical deviations caused by the random seasonal distribution of high jackpots at around 30%.

The number of customer registrations is principally driven by marketing activities. In order to steadily raise registrations, therefore, we will continue to drive these activities. We will concentrate primarily on online advertising, which we conduct in cooperation with other partners or directly by ourselves. In 2006, growth of registered customers was proportionately much stronger than in the previous year. The main reason for this development was a favourable jackpot situation (EUR 15 million or more) during the period under review. The largest jackpot in German history (EUR 35 million) in the third/fourth quarter of 2006 resulted in an exceptional increase in new customers, billings and the activity rate of our existing customers.

A further main focus of our activities is the retention of existing customers, whom we inform regularly – depending on their playing behaviour and the respective current appeal of specific products – via e-mail, text messages or our website, in order to motivate them to take part in further games.

The average activity rate remained stable at 28.6% in the past year.

#### *Billings per active customer and gross margin*

In addition to the development of registered and active customers, a decisive factor for Tipp24's business success is **billings** per active customer. Billings per active customer are influenced by two principal factors: the variety and attractiveness of our product portfolio and the effectiveness of customer retention measures.

Billings generated by customers comprise the stake money that is remitted to the gaming operators. In return, we receive commissions from the gaming operators for these stakes. Moreover, we charge our customers additional fees for specific products.

We aim to keep this key figure stable in fiscal 2007 and to raise it in the medium term by expanding our product portfolio.

We plan to maintain **gross margin** (defined as the ratio of revenues to billings) at least at its current level in 2007 and in the medium term. The development of gross margin is heavily influenced by our German operations at present. In Spain and Italy, where all products have been marketed to date with an additional fee, gross margin is significantly higher than in Germany. Comparatively stronger growth in these markets raises the overall level of gross margins.

In 2006 billings per active customer remained stable – within the range of statistical variation – at EUR 598 (2005: EUR 609). Due to the highest jackpot in the history of German Lotto, we were able to gain over 100 thousand new customers in the first week of October alone. These were only able to contribute to billings for one quarter, which resulted in a slight statistical reduction in average billings for all active customers. We expect to hold billings per customer in the corridor of the previous years at around EUR 600 for the current fiscal year. We aim to achieve this by means of regular maintenance updating of our lottery product portfolio.

#### *Acquisition costs per new customer*

As described above, revenues from the brokerage of gaming products depend strongly on the number of registered customers. Consequently, revenue growth is highly dependent on the extent to which we can attract new customers with our marketing activities. We devote the major share of our »Marketing expenses for own customers« to the acquisition of new customers. A much smaller proportion is used to care for existing players.

Marketing expenses for own customers significantly influence the medium-term profitability of Tipp24. The efficiency of these expenses depends in particular on the level of prices in the advertising market, the marketing mix chosen and the cost-effectiveness of the marketing methods used.

In 2004, the unusually high jackpot at year-end had a particularly positive impact on the level of acquisition costs. Due to the much weaker jackpot situation and an increase in advertising price levels, acquisition costs per new customer in 2005 rose by 18.3% to EUR 20.12.

In fiscal 2006, the favourable jackpot situation of the fourth quarter helped us to decrease acquisition costs for the year to EUR 18.81, despite the strong expected rise in advertising costs. We expect this level to rise in 2007 within a corridor of 10 to 15%, directly leading to a significant increase of acquisition costs per new customer. Our aim is to limit any further increases. To this end, we permanently review and optimize our advertising measures. Furthermore, we regular check – both for online and other advertising – as to whether there are new possibilities of advertising the brand and our services, in order to stabilize the effectiveness of our measures and raise the amount of coverage they achieve.

#### *Personnel expenses*

In consideration of the fact that personnel expenses represent our second largest expenditure (after marketing), reducing the ratio of personnel costs to total revenues remains one of our major objectives. In 2006, we were able to achieve this by largely automating processing tasks – the increase in personnel expenses was thus proportionately less than the rise in total billings. We aim to continue this trend in the medium term.

#### *Development of key return ratios*

We benefit from considerable economies of scale, which have enabled us to steadily raise our **EBIT margin** – even though the EBIT margin in fiscal 2006 was slightly down on the previous year as a result of special items and in particular the absence of the »ExtraLotto« New Year's Eve lottery which made a strong contribution to earnings in its first year (2005). At the same time, marketing expenses grew faster than revenues – due in part to the highest-ever Lotto jackpot (EUR 35 million) in October 2006 – resulting in a strong increase in new customers. In contrast to the previous year, we also incurred considerable costs (a six-figure amount in euros) for lobbying. Taken together, these items had a negative impact on our EBIT margin.

**Net operating margin**, however, reached its highest-ever level at 21.5% in the past year – due mainly to special tax items from the investment of a large proportion of liquid funds in reverse convertible transactions in the first and second quarters. **Return-on-equity** fell in 2005, compared with 2004, as a result of the significant increase in shareholders' equity following our IPO. In the period under review, increased earnings resulted in an improvement in return on equity to 12.3%.

#### **STRATEGY: MULTI-DIMENSIONAL GROWTH**

The core target of our strategy in the coming years is to raise customer value as part of a targeted continual increase in profitability. We therefore aim to

- continue growing in our core market Germany by **attracting new customers**,
- further improve the quality of our product range with the aim of achieving sustainable first-class service,
- expand our product range for these customers with **further gaming games**,

		2003	2004	2005	2006	TARGET 2007*	TARGET MID-TERM*
Number of registered customers	THSD.	675	1,031	1,322	1,770	+300-400	↑
Average activity rate	%	30.3	30.9	28.6	28.6	app. 30	→
Number of active customers in the fiscal year	THSD.	169	264	336	442	+20-30%	↑
Billings per active customer	EUR	620	584	609	598	app. 600	↗
Gross margin	%	13.4	12.7	12.8	13.1	> 13	↗
Acquisition costs per new customer	EUR	17.52	17.01	20.12	18.81	25-27	↗
Personnel expense ratio	%	30.4	28.3	26.8	23.9	< 23	↓
EBIT margin	%	7.1	16.4	23.2	21.0	→	↑
Net operating margin	%	21.3	8.1	12.7	21.5	↓	↑
RoE	%	49.4	20.1	6.2	12.3	→	↗

**Number of registered customers:** Number of customers who have successfully completed the registration process on the company's website. The number is adjusted for multiple registrations and customers excluded from participating in the lottery offering.

**Average activity rate:** The relationship between the number of active customers and the average number of registered customers in a fiscal year, whereby the average number of registered customers is the arithmetic mean of the number of registered customers at the end of each month of the fiscal year.

**Number of active customers in the fiscal year:** Total number of active customers of each month in the fiscal year divided by 12 months.

**Active customers:** Customers who complete at least one transaction per month.

**Acquisition costs per new customer:** Total marketing expenditure for own customers (marketing costs minus Business Service commissions) in relation to newly registered customers in the relevant fiscal year.

**Personnel expense ratio:** Personnel expenses in relation to revenues.

\* subject to unchanged regulatory environment

- strengthen our **foreign business** by achieving growth in Spain and Italy, as well as penetrating further European nations,
- achieve additional growth in existing and new European markets with a **European product portfolio** following a possible deregulation of the European lottery markets.

This growth is to be accelerated by using available liquid funds of around EUR 60 million, also by means of acquisitions.

Due to the current intensive political and legal discussions about the German gaming market and its legal parameters, we have postponed the specific use of our available liquidity for the time being. Once the legal parameters have been settled, we will examine and swiftly implement possible strategic and tactical measures. In our investment activities we aim to ensure in general that there is no medium-term erosion of Tipp24's key financial parameters – especially gross margin, net operating margin and return on equity.

We expect the expansion of our product portfolio to generate a considerable additional boost to average billings per active customer. The international expansion of business is aimed in particular at raising the number of registered and – consequently – the number of active customers. In general, all our strategic initiatives are aimed at raising total customer value.

## **MANAGEMENT & CONTROL**

### *Management team*

The Tipp24 Group is led by the three members of its Executive Board together with an operating management team consisting of department managers for Marketing, Technology and Finance in Germany, the General Managers of the foreign subsidiaries and a group of team leaders.

### *Remuneration of Executive Board: up to 25% variable*

The remuneration of the Executive Board members consists of a fixed basic salary and a variable component amounting to up to 25% of the fixed amount. The variable component is based on the achievement of growth targets in the respective fiscal year, measured on the basis of billings. Moreover, all three members of the Executive Board hold relevant stakes in Tipp24 AG, which provide an incentive with regard to the company's long-term positive development.

### *Remuneration of Supervisory Board members*

In addition to the reimbursement of their expenses, members of the Supervisory Board receive a fixed annual payment of EUR 12 thousand on completion of the respective fiscal year.

As well as this fixed amount, members of the Supervisory Board also receive a performance-based annual payment which depends on consolidated EBIT, whereby this additional performance-based remuneration is limited to a total amount of no more than EUR 6 thousand.

Moreover, the members of the Supervisory Board receive a performance-based annual payment with a long-term incentive effect, for the first time in 2007, which depends on consolidated earnings per share. This additional remuneration is also limited to an amount of no more than EUR 6 thousand.

The Chairman of the Supervisory Board receives two-and-a-half times, the Deputy Chairman of the Supervisory Board one-and-a-half times the above-mentioned fixed and variable remuneration amounts.



**Remuneration of the second management tier:  
15–25% variable**

In addition to their fixed basic salary, the department heads in Germany also receive a variable remuneration component. Depending on their respective position, this amounts to 15–25% of fixed salary and is based both on the achievement of the Group's economic growth targets (revenues, EBIT) as well as on the individual achievement of internal targets, such as the successful and punctual implementation of projects. Moreover, the department heads participate in our stock option program launched on 1 March 2006. The General Managers of our foreign subsidiaries are paid in the same way, whereby the agreed economic targets relate to their respective regional objectives.

**Research & Development**

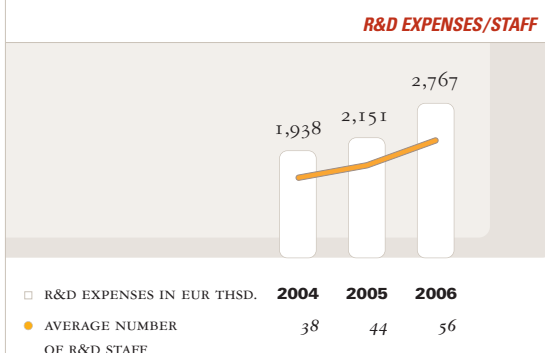
The research activities of Tipp24 are primarily limited to evaluating new technologies and development procedures.

We attach far more importance to our development activities, which focus mainly on the following three areas:

- Optimization of existing gaming systems (software and hardware),
- Implementation of new and updated system technologies,
- Development of new, and improvement of existing, products and services.

The first two areas are covered exclusively by our IT team. The third area also receives considerable input from various company departments – especially product management and marketing.

In fiscal 2006, our development activities focused on the following new products and product enhancements:



- New development of the product »ARD-Fernschlotterie« (TV lottery show) for the German market,
- New development of the Spanish standard lottery products »BonoLoto«, »la Quiniela« and »El Gordo«,
- Improved functionality of the Italian product »SuperEnalotto«,
- Modification of the »Oddset« tickets for best-possible user-friendliness,
- Modification of the »Lotto« ticket for best-possible user-friendliness,
- Revision of mobile handset product range,
- Preparations for business expansion with WEB.DE,
- Electronic link with the state lottery companies of Bremen and Baden-Württemberg.

Furthermore, we carried out the following optimizations and introduced the following new technologies:

- Development of software systems to analyze gaming behaviour of our customers,
- Ongoing adaptation of security systems to the latest standards,
- Ongoing development of software systems for expanded capacity,
- Launch of a new database archiving system.

All the above-mentioned projects were successfully completed by our in-house development departments in 2006. We did not acquire any external R&D know-how. The new product developments and enhancements made major contributions to our increased revenues.

The developments to improve the performance of our software systems – especially with regard to processing speed and security – are aimed at securing the sustained reliability of our business processing. They only impact revenues in an indirect way. All in all, the hardware and software capacity used by Tipp24 for its current gaming operations is designed to handle the anticipated future peak loads of gaming volumes.

In fiscal 2006 an average of 56 employees were involved with R&D activities on a full-time or part-time basis. R&D expenses amounted to EUR 2.8 million and resulted mainly from personnel expenses.

## **OVERVIEW OF BUSINESS DEVELOPMENT**

### **GENERAL ECONOMIC CONDITIONS**

#### *Global economic growth losing momentum*

The economic upswing in the industrialized nations lost some of its momentum in the course of 2006. At the same time, there were diverging trends in the world's major economic regions: whereas utilization of macroeconomic capacities in the United States of America and Japan decreased, the upswing in Europe became noticeably firmer. The dynamic trend continued in the developing and emerging nations, especially in Asia and remained high – despite a slight dip in China's boom towards year-end as the Chinese government took measures to slow down the tremendous growth in investment.

#### *Euro zone upswing continues at moderate pace*

For the first time since 2000, the economy of the euro zone is experiencing a strong upturn again. Following healthy expansion in the first half of 2006 with real GDP growth of 3.6%, there was a marked slowdown in growth in the third quarter and preliminary estimates put overall growth for the year at just 2%. Nevertheless, this rate underlines the general economic trend at present. This ongoing dynamic development is fuelled primarily by domestic demand. Greater utilization of production capacity, rising corporate profits and favourable borrowing costs are all helping to boost capital investment. In the wake of this robust economic upturn, the pace of job creation has further accelerated, bringing down unemployment from 8.6% to 7.7% within a year. According to estimates, real GDP in the euro zone's major economies grew by 2.5% in Germany, 1.8% in Italy and 3.8% in Spain during 2006.

### *Strong economic recovery in Germany*

In contrast to previous years, the German economy even outpaced many others in the euro zone during 2006. One reason for this was that German companies competed more successfully on the global market than many other countries in the region. This was supported by moderate growth in labour costs, which helped keep German manufacturers competitive and compensate for the effect of a more expensive Euro. The strong specialization of Germany's economy on the export of tangible goods also played a key role, as demand for capital equipment is particularly strong in the current global environment. As a consequence, the number of registered unemployed fell during the period under review. In 2006 the unemployment rate was just 10.7% and thus 1.0 percentage points below the prior-year figure. Thanks to moderate increases in energy prices, inflation also fell to 1.7% in 2006.

### **MARKET AND SECTOR: INTENSIVE POLITICAL AND LEGAL DISCUSSIONS CONTINUE**

The legislative basis for the brokerage of lotteries and gaming in Germany is rooted, on the one hand, in the laws of the respective states («Länder») and, on the other, in the penal regulations of federal law. In the case of state legislation, there is the State Treaty on Lottery Law – implemented by all states and setting the requirements of all states with regard to the commercial brokering of lotteries and gaming – as well as the related implementing laws in certain states. On the other hand, there are the state lottery laws which include both formal regulations and actions constituting criminal and non-criminal offences.

The fiscal year under review was dominated by intensive political and legal discussions about Germany's gaming market and its respective legal conditions. These were based on various court verdicts, official decisions and political statements of intent at the highest level. The main stations are described below.

- On 28 March 2006 the **Federal Constitutional Court** (Bundesverfassungsgericht – BVerfG) announced its long-awaited **verdict on the legality of private sports betting** in Germany. The essence was that the current sports betting monopoly was unconstitutional, but that it could continue to exist providing it ensured effective measures to combat addictive gambling in future. The state was instructed to either redesign its product by late 2007 in such a way that it solely met requirements for combating gambling addiction (e.g. restricted access, information instead of advertising), or to open the market for private companies. It was also stated that the current legislation would remain valid until the end of 2007. As a consequence, nearly all the federal states and their respective lottery companies decided to first take effective measures to combat addictive gambling and in particular to restrict advertising for sports betting.
- On 22 June 2006 the Federal Constitutional Court's verdict of 28 March 2006 and its decision on the sports betting monopoly was welcomed at the **Minister President Conference** in Berlin. The participants agreed that the state lottery monopoly should be maintained and further developed on the basis of the verdict. For the first time, other gaming apart from sports betting was considered for inclusion in the new State Treaty, although not mentioned in the respective verdict of the Federal Constitutional Court.

A working party was commissioned to develop a draft for a **new State Treaty on Gaming** which would regulate the gambling activities within the framework of the state monopoly and in line with the Federal Constitutional Court's requirements. This draft treaty was to be presented at the Minister President Conference on 13 December 2006. The State Treaty was to be limited to four years.

- On 23 August 2006 the regional lottery companies and the »Deutscher Lotto- und Totoblock (DLTB)« were notified by the **Federal Cartel Authority** of various infringements of German and European antitrust law. In detail, it is forbidden to,
  - prevent commercial game brokers from setting up stationary brokerage stands for lotteries e.g. in supermarkets and petrol stations,
  - create a geographical market division between the 16 German lottery companies and
  - to register bets collected by commercial game brokers with the aim of dividing the bets between federal states in a non-competitive way.
- On 8 September 2006 the **Regional Appeal Court (OLG) Düsseldorf** issued an **interim order in favour of »Deutscher Lotto- und Totoblock (DLTB)«**.
- In September 2006 the amended **draft version of a new State Treaty on Gaming** was published which provides for significant restrictions for the marketing and advertising of all forms of gaming, especially via the internet.
- At the **Minister President Conference** on 20 October 2006, the state premiers confirmed their intention to maintain the state monopoly gambling with a new State Treaty on Gaming. The draft version proposes to ban the advertising and marketing of gambling products via the internet, although there are to be exceptions for lottery products with two or less draws per week. However, the exceptions have been formulated in such a way that, if the draft were implemented, the acquisition of new customers would at least be seriously impeded. Moreover, private gaming brokers would need a license for each individual federal state – there would be no legal claim to receiving such a license even if the aforementioned conditions were met.
- On 23 October the cartel division of the **Regional Appeal Court (OLG) Düsseldorf** confirmed a decision of the **Federal Cartel Authority of 23 August 2006**, which stated that the state lotteries were not allowed to hinder the activities of private lottery brokers.
- Contrary to expectations, the revised draft of the State Gaming Treaty was not signed by the state premiers at the **Minister President Conference** in Berlin on 13 December 2006. The draft included a complete prohibition of advertising and marketing of gambling products on the internet. Planned to come into force on 1 January 2008, the draft also included a one-year grace period for existing market players, like Tipp24, which nevertheless constitutes an actual barrier with regard to gaining new customers via the internet. An EU notification process for the draft was initiated in late December, which includes reference to all member states and the relevant directorate of the EU Commission with a three-month period for objection.

**SECTOR DEVELOPMENT**  
**– DEVELOPMENT OF THE LOTTERY MARKET**

*Lottery market shows global growth of 3.3%*

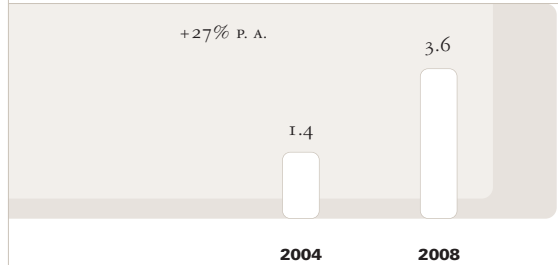
At 31%, the global lottery market accounts for the largest share of the global gambling market (total volume 2004: EUR 138 billion; source: La Fleur's 2005 World Lottery Almanac, »La Fleur's«) and has displayed constant average growth rates over the past few years of 3.3% (source: Global Betting and Gambling Consultants, The Global Betting and Gambling Report 2004/05, »GBGC«).

The European nations account for a market volume of around EUR 69 billion, or approximately 50%.

The largest European markets are Germany, Spain and Italy, which together make up 50% of the European market with some EUR 33 billion.

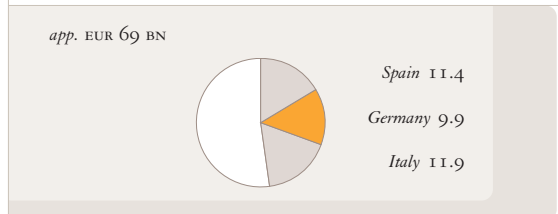
The 16 companies of the »Deutscher Lotto- und Totoblock (DLTB)« once again suffered a slight decline in revenues in 2006 of around 2% to EUR 7.9 billion (prior year: EUR 8.1 billion). In contrast to the previous year, however, we believe this decline resulted from a partial restriction of advertising and product portfolios in connection with regulatory discussions. There was a marked decline in revenues, for example, from the state-run sports betting game »Oddset«. The successful Christmas product »ExtraLotto« was no longer played in 2006. Although DLTB's top-revenue product, »6 from 49 Lotto«, was up 0.7% on 2005 to reach almost EUR 5 billion (source: DLTB), this was still rather disappointing considering the record-breaking Lotto jackpot in October.

**ONLINE LOTTERY GLOBAL** IN EUR BN



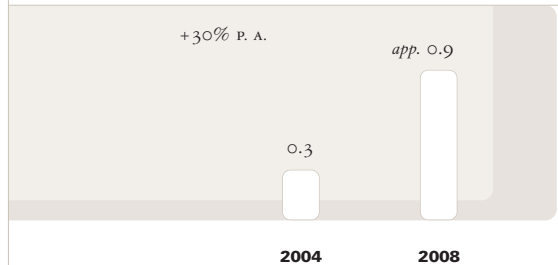
Source: Global Betting and Gambling Consultants, The Global Betting and Gambling Report 2004/05

**EUROPEAN LOTTERY MARKET** IN EUR BN



Source: La Fleur's 2005 World Lottery Almanac

**ONLINE LOTTERY IN GERMANY** IN EUR BN



Source: TIPP24's own estimates

**Online lottery growing at 27% p. a.**

According to our estimates, the online lottery market (of particular relevance to Tipp24) accounted for around 5–6%, or approx. EUR 500–600 million, of the total German lottery market in 2006 (EUR 9.9 billion; source: La Fleur's). The global online lottery market is expected to grow by approx. 27% p. a. (from 2004 to 2008; source: GBGC). Industry experts forecast that the corresponding figure may be considerably higher in Germany.

In the past eight years, the Spanish lottery market has grown by an average rate of 4.4% p. a. and represents Europe's second largest market with a total volume of around EUR 11.4 billion (2005). Over the same period, the Italian market boasted average annual growth rates of 11% (source: La Fleur's). In our opinion, the online proportion of the lottery market in both countries is still insignificant and results mainly from our pioneering work. E-commerce markets are still in their infancy in both countries. Their development is approximately 3–5 years behind that of the German market.

**SIGNIFICANT EVENTS FOR BUSINESS DEVELOPMENT**

We have concluded various sales agreements, within the scope of cooperation and service agreements, with major portals as well as smaller semi-professional websites («affiliates»).

Of particular mention, based on the revenue potential and strategic significance for Tipp24, is the conclusion of a sales cooperation with Tchibo.

Contracts were also signed with two further state lottery companies, Bremen and Baden-Württemberg, to improve further our links with these game operators.

The ongoing regulatory discussions in Germany had an indirect impact on the development of our business for two different reasons: firstly, the game operators decided against playing the New Year's Eve lottery »ExtraLotto«, successfully launched in 2005. Secondly, we incurred considerable expenses for lobbying in order to position Tipp24 in connection with possible changes in legislation. As a result of these discussions, all state lottery companies – with the exception of Lower Saxony and North Rhine-Westphalia – discontinued their internet offers. This had a positive impact on our new customer figures.

In mid 2006 the website of our Italian subsidiary was blocked by the Italian authorities. This resulted in a significant restriction of our business activities and in particular our growth in Italy.

**CONCLUDING ASSESSMENT OF BUSINESS DEVELOPMENT**

The Executive Board of Tipp24 judges business development to have been generally good in 2006. We achieved our objectives with regard to the development of billings and revenues. Only our EBIT target was not reached. The fact that the New Year's Eve lottery »ExtraLotto« launched in 2005 was not repeated had a considerable negative effect on earnings. At the same time, the proportionately higher increase in marketing expenses than revenues caused by the record jackpot (EUR 35 million) in September/October resulted in a further reduction in EBIT. Earnings were further burdened by additional costs for lobbying.

The changing political and legal conditions in Germany may lead to significant additional prospects for our business. Against the backdrop of recent developments in Germany's regulatory environment, however, there are also additional risks. Due to the low volume of our relatively young business in Italy, the current significant limitation of activities has only had a minor negative influence on the Group's expected revenue development so far.

Against this backdrop, we regard the continuing dynamic growth of our German business as a particular success. According to our estimations, our market share remains at around 40–50% (before the closure of the state lottery companies' online offers). At the same time, we believe we grew faster than our private competitor in 2006 and were thus able to expand our relative market share. At present, we have no figures concerning the online products of the state-owned lottery companies. In summary, therefore, the dynamic development of the online lottery market and excellent positioning of Tipp24 in this market were confirmed again in the past year.

We are even more satisfied with the development of business in Spain, where we grew faster than in Germany and posted our first positive EBIT result. In total, the Abroad segment grew strongly and now accounts for 13% of Group revenues.

## **EARNINGS, FINANCIAL POSITION AND NET ASSETS**

### **EARNINGS: CONTINUED GROWTH**

The Tipp24 Group successfully continued its dynamic growth of the past few years in fiscal 2006.

Compared with the previous year, there were six **special effects** to consider:

- The investment of the majority of liquid funds in tax-efficient reverse convertible transactions during the first half-year resulted in income which was free of corporation tax. This is a one-off effect which had a significant beneficial impact on the Group's average tax ratio for the year as a whole. A further positive tax effect resulted from the capitalization of tax effects from remaining loss carry-forwards in Spain.
- The playing of Spain's highest-ever jackpot in the Euromillones lottery (EUR 183 million) in February 2006 led to a relatively strong increase in new customers, billings and the activity rate of existing customers in Spain.
- The chance omission of high jackpots in Germany in the second quarter of 2006 dampened the development of new customer figures and the activity rate of existing customers in this period.
- The draw for Germany's highest-ever lottery jackpot (EUR 35 million) in the third/fourth quarter of 2006, and the accompanying targeted marketing activities, resulted in an exceptionally strong increase in new customers, billings and the activity rate of existing customers in this period. At the same time, the above-mentioned marketing activities for the jackpot resulted in a proportionately higher increase in marketing expenses than revenues.

- The omission of the »ExtraLotto« New Year's Eve lottery in Germany in the period under review had a significant negative impact on the development of Tipp24's consolidated earnings.
- The ongoing regulatory discussions resulted in additional expenses for lobbying activities in the fourth quarter of 2006.

In total, Tipp24 succeeded in raising the number of registered customers in fiscal 2006 and thus also raised billings and revenues compared with the previous year. These increases were largely in line with our expectations. Due to the above-mentioned special items – the omission of the »ExtraLotto« New Year's Eve lottery, additional marketing expenses to accelerate new customer growth as well as for lobbying activities – we were unable to meet our high EBIT expectations.

#### DEVELOPMENT OF EARNINGS

In fiscal 2006 we raised **EBIT** by 19.8% to EUR 7,244 thousand. Due to the above-mentioned factors, however, the EBIT margin fell from 23.2% to 21.0%.

At the same time, the marketing expense ratio rose by 5.6%-points to 34.3% (prior year: 28.7%), due to increased marketing activities for our own customers, particularly in the fourth quarter, and a strong increase in commissions for our Business Service partners due to increased volumes. The personnel expense ratio was reduced once again by 2.9%-points to 23.9% (prior year: 26.8%).

	1 Jan. to 31 Dec. 2006		1 Jan. to 31 Dec. 2005		CHANGE %
	EUR THSD.	%	EUR THSD.	%	
Billings	264,235		204,696		29.1
Remitted stakes (less commissions)	-229,660		-178,577		28.6
<b>Revenues</b>	<b>34,575</b>	<b>100.0</b>	<b>26,119</b>	<b>100.0</b>	<b>32.4</b>
Personnel expenses	-8,277	-23.9	-6,990	-26.8	18.4
Other operating expenses	-18,742	-54.2	-12,829	-49.1	46.1
Less other operating income	431	1.2	395	1.5	9.0
<b>Operating expenses</b>	<b>-26,588</b>	<b>-76.9</b>	<b>-19,423</b>	<b>-74.4</b>	<b>36.9</b>
<b>EBITDA</b>	<b>7,987</b>	<b>23.1</b>	<b>6,696</b>	<b>25.6</b>	<b>19.3</b>
Amortization and depreciation	-743	-2.1	-648	-2.5	14.8
<b>EBIT</b>	<b>7,244</b>	<b>21.0</b>	<b>6,048</b>	<b>23.2</b>	<b>19.8</b>
Financial result	1,121	3.2	441	1.7	154.2
<b>Earnings before taxes</b>	<b>8,365</b>	<b>24.2</b>	<b>6,490</b>	<b>24.8</b>	<b>28.9</b>
Income taxes	-921	-2.7	-3,172	-12.1	71.0
<b>Profit</b>	<b>7,445</b>	<b>21.5</b>	<b>3,318</b>	<b>12.7</b>	<b>124.4</b>
<b>Breakdown of other operating expenses</b>					
Marketing expenses	-11,847	-34.3	-7,487	-28.7	58.2
– Marketing expenses for own customers	-8,435	-24.4	-5,854	-22.4	44.1
– Business Service commissions	-3,413	-9.9	-1,633	-6.3	109.0
Direct operating costs	-3,016	-8.7	-2,524	-9.7	19.5
Other costs of operations	-3,879	-11.2	-2,818	-10.7	37.7
<b>Other operating expenses</b>	<b>-18,742</b>	<b>-54.2</b>	<b>-12,829</b>	<b>-49.1</b>	<b>46.1</b>

(Rounding differences due to presentation in EUR thousand)



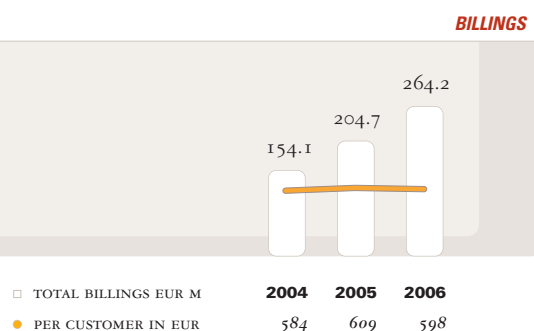
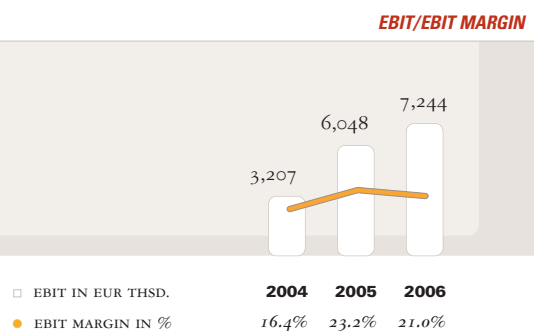
As in previous years, our German operations dominated the development of the Tipp24 Group. The EBIT contribution of this market grew in 2006 by 4.7% to EUR 7,327 thousand, representing a decrease in the EBIT margin in Germany of 5.0%-points, from 29.3% to 24.3%.

When comparing the fourth quarters, we were able to raise EBIT on the back of a 50.2% increase in revenues by 15.2% to EUR 2,124 thousand – despite the omission of the New Year's Eve lottery »ExtraLotto«, successfully launched in the previous year. The EUR 35 million record jackpot in the first week of October was unable to make up for the above-mentioned negative effects.

Earnings of our foreign subsidiaries in the period under review almost reached break-even at EUR –83 thousand (prior year: EUR –952 thousand).

Due to the far higher average level of cash and cash equivalents, the Group's **financial result** rose strongly in 2006, compared with 2005, to EUR 1,121 thousand.

In the first half of 2006 we invested a large proportion of our liquid funds in tax-efficient reverse convertible transactions. As a result, we incurred reverse convertible transaction fees of EUR 440 thousand. At the same time, the interest received on the respective collateral amounts accounted for a share of our total financial income of EUR 1,568 thousand.



Moreover, these transactions resulted in a positive tax effect of EUR 2,325 thousand. A further positive tax effect of EUR 159 thousand resulted from the capitalization of remaining loss carry-forwards in Spain. In total, **consolidated net profit** was up 124.4% to EUR 7,445 thousand, compared with the previous year. Net operating margin after tax grew correspondingly by 8.8%-points to 21.5%. The increase was proportionately much higher than EBIT, due to the non-recurring tax effects which had a correspondingly favourable impact on the tax ratio in fiscal 2006 as a whole.

In line with the above-mentioned effects, fourth quarter earnings were up 68.3% on the prior-year period to EUR 1,727 thousand.

Compared with the previous year, **return on equity** almost doubled during the period under review from 6.2% to 12.3%.

**Earnings per share** (undiluted and diluted) grew during fiscal 2006 from EUR 0.46 to EUR 0.84. In order to guarantee comparability, the calculation for the periods before the capital increase from company funds of 24 August 2005, during which two further shares were issued per share, includes corresponding adjustments of the share numbers, pursuant to IAS 33, by a factor of three.

**Net profit for the year acc. to HGB** of Tipp24 AG amounted to EUR 6,793 thousand in 2006. The Executive Board proposes to carry the profit forward to the next period.

#### **DEVELOPMENT OF REVENUES**

The number of **registered customers** grew by 448 thousand in fiscal 2006 to reach 1,770 thousand. Due to the favourable jackpot situation in the second half of 2006, growth was 157 thousand higher than in the previous year (291 thousand). In the fourth quarter alone, growth was up 89 thousand on the prior-year period with 189 thousand newly registered customers.

The **active customer ratio** remained unchanged at 28.6% (2005: 28.6%). Billings per active customer was also stable – within the range of statistical variation – at EUR 598 (2005: EUR 609). Overall, we succeeded in raising billings by 29.1% to EUR 264,235 thousand in fiscal 2006. The ratio of billings to revenues – our **gross margin** – grew to 13.1% (2005: 12.8%).

We were therefore able to raise total **revenues** – consisting mainly of commissions and additional fees – by 32.4% to EUR 34,575 thousand.

Revenues were once again dominated by the contribution of our German operations, which accounted for 87.3% of total revenues in fiscal 2006. They were up 26.4% on the prior-year period to EUR 30,194 thousand. Billings grew similarly by 26.0% to EUR 246,942 thousand, while gross margin remained steady at 12.2%.

In a comparison of the fourth quarter figures, billings were up 53.6% to EUR 77,874 thousand and revenues grew even faster at 55.4% to EUR 10,232 thousand. Gross margin rose slightly from 13.0% to 13.1%.

#### **DEVELOPMENT OF ORDERS**

Due to the nature of our business model it is not expedient to disclose the development of orders. Customer orders are regularly carried out very soon after receipt.

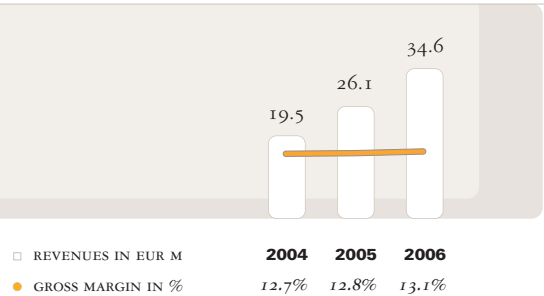
#### **DEVELOPMENT OF KEY INCOME STATEMENT POSITIONS**

There was a year-on-year increase in **personnel expenses** of 18.4% to EUR 8,277 thousand in 2006. This resulted largely from the recruitment of further staff within the Tipp24 Group – partly in order to meet the Prime Standard listing requirements of the German Stock Exchange. The increase in personnel expenses was proportionately less than the rise in revenues, however, and consequently the personnel expense ratio fell by 2.9%-points to 23.9%.

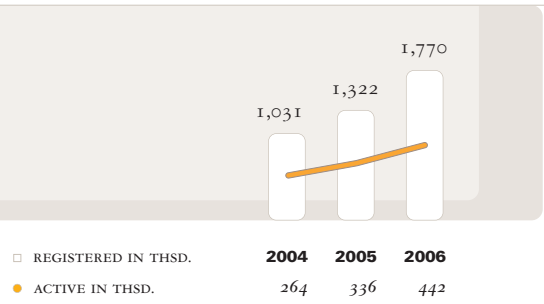
**Other operating expenses** grew by 46.1% year-on-year to EUR 18,742 thousand. When comparing fourth quarter figures, there was an increase of 58.3% to EUR 5,696 thousand. The development in detail was as follows:

- **Marketing costs** rose by 58.2% to EUR 11,847 thousand (34.3% of revenues; +5.6%-points). They consist of marketing expenses for our own customers and commissions paid to Business Service partners. In 2006, marketing expenses for our own customers were up 44.1% to EUR 8,435 thousand. In the second half of 2006 we decided to increase our marketing budget for the acquisition of own customers during the record jackpot period. As a result Tipp24 was able to gain over 100 thousand new registered customers in Germany during the first week of October alone. The amount of commissions paid to Business Service partners grew by 109.0% to EUR 3,413 thousand, compared with the previous year. This rise was due to the rapid expansion of business with WEB.DE (as of May 2006) and the whole-year fees to those Business Service partners gained in 2005: T-Online (since September 2005) and RTLtipp.de (since May 2005).
- **Direct operating expenses** grew by 19.5% – and thus much more slowly than billings – to EUR 3,016 thousand in 2006. They accounted for 1.1% of total billings (prior year: 1.2%). Due to improved conditions for payment transactions and more efficient protection against payment defaults, we were once more able to achieve economies of scale. The ratio of direct operating costs to revenues fell by 1.0%-points to 8.7%.

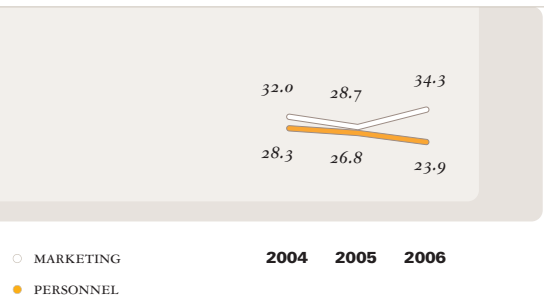
**REVENUES/GROSS MARGIN**



**REGISTERED/ACTIVE CLIENTS**



**COST RATIOS IN %**



- The year-on-year increase in **other operating expenses** of 37.7% to EUR 3,879 thousand in fiscal 2006 (prior year: EUR 2,818 thousand) resulted from an increase in fixed costs due to regular expenses relating to the stock exchange listing of the Tipp24 share. Office costs also grew in line with an increase in headcount. Additional costs were also incurred for test and analysis projects relating to an expansion of business, as well as for increased PR and lobbying activities in connection with the regulatory environment. In total, the ratio of other operating costs to revenues rose by 0.7%-points to 11.2%.

The development of **other operating income** is generally in line with the usual operating fluctuations at Tipp24 for this item.

In comparison with the previous year, **amortization/depreciation** on intangible assets and property, plant and equipment grew by EUR 96 thousand (+14.8%) to EUR 743 thousand. This increase is in line with investments made.

## **FINANCIAL POSITION**

### *Principles and objectives of financial management*

Tipp24 operates a global financial management system. All key decisions concerning the company's financial structure are taken by the Executive Board of Tipp24 AG. Financial management is generally undertaken at group level with the following key objectives:

- An equity ratio of around 35% is to be achieved in the medium term.
- Cash and cash equivalents covering short-term liabilities from gaming operations are to be invested in safe investment categories (Standard & Poor's credit rating of at least BBB+). The majority of these investments should be short-term, with maturities of one week or less. A statistically proven base amount is to be invested over a medium-term period of one to four years.
- Equity which exceeds the targeted equity ratio of around 35% for ensuring the company's stable financial position, is to be used for investments in line with the strategy described above. Cash and cash equivalents covering equity which have not yet been employed are also to be invested in safe short-term categories. In the medium term, Tipp24 may also leverage its financial position by means of interest-bearing debt. We also plan to distribute equity capital which cannot be sensibly employed for the company's strategic objectives in the form of dividends in the medium term.

### *Financial analysis*

The financial situation of Tipp24 AG is characterized mainly by two factors:

- High short-term other liabilities – both toward customers from advance payments and toward game operators from tickets already brokered but not yet paid – due on a daily basis. These are covered principally by liquidity or similarly short-term receivables from lottery companies for brokered bets or payment transaction partners, banks and credit card companies, with maturities of one day to one week. In the period under review, short-term other liabilities grew by 9.4% to EUR 18,810 thousand (prior year: EUR 17,195 thousand).
- A high level of equity derived partly from accumulated profits, less loss carryforwards, and from capital contributions in the company's early phase (1999 and 2000), as well as from the additional equity generated by our IPO. There are no major non-current liabilities.

Against this backdrop, our key performance indicator with regard to financial analysis is the company's **equity ratio** (the relation between equity and total capital). A comparison of the respective year-end figures reveals a stable development at 73.3% (2005: 73.7%).

#### *Significance of off-balance-sheet financial instruments for the financial position*

Off-balance-sheet financial instruments do not play a significant role in financing the Tipp24 Group. The Group has taken out a bank guarantee facility in the amount of EUR 179 thousand in order to secure future obligations under rental agreements for office space. Furthermore, the Group has off-balance-sheet future obligations from operating lease agreements for offices, company cars and technical equipment in the amount of EUR 1,712 thousand.

#### *Investment analysis*

In the period under review, we made total investments of EUR 4,769 thousand. The major share of this total was accounted for by two short-term financial investments with capital guarantee and fixed and variable interest components, in which we invested a total of EUR 4,000 thousand. The remaining amount was devoted mainly to developing our German operations (software EUR 178 thousand, hardware EUR 307 thousand and EUR 79 thousand for furniture, fixtures and office equipment). Outside Germany, investments also focused on technical and office fittings for our subsidiaries (EUR 205 thousand).

These investments were structured as follows:

- Investments in live systems for gaming operations
  - capacity adjustments to handle greater customer/billing volumes,
  - software and hardware upgrades,
  - regular adjustments and increases in security standards and system redundancy.
- Investments in office equipment
  - workstations for new recruits,
  - office software and hardware upgrades,
  - setting up of office space following expansion/reorganization of existing areas.

The major investment projects during the year were:

- expansion of test systems,
- increased availability of reserve databases,
- improved system software for application servers,
- upgrading of the firewall system,
- expansion and improvement of servers for office systems.

All systems are to be continually extended in 2007 in line with increasing capacity requirements and the ongoing development of security standards.

<b>Key cash flow positions</b> IN EUR THOUSAND	2006	2005
Cash flow from operating activities	8,360	10,308
Cash flow from investing activities	-4,769	-6,371
Cash flow from financing activities	0	40,035
<b>= Net increase/decrease in cash and cash equivalents</b>	<b>3,591</b>	<b>43,972</b>
+ Cash and cash equivalents at beginning of the fiscal year	57,174	12,892
Reduction in pledged cash and cash equivalents	-61	310
<b>= Cash and cash equivalents at end of the fiscal year</b>	<b>60,703</b>	<b>57,174</b>

### Liquidity analysis

#### Cash flow

At EUR 8,360 thousand, **cash flow from operating activities** was considerably lower than in the previous year. Contrary to the same period last year, the balance of changes in other assets and other liabilities in the period under review – which mainly reflect the accounting of gaming operations (receivables from banks and credit card companies, receivables/payables from/to lottery organizers, payables to customers) – did not make a significant contribution to cash flow. This change is within the usual statistical variation in the processing of gaming activities.

**Cash flow from investing activities** fell by EUR 1,602 thousand, compared with the previous year, to EUR 4,769 thousand. The decrease was mainly due to a decline in financial investments to EUR 4,000 thousand (prior year: EUR 5,000 thousand).

At EUR 3,591 thousand, **free cash flow** was up 8.3% on the previous year.

**Cash flow from financing activities** was strongly influenced in the previous year by the company's IPO in October 2005, which generated proceeds of EUR 40,035 thousand. There were no further proceeds in 2006.

#### Liquidity ratios

In general, our liquidity is strongly influenced by the extremely high amounts of liquid funds resulting from our IPO and accumulated historical profits.

		2006	2005
Quick ratio *	= $\frac{\text{monetary current assets excluding any prepaid expenses}}{\text{total debt}}$	341.1%	341.6%

\*Corresponds to current ratio, as TIPP24 has no inventories.

In order to judge the liquidity situation of Tipp24 AG, we regularly employ the so-called **quick ratio**. In addition to short-term securities with a capital guarantee and redeemable on demand, this ratio also considers current receivables. The latter are mainly from solvent companies and relate to gaming operations. They are ongoing receivables and all settled in the first few days of the subsequent fiscal year. They consist of receivables from banks and credit card companies for customer payments as well as from lottery companies for security retainers and winnings not yet paid out to customers. With the exception of low liability amounts resulting from finance leases, Tipp24 has no long-term debts. Compared with the previous year, the quick ratio fell during fiscal 2006 from 341.6% to 341.1%.

As of the balance sheet date, existing balances were invested as follows: EUR 3.0 million in long-term financial assets with a capital guarantee, EUR 55.0 million in immediately redeemable money market fund units bearing a capital guarantee and a fixed and variable interest component, as well as EUR 6.0 million in short-term investments. There are no other currency, interest or exchange rate risks.

#### *Capital costs*

Tipp24's debts consist mainly of other liabilities, especially from gaming operations. There is no interest-bearing debt. We calculate the cost of equity at 9.0%. This figure comprises a risk-free basic interest rate of 4.1% plus a risk premium of 4.9%, which results from the general market risk premium of 4.0% plus a beta factor of 1.2. The beta factor is based on a peer group comparison. Together with our non-interest-bearing debt, Tipp24 had average capital costs as of the balance sheet date amounting to 6.6% (prior year: 6.6%).

#### *Other liabilities*

Our other liabilities consist mainly of liabilities to players from advance payments as well as to gaming companies from billings not yet paid. These liabilities are subject to considerable statistical fluctuations depending on any claims to major winnings originating before the balance sheet date not yet settled. Moreover, they are heavily dependent on the day of the week on which the cut-off date falls, due to the weekly nature of the games and the settlement day of certain gaming companies. Other liabilities remained steady at the prior-year level.

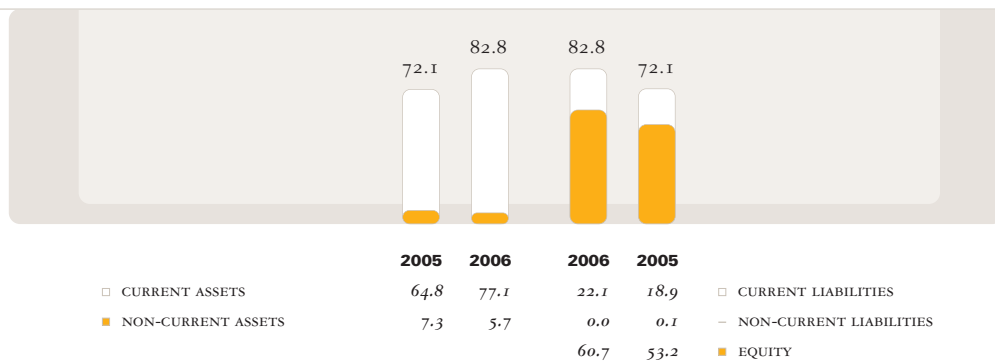
#### **ASSET SITUATION**

##### *Asset structure analysis*

The assets of Tipp24 mainly comprise current assets amounting to EUR 77,054 thousand (prior year: EUR 64,840 thousand). In turn, these consist largely of cash, cash equivalents and securities (EUR 60,703 thousand), receivables from lottery organizers from winnings of brokered tickets (EUR 3,797 thousand), receivables from banks and credit card companies for customer payments (EUR 2,647 thousand) and security retainers (EUR 963 thousand). In 2006, we also held EUR 6,014 thousand in two short-term financial investments.

The development of assets reflects the development of earnings and increased billings.

Moreover, Tipp24 has intangible assets – mainly software – amounting to EUR 373 thousand, property, plant and equipment – mainly hardware and office equipment – amounting to EUR 1,217 thousand, long-term financial assets totalling EUR 3,000 thousand and deferred tax assets on tax loss carryforwards amounting to EUR 1,134 thousand.

**BALANCE SHEET STRUCTURE** IN EUR M**Assets not recognized**

Tipp24 does not recognize the following major assets in its annual financial statements:

- **Customers:** about 30% of Tipp24's registered customers are regular players, i.e. participate actively at least once per month. Apart from short-term fluctuations, there has not been any sign of a decrease in their activity so far. In consideration of the regular future cash flows which these customers are likely to provide, they are our most essential asset.
- **Brand:** the Tipp24 brand, registered in 2005 as a word trademark, has achieved a considerable awareness level in Germany thanks to continual advertising since operations commenced. It therefore represents a significant asset for us.

- **Software:** the software systems used by Tipp24 for its gaming operations are mainly self developed. Considerable costs were incurred during development, in particular personnel expenses for software developers and others involved in the process. Not all criteria prescribed by IAS 38.57 were fulfilled for these development costs. For this reason, we have not capitalized our own software developments.

**Significance of off-balance-sheet financial instruments for the asset situation**

Tipp24 has future obligations from agreements totalling EUR 1,798 thousand. These consist of obligations from cooperation, insurance, maintenance and license agreements. There are also liabilities from an operating lease with a cash value of EUR 1,712 thousand.



### Employees

In addition to the three members of its Executive Board and one General Manager in Spain and Italy respectively, the Tipp24 Group had an average of 144 full-time employees (year-end: 147) and three apprentices in 2006. The fluctuation rate was 9.9%.

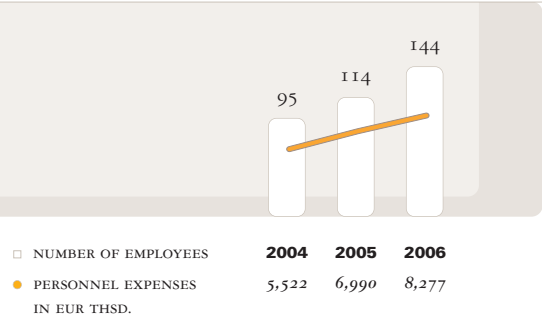
The average age was 33.4. There were also an average of 47 student helpers, generally working a 20-hour week.

The regular working week comprises 40 hours. There are no applicable works agreements or collective wage agreements in place. There have been no strikes to date. A works council has not been set up.

All employees regularly take part in training activities within their respective departments. Around 5% of total working hours are dedicated to this purpose. Moreover, EUR 77 thousand was invested in external training activities in 2006.

Based on current information, Tipp24 regularly ensures compliance with all industrial health and safety standards required by law. In 2006, there was one industrial accident.

### NUMBER OF EMPLOYEES/PERSONNEL EXPENSES



### Other intangible assets

We regard the value of our excellent relations to the lottery companies as significant – especially as they enable us to recognize new developments of importance for our company at a very early stage.

The value of our organizational and process advantages results from our high processing expertise and the technical reliability of our self-developed software.

### OVERALL STATEMENT TO ECONOMIC POSITION

#### Management's assessment of the economic position

The current regulatory discussions bear the risk of at least medium-term disruption, up to the complete prohibition of our present business model in Germany, and could thus have a considerable negative impact on the assets, financial position and earnings of the company. Nevertheless, we regard Tipp24's situation as generally robust. Tipp24 has sufficient resources to successfully prevail even in the face of significant negative regulatory developments.

At the same time, the Executive Board sees the opportunity for sustained encouraging growth in future. This was confirmed once again by our success in fiscal 2006. In comparison to other sectors, the online lottery market in Germany, as well as in Spain and Italy, is underdeveloped. Providing there are no changes in the regulatory environment, annual growth of 27% or more is forecast for the coming years. Tipp24 is excellently positioned to benefit strongly from this development.

Furthermore, we see attractive additional potential in new product categories and in the course of possible deregulation of European lottery markets. The Group has considerable financial liquidity, mainly from equity capital. This gives us considerable scope to grasp future growth opportunities – for example by means of acquisition.

However, these future prospects and potentials are burdened by considerable risks from ongoing regulatory discussions in Germany, which endanger the continued existence of the business model currently employed.

#### *Influence of balance sheet policy on the economic position*

Our balance sheet consists to a large extent of liquid funds covered by equity, which provide a solid basis for our growth strategy and for any new growth opportunities resulting from a change in the regulatory environment. In the long-term, we aim to reduce the current equity ratio of 73.3% through further investments in the expansion of business to around 35%, while achieving a return on equity ratio of over 30%.

### **DISCLOSURES PURSUANT TO THE GERMAN TAKEOVER DIRECTIVE IMPLEMENTATION ACT 2006**

In the following, we will disclose our capital and control structures with reference to any barriers to takeover. We therefore provide potential bidders with the opportunity to gain a comprehensive view of Tipp24 – in line with the German Takeover Directive Implementation Act – and to identify any possible takeover barriers at an early stage. This serves to protect the interests of our shareholders.

- The Company's share capital equals its capital stock of EUR 8,872,319.00. It is fully paid and divided into 8,872,319 no-par value registered shares.
- The following direct or indirect holdings in the company's share capital, in excess of 10% of total voting rights, were reported to the company pursuant to § 21 WpHG during the period under review or at an earlier point and did not change during the period under review:

NAME, LOCATION	SHAREHOLDING	REPORTED
Earlybird Venture Capital Verwaltung GmbH, Munich	20.33%	26 October 2005
Marc Peters, Hamburg	10.18%	11 November 2005
Jens Schumann, Hamburg	10.18%	11 November 2005

- The regulations governing the appointment and dismissal of Executive Board members correspond to those in § 84 and § 85 AktG.
- At the annual shareholders' meeting of 18 May 2006, the Executive Board was authorized to acquire up to 10% of the company's share capital acc. to § 71 (1) No. 8 AktG.
- The regulations governing changes in the articles correspond to those in § 133 and § 179 AktG.

## **SUBSEQUENT EVENTS**

In early January 2007 the German state of Saxony-Anhalt served an injunction forbidding Tipp24 AG from carrying out its business operations in Saxony-Anhalt. According to the wording of the injunction, this affects both the brokerage of participation in lotteries in Saxony-Anhalt, especially as the commercial organizer of lottery clubs, and advertising for lotteries which are illegal in Saxony-Anhalt and which can be called up in Saxony-Anhalt. The prohibition had immediate effect. Tipp24 has filed a suit for temporary legal protection with the relevant administrative court. A decision is still pending. The prohibition was suspended until a decision has been made regarding temporary legal protection.

On 12 February 2007 we announced the implementation of a share buy-back programme. As part of this share buy-back programme, up to 5% of share capital corresponding to 443,615 shares are to be acquired. The programme is to run from 19 February to 30 September 2007. The price paid by Tipp24 AG per share (without ancillary purchase costs) may not be more than 10% higher or lower than the stock market price. We commissioned a credit institute to buy back the shares from the market. Decisions concerning the timing and respective volumes of the share purchase are thus made independently, albeit with the proviso that the shares should be acquired as cheaply as possible and with respect to the interests of Tipp24. No more than 25% of average daily purchases of Tipp24 AG shares in computer trading (XETRA) or floor trading at the Frankfurt Stock Exchange are made per day.

The share buy-back serves primarily to provide the Company with shares which it can offer in the course of business combinations or to acquire companies or equity interests in companies. Alternatively, the shares may be fully or partially eliminated. All share buy-back purchases are announced after completion on the Tipp24 AG website ([www.tipp24-ag.de](http://www.tipp24-ag.de)).

## **RISK REPORT**

### **RISK MANAGEMENT**

Tipp24 is a young, internationally operating company in the internet sector and is thus exposed to the typical sector and market risks associated with such economic activities. The realization of one or more of these risks may materially impact Tipp24's business and have significant adverse effects on its net assets, financial position and results of operations.

The company's management takes these risks very seriously and considers them in its operating and strategic decision processes: we constantly monitor the development of the relevant risks and also consider both current and future risks. We focus in particular on the early recognition, evaluation, prevention and control of risks.

In 2006 we refined our existing risk management system in line with the dynamic development of our company. Our high-performance system enables us to quickly recognize relevant risks for the company, as well as to evaluate such risks and take measures in due time. For the implementation of its early warning system, Tipp24 AG observes guidelines based on the scope of our current activities and the size of Tipp24 AG.

Tipp24's risk management can be described as follows:

We monitor operating risks by regularly reviewing our financial and other key ratios. For each ratio, we have stipulated the monitoring frequency, designated controlling responsibility and determined rules of procedure for defined deviations from target values. In the case of technology risks, pre-defined emergency procedures are implemented.

Furthermore, the development of security standards is continually monitored and corresponding adjustments are regularly made to our security systems. Legislation changes in those markets in which we operate are also regularly evaluated, with the help of legal advisors where necessary. This enables us to react to such changes in the appropriate way and thus recognize and react to unusual events as soon as possible.

Our risk management system is firmly anchored at management level and is continually monitored and updated. The Executive Board is regularly informed about the risk evaluation results. We are convinced that the early warning and management systems we have implemented are well suited to quickly recognizing and dealing with dangers for Tipp24 resulting from possible risks. In fiscal 2006 we formally documented the risk recognition system. It is regularly monitored and adapted where necessary.

#### **PRESENTATION OF INDIVIDUAL RISKS**

We have identified the following main specific risks for Tipp24's business:

##### **Market risks**

Our business is dependent on the development of the markets in which we operate. In particular, a negative development of the lottery markets, due for example to a decline in advertising, a reduction in the product portfolio of game operators or a statistically unusually long period without relevant jackpots may all negatively impact our growth.

Furthermore, our growth is strongly dependent on the prices in the respective advertising markets, especially the online markets. A significant increase in prices would lead to a rise in costs per registered customer and thus have a negative effect on our growth and profitability.

The entry of further competitors into the lottery markets, especially online, may also restrict our further growth.

Finally, there is a possibility that use of the internet itself may decline. This would also have a significant detrimental effect on Tipp24's business activities. We believe, however, that this is unlikely to happen.

##### **Legal risks**

###### **– Draft State Treaty on Gaming (GIStV-E)**

In the follow-up to the verdict of the Federal Constitutional Court (Bundesverfassungsgericht – BVerfG) of 28 March 2006, there have been various judicial verdicts, official directives and political statements of intent at various levels (including the very highest) with regard to the regulation of the gaming sector, some of which are highly contradictory. The respective state authorities are mainly pursuing a policy of strictly defending the state's gaming monopoly while extending it to a marketing monopoly under the guise of effectively combating gambling addiction. In this connection, 15 state premiers (Schleswig-Holstein voted against) approved the current GIStV-E at the Minister President Conference of 13 December 2006 and resolved to immediately implement the necessary EU notification process and to sign and ratify the GIStV-E in early 2007. The GIStV-E contains a general prohibition of marketing for all gaming products, including lotteries, via the internet. In addition, it includes a sweeping ban on advertising for all forms of gambling. The GIStV-E is to come into effect on 1 January 2008. It also contains a provision that ratification by just 13 of the 16 state parliaments is sufficient. A one-year grace period until the end of 2008 is planned for existing market players, like Tipp24, which nevertheless constitutes an actual barrier with regard to gaining new customers via the internet.

As far as we are informed, the GIStV-E cannot come into effect without the approval of all 16 state premiers and the ratification of all 16 state parliaments. The latter has been confirmed by an official report prepared by the legal service of the Schleswig-Holstein state parliament.

The legality of the GlStV-E is also highly controversial. Reputable legal experts, such as Prof. Dr. jur. Rupert Scholz (University of Munich, emer.), Prof. Dr. jur. Clemens Weidemann (University of Würzburg), Prof. Dr. jur. Bodo Pieroth (University of Münster), Prof. Dr. jur. Hans-Detlef Horn (University of Marburg) and Prof. Dr. jur. Georg Hermes (University of Frankfurt) have documented its illegality regarding constitutional and EU law in expert opinions made available to us.

The possibility cannot be excluded that these verdicts, directives and political discussions may result in the issuing of laws, ordinances or other directives which together may have a significant adverse effect on the development of the lottery market and thus also on the future business development of Tipp24. In particular, should the GlStV-E in its current form and subsequent legislation based on the draft State Treaty come into force, this could result in the complete elimination of Tipp24's current business basis in Germany.

#### – Lottery law in Saxony-Anhalt

In early February 2006, the state administration of Saxony-Anhalt informed us that, in their opinion, Tipp24 was contravening the lottery laws of the state of Saxony-Anhalt. According to these laws, lottery brokers offering lottery products in Saxony-Anhalt and charging additional fees, are required to apply for state permission. As Tipp24 does not charge its customers additional fees for its standard products («Lotto», «Glücksspirale», «Keno» etc.), we do not believe that these regulations apply to us. We have not offered the product «Spielgemeinschaften», for which Tipp24 charges its customers additional fees, in Saxony-Anhalt for some time due to the afore-mentioned regulation. Contrary to our opinion, the state administration of Saxony-Anhalt believes that all lottery brokers require permission, irrespective of whether they charge additional fees.

Furthermore, Tipp24 believes that the legality of the lottery law of Saxony-Anhalt is at least questionable. This law serves to define in detail the State Treaty on Lotteries adopted by all federal states in 2004. This State Treaty on Lotteries explicitly recognizes the legality of private gambling brokerage activities. In the lottery law mentioned above, however, greatly extended conditions for permission were introduced, which are practically unachievable – for example, the brokerage activity has to be in the public interest. This law thus goes far beyond merely specifying the details of the State Treaty on Lotteries. Moreover, there are also serious doubts from a constitutional law perspective, e.g. a possible contravention of the fundamental right of freedom to choose an occupation.

In early January 2007 the state administration of Saxony-Anhalt served an injunction forbidding Tipp24 AG from carrying out its business operations in Saxony-Anhalt. According to the wording of the injunction, this affects both the brokerage of participation in lotteries in Saxony-Anhalt, especially as the commercial organizer of lottery clubs, and advertising for lotteries which are illegal in Saxony-Anhalt and which can be called up in Saxony-Anhalt. The prohibition had immediate effect. Tipp24 has filed a suit for temporary legal protection with the relevant administrative court. A decision is still pending.

Should Tipp24 AG be permanently prevented from carrying out its business in Saxony-Anhalt, this would lead to a reduction in revenue in the middle six-figure euro range per year and a similar decrease in EBIT, based on the company's business volume in fiscal 2006. In addition, Tipp24 may face non-criminal, and possibly also criminal sanctions.

– **Federal Cartel Authority verdict**

In its decision of 23 August 2006, confirmed on 23 October by the cartel division of the Regional Appeal Court (OLG) Düsseldorf, the Federal Cartel Authority issued a warning to the regional lottery companies and the »Deutscher Lotto- und Totoblock (DLTB)« with regard to a lifting of the »Regional Principle«. In particular, the online activities of individual lottery companies should be expanded to the whole Federal Republic. All Germany's state lottery companies – with the exception of Lower Saxony and North Rhine-Westphalia – subsequently discontinued their internet offers. Nevertheless, the expansion of online activities to the whole of Germany by these two states, and further states in future, could lead to increased competition and thus have an adverse effect on the future business development of Tipp24 in Germany.

– **Electronic betting in Italy**

Tipp24 began business in Italy with its subsidiary Puntogioco24 in 2005. Puntogioco24's business model has so far been the subject of several legal decisions in suits for temporary legal protection. Even though the cases against Puntogioco24 were dropped for other reasons, the courts in two of the cases expressed legal doubts in its decisions as to the permissibility of Puntogioco24's activities.

In May 2005, the public prosecutor also launched a preliminary investigation against the managing director of Puntogioco24 on suspicion of a breach of the ban on accepting bets via electronic communications media without authorization or without being properly engaged to accept bets via this form of media. In April 2006 an official hearing period began on this topic. On 12 July 2006 criminal proceedings were finally instituted. At the same time, since 4 July 2006 the website of Puntogioco24 has been blocked due to a directive issued by the Italian authorities. It is therefore factual not possible for Tipp24 AG to carry out its business activities in Italy at present. An injunction against this directive has been applied for.

Lotteries and other games of chance cannot be sold in Italy without a state license. The license to provide the national »6 out of 90« lottery (Super-Enalotto), which forms part of Puntogioco24's offering, was first issued to the private company SISAL S.p.A., but then withdrawn again retroactively following a verdict by the Supreme Court of 3 November 2006 due to irregularities in the licensing procedure. SISAL is currently operating on the basis of a transitional arrangement. A corresponding reorganization of the entire lottery market is the subject of political discussion in Italy at present. The listed company Lottomatica S.p.A. holds the license to provide the »5 out of 90« lottery, which is similar to Keno, until 2012. Under the terms and conditions of the licenses, the license holders are entitled, at their own discretion, to engage third parties to accept monies for the sale of game receipts and stakes. Italian lottery law in Article 3 (228) of Act. No. 549 of 28 December 1995 expressly stipulates that monies from the sale of game receipts and stakes can be accepted only by approved agents directly and no form of brokerage activity is permitted. Article 4 of Act. No. 401 of 13 December 1989 makes it a punishable offence to accept bets of any kind, including by means of electronic communications media, without the relevant authorization or without having been properly engaged to do so.

Tipp24 does not believe that Puntogioco24's activities breach these provisions because Puntogioco24 does not operate as a broker of lottery products but is instead engaged by lottery players to deliver the lottery tickets to an authorized lottery agent on their behalf. The gaming agreement is entered into directly between the lottery player and the lottery operator. Because of this direct relationship, the lottery player has a direct claim to the prize proceeds.

There is a significant risk that the blocking of our website might be upheld and that our business in Italy might have to be completely terminated. This would result in a minor single-digit percentage reduction of our revenue expectations. No adverse effect on earnings is expected in such a case, as Puntogioco24 is still generating start-up losses. The investments made by Tipp24 in Puntogioco24 so far consist mainly of its cumulative start-up losses.

### *Business risks*

#### – **Financing and currency risks**

As its foreign subsidiaries are located in Spain and Italy, the Group is not subject to currency risks. The national currency of all of the group companies is the euro (EUR). There is no significant internal economic dependence between the activities of the foreign subsidiaries and the group companies in Germany. The foreign subsidiaries' operations in their respective markets are completely autonomous, which is underpinned by the fact that they have local general managers. Group financing of foreign subsidiaries is controlled as part of our monitoring of operating risks.

#### – **Risks from significant agreements**

##### *Termination of agreements between state lottery companies and Tipp24*

Tipp24 has signed agreements with eight lottery companies which regulate Tipp24's online brokerage of state-licensed lottery products, and in particular transaction processing and the commissions paid for such brokerage. These agreements can be terminated by either party at short notice. Should the majority of these state lottery companies, or even all of them, decide to terminate their agreements with Tipp24, this might impede or even prevent direct transaction processing with the state lottery companies. This might result in a reduction of the average commission fee, and thus of our gross margin, and have further significant adverse effects on Tipp24's net assets, financial position and results of operations.

##### *Risks in the processing of gaming operations*

Tipp24 is dependent on the use of automated processes for handling gaming agreements, whose efficiency and reliability is in turn dependent on the functionality and stability of the underlying technical infrastructure. The functional ability of the servers used by Tipp24 and the related hardware and software infrastructure is of considerable significance for our business, reputation and attractiveness to customers.

The failure risk of all components of relevance for gaming operations (e.g. database servers, application servers, web servers, firewalls, routers) is largely eliminated by the redundant systems or maintenance contracts with correspondingly short reaction times.

### *Personnel risks*

Even with careful selection and responsible staff management, it cannot be ruled out that a significant number of even experienced employees may leave the company within a short period of time. At the same time, the recruitment of new staff for these vacant positions may be time-consuming and costly. Despite the stand-in regulations we have implemented, this could have a material effect on Tipp24's net assets, financial position and results of operations. We carefully select our new recruits, often with the help of personnel consultants. Responsibilities, goals and key success parameters are also discussed on a regular basis with each employee. Performance checks are carried out to ascertain whether these goals and parameters have been fulfilled and feedback given to employees in regular performance reviews. These reviews are also used to determine employee satisfaction. We regularly evaluate the results of these reviews in order to counter any undesired trends.

### *General business risks*

As a young and dynamic company Tipp24 has grown strongly in the past few years. As a result, the ongoing development in line with this growth of appropriate internal organizational and risk monitoring structures that allow early recognition of undesirable developments and risks – particularly in the IT area – was and remains a constant challenge for us.

We are planning further personnel growth in coming years, as well as the expansion of our business in new markets and new product areas. The challenge will continue to be to identify existing and new risks, and to assess them correctly in a timely manner, as well as to further develop the existing organizational and risk monitoring system appropriately and promptly.

If gaps or defects in the existing organizational and risk monitoring system become evident in ongoing practice, or if we fail to create appropriate structures and systems promptly in connection with the planned further growth, this could lead to an impaired ability to recognize and manage risks, trends and undesirable developments in a timely manner. This could have a material adverse effect on Tipp24's net assets, financial position and results of operations.

### **CONCLUDING STATEMENT CONCERNING THE GROUP'S RISK**

As for all market participants, Tipp24 is exposed to certain business risks which are involved in simply participating in market activities. On the one hand, these are general risks in connection with cyclical economic developments. This danger can be countered to some extent by optimal market positioning.

On the other hand, there are risks involved with the specific business model, the regulatory environment and the company's geographic positioning. Under the given circumstances, Tipp24 has found an optimal configuration for itself which limits the Group's overall risk to a minimum.



After evaluating the current and future risk factors, we do not see any risks which endanger the continued existence of Tipp24. We do not believe that the risks emanating from the above-mentioned possible regulatory changes, involving a discontinuation of our current business in Germany, endanger the continued existence of Tipp24 for the following reasons.

To the best of our knowledge (and confirmed by various legal opinions of reputable constitutional experts), the major restrictions for our business proposed in the draft State Treaty on Gaming (GlStV-E) represent a gross contravention of German constitutional law and EU legislation. Moreover, they are also in conflict with the latest rulings of the Federal Cartel Authority. We therefore assume that such restrictions cannot be implemented, or at least not in the long term.

Even in the case of a lasting, legally valid implementation of the GlStV-E, we do not believe our existence is endangered. By shifting the main focus of our strategy to the development of foreign markets and the diversification of our product portfolio – as well as further business alternatives still to be examined – we believe that our business can still be continued on a long-term and profitable basis. This is confirmed by the current development of our Abroad segment, especially in Spain.

The auditor of our annual financial statements has examined the company's risk management system and its adherence with legal regulations.

## **FORECAST REPORT**

### **GROUP ALIGNMENT**

On the assumption that the present legal conditions continue to apply in the coming two business years, Tipp24 plans in general to further pursue the growth strategy of the past few years in future. In addition to further growth in our core market of Germany, we also aim to extend our product portfolio with the addition of further products. Furthermore, we intend to expand our activities in the rest of Europe to beyond Italy and Spain. Preparations for market entry in a further European nation are almost complete.

### **EXPECTED ECONOMIC CONDITIONS**

#### *General economy*

The global economic upturn in the industrialized nations will experience a temporary slowdown in 2007. Fuelled by strong domestic demand and supported in part by prevailing monetary policy, the euro zone's economic upturn is expected to last somewhat longer. In view of the rising value of the euro and a generally restrictive fiscal policy, however, growth is also expected to lose some of its current momentum. Nevertheless, real GDP in the euro zone will probably exceed 2% again in 2007.

In view of the improved situation on Europe's labour markets, strong growth is forecast for consumer spending while demand for capital goods will continue to rise strongly, albeit at a slightly slower pace. (Source: ifo economic forecast 2007)

In Germany, the export-led economic upswing is expected to continue in 2007. Investments in equipment and economic construction are expected to remain firm and the volume of work will continue to rise. Despite the (long anticipated) increase in VAT, private consumption is expected to grow slightly by 0.5%. In total, GDP will expand by 1.9% in 2007 with further improvements on the labour market: the German research institute ifo expects unemployment to fall, while inflation is set to rise considerably compared with 2006 (+1.7%) to 2.3%. (Source: ifo economic forecast 2007)

### *Sector*

The global lottery market is expected to grow by 2.7% p. a. in the next few years. The online segment will grow significantly faster – albeit from a much lower base, with a current global lottery market share of 1% – at an expected rate of 27%. The European gambling markets, especially Germany and Italy, are currently in the middle of intensive political and legal discussions about the future regulatory conditions. Against this backdrop, the risk of significant additional restrictions of these markets, particularly for the online segment, have grown – as do have the chances of initial steps being taken to open up the markets by means of pan-European deregulation.

### *Expected earnings position*

Assuming the continued legality of our core activities in Germany, we aim to add approximately 300–400 thousand new customers and raise billings and revenue once again by around 30% in the current business year. Due to the economies of scale inherent in our business model, we expect a strong increase in our EBIT result. The current GlStV-E does not include any restrictions of our business activities in Germany in the current fiscal year. Against this backdrop, we do not expect that the current political and legal discussions will have any direct impact on our business activities in the current year – with the exception of additional costs for lobbying and legal advice.

### *Expected financial position*

We aim to reduce our equity ratio in the coming years with the following measures: expansion of business and thus of debt from gaming operations, partial exchange of equity for interest-bearing debt and distribution of dividends.

We plan to continue our investment activities at the current level with the aim of steadily raising the performance of our gaming systems, regularly updating our security systems and software, setting up new workstations and replacing outdated hardware. We expect an investment volume of around EUR 1–2 million per year until 2008.

### *Opportunities*

In the above-mentioned discussions of the legal framework, we believe it is unlikely that Germany's legislators will be able to act against valid law and political common sense by restricting the growing market of online lottery brokerage. Recently announced verdicts, especially of the Federal Constitutional Court and the Federal Cartel Authority, as well as supplementary regulations on a European level, may result in steps towards deregulation in the medium-term with a direct or indirect impact on lotteries. As an internationally aligned company, Tipp24 may benefit more than average from such a development: our German customers, above all, would gain access to further highly attractive products and enable Tipp24 to enter new markets with its existing products. Deregulation would also probably result in a complete clarification of the legal situation in Italy and thus provide our Italian subsidiary Puntogioco24 with the opportunity to freely pursue its business interests.

### **CONCLUDING STATEMENT**

The current regulatory discussions bear the risk of at least medium-term disruption, up to the complete prohibition of our present business model in Germany. At the same time, the Executive Board sees the opportunity for sustained encouraging progress in future. Tipp24 operates in a highly dynamic online lottery market offering considerable long-term growth potential. Moreover, there are further opportunities for growth from entry into new markets and the diversification of our product portfolio. The possible deregulation of the European lottery markets offers additional opportunities. Tipp24 is well placed to take full advantage of this excellent potential.

## CONSOLIDATED INCOME STATEMENT FROM 1 JANUARY UNTIL 31 DECEMBER ACC. TO IFRS

IN EUR	NOTES	2006	2005
Billings		264,235,397.22	204,695,912.65
Remitted stakes less commissions		-229,660,001.97	-178,577,108.18
<b>Revenue</b>		<b>34,575,395.25</b>	<b>26,118,804.47</b>
Other operating income	20	430,920.26	395,442.24
<b>Total operating performance</b>		<b>35,006,315.51</b>	<b>26,514,246.71</b>
<b>Operating expenses</b>			
Personnel expenses	18	-8,276,873.21	-6,989,695.78
Amortization/depreciation on intangible assets and property, plant and equipment	10, 11, 12	-743,120.53	-647,580.72
Other operating expenses	19	-18,742,267.65	-12,828,919.21
<b>Result from operating activities</b>		<b>7,244,054.12</b>	<b>6,048,051.00</b>
Financial result	21	1,121,288.86	441,477.21
<b>Result from ordinary activities</b>		<b>8,365,342.98</b>	<b>6,489,528.21</b>
Income taxes	22	-920,508.78	-3,172,002.94
<b>Consolidated net profit</b>		<b>7,444,834.20</b>	<b>3,317,525.27</b>
Earnings per share (undiluted and diluted; in EUR/share)	23	0.84	0.46
Weighted average number of ordinary shares outstanding (undiluted and diluted; in units)		8,872,319	7,191,100

## CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER ACC. TO IFRS

<b>ASSETS</b> IN EUR	NOTES	31 Dec. 2006	31 Dec. 2005
<b>Current assets</b>			
Cash, cash equivalents and securities	6	60,702,758.83	57,173,611.83
Pledged cash, cash equivalents and securities		61,387.20	0.00
Short-term financial assets	6	6,013,814.44	0.00
Trade receivables	7	18,170.27	165,779.86
Income tax refund claims	8	693,610.49	297,257.71
Other assets and prepaid expenses	9	9,564,270.87	7,203,060.35
<b>Total current assets</b>		<b>77,054,012.10</b>	<b>64,839,709.75</b>
<b>Non-current assets</b>			
Intangible assets	10	372,831.08	446,313.32
Other equipment, furniture and fixtures and leased assets (property, plant and equipment)	11	1,216,717.32	1,175,456.16
Financial assets	12	3,000,000.00	5,000,000.00
Deferred tax assets	22	1,150,826.72	673,766.93
<b>Total non-current assets</b>		<b>5,740,375.12</b>	<b>7,295,536.41</b>
		<b>82,794,387.22</b>	<b>72,135,246.16</b>
<b>EQUITY AND LIABILITIES</b> IN EUR			
	NOTES	31 Dec. 2006	31 Dec. 2005
<b>Current liabilities</b>			
Trade payables		2,122,606.59	1,240,712.71
Current finance lease liabilities	13	0.00	37,475.65
Other liabilities	14	18,810,222.09	17,194,563.16
Deferred income	16	379,478.02	180,961.67
Income tax liabilities	22	445,105.32	0.00
Provisions	15	371,045.17	200,282.19
<b>Total current liabilities</b>		<b>22,128,457.19</b>	<b>18,853,995.38</b>
<b>Non-current liabilities</b>			
Non-current finance lease liabilities	13	0.00	47,893.25
Deferred tax liabilities	22	14,249.00	48,200.72
<b>Total non-current liabilities</b>		<b>14,249.00</b>	<b>96,093.97</b>
<b>Equity</b>			
Subscribed capital	17	8,872,319.00	8,872,319.00
Capital reserves	17	41,143,321.36	41,143,321.36
Other Reserves	17	21,690.02	0.00
Retained earnings		10,614,350.65	3,169,516.45
Accumulated profit/loss carried forward		3,169,516.45	-148,008.82
Net profit		7,444,834.20	3,317,525.27
<b>Total equity</b>		<b>60,651,681.03</b>	<b>53,185,156.81</b>
		<b>82,794,387.22</b>	<b>72,135,246.16</b>

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER

IN EUR	NOTES	2006	2005
Result from operating activities		7,244,054.12	6,048,051.00
<i>Adjustments for:</i>			
Non-cash expenses acc. to IFRS 2		0.00	275,991.20
Amortization/depreciation on non-current assets	10, 11, 12	743,120.53	647,580.72
Loss on the disposal of non-current assets	10, 11	43,743.14	31,870.08
<i>Changes in:</i>			
Trade receivables		147,609.59	-165,779.86
Other assets	9	-2,484,210.52	-4,101,154.29
Trade payables		881,893.88	-450,051.23
Other liabilities	14	1,615,658.92	8,563,290.10
Provisions	15	85,394.08	78,557.13
Deferred income	16	198,516.35	110,480.52
Non-cash income from securities		24,494.44	31,837.50
Other interest and similar income		1,590,071.34	422,739.23
Fee for share loan		-440,340.31	0.00
Interest expenses and similar expenses		-6,752.15	-13,099.52
Taxes paid		-1,283,294.86	-1,172,205.29
<b>Cash flow from operating activities</b>		<b>8,359,958.55</b>	<b>10,308,107.29</b>
Cash received from the disposal of non-current assets		0.00	7,448.48
Disbursements for financial investments	12	-4,000,000.00	-5,000,000.00
Investments in intangible assets	10	-218,134.70	-408,449.19
Investments in property, plant and equipment	11	-551,289.65	-970,262.86
<b>Cash flow from investing activities</b>		<b>-4,769,424.35</b>	<b>-6,371,263.57</b>
Capital contribution from IPO		0.00	44,280,000.00
Capital contribution from employee shares		0.00	16,046.00
IPO expenses		0.00	-4,228,897.71
Contributions by the partners of SoHG		0.00	-32,345.75
<b>Cash flow from financing activities</b>		<b>0.00</b>	<b>40,034,802.54</b>
Change in cash, cash equivalents and securities		3,590,534.20	43,971,646.26
Cash, cash equivalents and securities at the beginning of the period	6	57,173,611.83	12,891,965.57
Increase (-)/decrease (+) in pledged cash, cash equivalents and securities	6	-61,387.20	310,000.00
<b>Cash, cash equivalents and securities at the end of the period</b>		<b>60,702,758.83</b>	<b>57,173,611.83</b>
<b>Composition of cash and cash equivalents at the end of the period</b>			
Cash on hand, bank balances and checks		5,098,626.77	54,932,175.93
Current securities		55,665,519.26	2,241,435.90
Pledged cash, cash equivalents and securities		-61,387.20	0.00
		<b>60,702,758.83</b>	<b>57,173,611.83</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

IN EUR	SHARE CAPITAL	CAPITAL RESERVES	OTHER RESERVES	RETAINED EARNINGS	TOTAL EQUITY
<b>As at 1 January 2005</b>	<b>2,232,091.00</b>	<b>5,732,781.01</b>	<b>0.00</b>	<b>-148,008.82</b>	<b>7,816,863.19</b>
Capital reduction from redemption of shares	-4,417.00	0.00	0.00	0.00	-4,417.00
Capital increase from cash contribution	4,417.00	0.00	0.00	0.00	4,417.00
Capital increase from company funds	4,464,182.00	-4,464,182.00	0.00	0.00	0.00
Capital increase from cash contribution of IPO	2,160,000.00	42,120,000.00	0.00	0.00	44,280,000.00
Capital contribution from discounted employee shares	16,046.00	275,991.20	0.00	0.00	292,037.20
Costs of capital increase from IPO	0.00	-4,228,897.71	0.00	0.00	-4,228,897.71
Tax effect on costs of capital increase from IPO	0.00	1,707,628.86	0.00	0.00	1,707,628.86
Net profit 2005	0.00	0.00	0.00	3,317,525.27	3,317,525.27
<b>As of 31 December 2005</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>0.00</b>	<b>3,169,516.45</b>	<b>53,185,156.81</b>
Unrealised gains/losses	0.00	0.00	21,690.02	0.00	21,690.02
Net profit 2006	0.00	0.00	0.00	7,444,834.20	7,444,834.20
<b>Total income and expense for the period</b>	<b>0.00</b>	<b>0.00</b>	<b>21,690.02</b>	<b>7,444,834.20</b>	<b>7,466,524.22</b>
<b>As of 31 December 2006</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>21,690.02</b>	<b>10,614,350.65</b>	<b>60,651,681.03</b>

## NOTES TO THE CONSOLIDATED STATEMENTS AS AT 31 DECEMBER 2006 ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### 1 GENERAL INFORMATION

Tipp24 AG, Hamburg (hereinafter referred to as **Tipp24 AG**) was formed in 1999 in Hamburg. Tipp24 AG is the parent company of the Group (hereinafter referred to as **Tipp24**), which also comprises the Group companies GSG Lottery Systems GmbH, Hamburg (hereinafter referred to as **GSG**), Schumann OHG, Hamburg (hereinafter referred to as **Schumann OHG**), Ventura24 S.L., Madrid, Spain (hereinafter referred to as **Ventura24**) and Puntogioco24 s.r.l., Monza, Italy (hereinafter referred to as **Puntogioco24**).

Tipp24 has been operating as a commercial gaming broker since the beginning of 2000 and enables its customers to participate in nearly all games of chance offered by state-owned and state-licensed lottery operators via the internet. Customers can submit their lottery tickets simply and conveniently via the internet 24 hours a day. In addition to detailed information, customers are offered extensive services, such as notification of winnings by text message or e-mail and subsequent automatic collection of their winnings from the lottery organizers. Tipp24 has grown steadily since its foundation, whereby the development of business was financed initially with funds provided by the shareholders. Tipp24 has been profitable since 2002.

Tipp24's business was initially concentrated exclusively in Germany but has since expanded internationally. In 2002, Tipp24 entered the Spanish market through its subsidiary Ventura24 and, in 2005, entered the Italian market through its subsidiary Puntogioco24. Business operations in Germany are processed via the website [www.tipp24.de](http://www.tipp24.de), in Spain via [www.ventura24.es](http://www.ventura24.es) and in Italy via [www.puntogioco24.it](http://www.puntogioco24.it). However, the Italian website is currently not available to Italian customers due to an official order. Tipp24 AG's premises are located at Falkenried-Piazza, Strassenbahnring 11-13, 20251 Hamburg, Germany.

The balance sheet date is 31 December 2006. Fiscal year 2006 covered the period from 1 January 2006 to 31 December 2006.

Tipp24 has been listed at the Frankfurt Stock Exchange (Prime Standard) since 12 October 2005.

These consolidated financial statements as of 31 December 2006 were prepared in accordance with a resolution of the Executive Board of 22 February 2007. The general shareholders' meeting still has the fundamental right to alter the consolidated financial statements after they have been approved for publication.

### 2 GENERAL ACCOUNTING PRINCIPLES

The significant accounting principles applied by the Company in preparing the consolidated financial statements are presented below:

#### 2.1 SIGNIFICANT ACCOUNTING POLICIES

##### 2.1.1 General

The consolidated financial statements of Tipp24 AG as of 31 December 2006 were prepared in accordance with the IFRS and IFRIC of the International Accounting Standards Board (**IASB**) as applied in the EU as of the balance sheet date.

It is only mandatory to apply IFRS 7 »Financial Instruments: Disclosures« in those fiscal years which begin after 1 January 2007 and consequently it was not applied in the preparation of these annual financial statements. The application of IFRS 7 is only expected to result in additional notes to the consolidated annual financial statements; effects on the recognition or measurement of financial instruments are not expected. Changes resulting from IAS 1 »Presentation of Financial Statements« regarding the notes on capital, which need only be applied in fiscal years beginning after 1 January 2007, were also not considered. It is not

planned to adopt the standard earlier than required. The application of amendments to IAS 1 is only expected to result in additional notes to the consolidated annual financial statements. A number of further standards have been passed, whose application has no material impact for Tipp24.

In the period under review, the Group applied the following new and revised IFRS standards and interpretations. The application of these new or revised IFRS standards and interpretations did not, however, have any impact on the consolidated annual financial statements. They did result, however, in additional disclosures.

- IAS 19 Change – Employee Benefits
- IAS 39 Change – Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease.

The income statement was prepared using the nature of total cost method.



### 2.1.2 *Basis of preparation*

The consolidated financial statements were prepared on the basis of historical cost. Excluded from this were available-for-sale financial assets, which were carried at fair value.

### 2.1.3 *Measurement currency*

The measurement currency is the euro (EUR). Unless otherwise stated, amounts are stated in euros and cents.

### 2.1.4 *Estimates and assumptions*

IFRS accounting requires that estimates and assumptions be made that underlie the amounts recognized in the financial statements and notes to the financial statements. Significant assumptions and estimates were for the group-wide useful lives of non-current assets, the realizability of accounts receivable and the accounting treatment and valuation of provisions. Actual figures may differ from these estimates.

### 2.1.5 *Consolidation principles*

The consolidated financial statements include Tipp24 AG as the parent company and the subsidiaries it controls. Control is assumed to exist if the parent company holds more than 50% of the voting rights in an entity and is able to determine its financial and operating policies so as to obtain benefits from its activities. Tipp24 AG holds 100% of the shares in GSG, Ventura24 and Puntogioco24.

Tipp24 AG has neither an equity interest nor any voting rights in Schumann OHG. Nevertheless, Schumann OHG was included in the consolidated financial statements in accordance with IAS 27 and SIC 12.10 because:

- the activities of Schumann OHG are mainly conducted for the benefit of Tipp24 AG,
- Tipp24 AG has decision-making powers and rights to obtain the majority of the benefits from the activities of Schumann OHG,
- the owner-related and lender-related risks are contractually borne by Tipp24 AG.

Intragroup expenses and income, profits and receivables and liabilities are eliminated.

In the consolidated financial statements, the same accounting and valuation policies are applied for like transactions and other events in similar circumstances. The financial statements of the consolidated entities have been prepared as of the balance sheet date of the parent company, which corresponds to the Group's balance sheet date.

### 2.1.6 *Intangible assets*

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized using the straight-line method over their estimated useful lives. The amortization period and method are reviewed at the end of each fiscal year.

Only purchased intangible assets are disclosed in the consolidated financial statements. The estimated useful life of the purchased assets varies between three and five years.

#### *Patents, trademarks and licenses*

Patents, trademarks and licenses are recognized at cost and amortized on a straight-line basis over their estimated useful lives. The estimated useful life of patents, trademarks and licenses is between three and five years.

#### *Software*

The costs of acquiring new software are capitalized and disclosed under intangible assets, provided that these costs are not deemed an integral part of the related hardware. Software is amortized over a useful life of three years.

Costs incurred in order to restore or maintain the future economic benefits that an entity can expect from the originally assessed standard of performance of existing software systems are recognized as an expense when the restoration or maintenance work is carried out.

#### *Research and development expenses*

Research and development expenses for self-developed software are recognized in the period in which they are incurred. Capitalizable development costs are the exception, provided that they completely fulfil the following criteria:

- The product or process is clearly defined and the attributable costs can be separately identified and measured reliably.
- The technical implementation of the product is probable.
- The entity has the ability to use or sell the intangible assets and the product is to be sold or used for internal purposes.

- There is a potential sales market if the asset is to be sold or an economic benefit if the asset is to be used for internal purposes.
- Adequate technical, financial and organizational resources required to complete the project are available.
- The entity can demonstrate the estimated future economic benefit of the asset.

In 2006, research and development expenses of EUR 2,767 thousand were recognized, compared with EUR 2,151 thousand in 2005. The Company has not capitalised any research and development costs, as the criteria of IAS 38.57 were not completely fulfilled in 2006.

#### 2.1.7 *Property, plant and equipment*

In accordance with IAS 16, property, plant and equipment are recognized as assets if it is probable that the future economic benefits that are attributable to those assets will flow to the enterprise, and the cost of the assets can be measured reliably. Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. If items of property, plant and equipment are sold or retired, their cost of purchase and accumulated depreciation are eliminated from the balance sheet and any gains or losses resulting from their disposal are recognized in profit or loss.

The cost of property, plant and equipment comprises the purchase price, import duties and other non-refundable taxes and all directly allocable costs incurred in making the asset operational. Purchase price reductions such as bonuses, cash discounts and other discounts are deducted from the purchase price. Any subsequent costs such as repair and maintenance expenses are recognized as expenses in the period in which they are incurred. If it can be demonstrated that such expenses increase the future economic benefit that arises from the use of the asset above the original level of performance, the expenses are recognized as subsequent costs.

Property, plant and equipment relate exclusively to furniture, fixtures and office equipment. These items are depreciated on a straight-line basis. The following useful lives have been assumed for the various groups of property, plant and equipment:

	YEARS
Technical equipment	2–14
Office equipment	3–25

#### 2.1.8 *Impairments of non-current assets*

The carrying amount of items of property, plant and equipment and of intangible assets is tested for impairment if there are indications to that respect. If the carrying amount of a particular asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction; the value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. The value in use is determined for each individual asset or for the corresponding cash-generating unit.

#### 2.1.9 *Leasing Finance leases*

Finance leases apply to those assets for which all main opportunities and risks associated with the property have been transferred to the Company. The Company recognizes finance leases as assets and liabilities in its balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine. If not, the lessee's incremental borrowing rate is used. Initial direct costs incurred are capitalized as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance leases give rise to depreciation expense for the asset as well as to finance expense for each accounting period. The depreciation policies for leased assets are consistent with those for depreciable assets that are owned.

### *Operating leases*

Lease payments under an operating lease, whereby all main risks associated with the leasing object are retained by the lessor, are recognized as an expense on a straight-line basis over the lease term.

#### *2.1.10 Recognition and measurement of financial instruments*

Financial instruments are divided into four categories: held-for-trading financial instruments; held-to-maturity financial instruments; loans and receivables originated by the entity; and available-for-sale financial assets.

Financial instruments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading.

Financial instruments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, other than loans and receivables originated by the entity, are classified as held to maturity.

All other financial instruments, other than loans and receivables originated by the entity, are classified as available for sale.

Held-for-trading financial instruments as well as held-to-maturity financial instruments with a residual maturity of up to twelve months are disclosed under current assets. Available-for-sale financial assets are disclosed under current assets if the Company intends to sell them within the next twelve months.

Purchases and sales of financial instruments are recognized on the trade date.

Financial instruments are initially measured at cost, which is the fair value of the consideration given, including transaction costs.

Held-for-trading financial instruments and available-for-sale financial assets are subsequently measured at fair value without any deduction for transaction costs.

Gains or losses on the fair value measurement of available-for-sale financial assets are recognized directly in equity, until the financial asset is sold, redeemed or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in profit or loss.

Gains and losses on the fair value measurement of held-for-trading financial instruments are recognized in profit or loss in the period in which they arise.

Held-to-maturity financial instruments are carried at amortized cost using the effective interest rate method.

A financial asset is eliminated from the balance sheet if the Company loses its disposing power over the contractual rights which form the basis for the financial asset. A financial liability is eliminated if the obligation on which the liability is based is fulfilled, terminated or expired.

The securities held by the Company are all secured by a capital guarantee. Part of these securities were classified as available-for-sale financial assets. These are mainly **shares in money market funds** with unlimited maturities and redeemable on demand. These securities are used for short-term investment of excess liquidity. In addition, a smaller proportion is invested in a financial instrument which generates a performance profit from the price development of selected share pairs.

Other securities were classified as held-to-maturity financial instruments and carried at cost. Tipp24 uses these instruments for the long-term investment of a basic amount of cash and cash equivalents resulting from negative net working capital. In detail, these include a »**Zinssammler**« product, a type of bearer bond on the issuer with variable interest coupon and a **swing certificate** with minimum and variable coupon components.

#### *2.1.11 Trade receivables*

Trade receivables are stated at the fair value of the consideration given and are carried at amortized cost. The receivables are regularly tested for impairment.

#### 2.1.12 *Other assets*

Other assets are stated at the nominal or lower recoverable amount. Returned direct debits from customer payments are expensed immediately.

#### 2.1.13 *Cash, cash equivalents and securities*

Cash and cash equivalents include bank balances and cash on hand and are stated at nominal value.

Securities consist of financial investments in securities which can be sold at short notice and which are recognized at fair value. Changes from fair values are carried in equity until the financial investments are eliminated. On disposal, the difference between the net disposal proceeds and the carrying amount is included in profit or loss.

The above mentioned cash, cash equivalents and securities form the item »cash, cash equivalents and securities« as disclosed in the balance sheet and cash flow statement.

We also refer to our comments in Section 6, »Cash, Cash Equivalents and Securities«.

#### 2.1.14 *Trade payables and other liabilities*

Trade payables and other liabilities are disclosed at amortized cost.

#### 2.1.15 *Other provisions*

Other provisions are recognized for legal or constructive obligations that arise prior to the balance sheet date if it is probable that an outflow of group resources will be required to settle the obligations and a reliable estimate can be made of the amount of the obligations. Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate in each case. The amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The other provisions account for all recognizable obligations to third parties.

#### 2.1.16 *Income taxes*

Tax expenses are determined on the basis of the profit or loss recorded for the period and take account of current and deferred taxes. Deferred taxes are recognized using the liability method for all temporary differences between the commercial balance sheets pursuant to IFRS and the tax balance sheets according to local GAAP law if it is probable that the temporary differences will be reversed in later fiscal years.

Deferred tax assets and liabilities are measured using those tax rates whose validity for the period in which an asset is capitalized or a liability fulfilled is determined by law on the balance sheet date. Deferred tax assets are recognized if it is probable that future taxable profit will be available. On every balance sheet date, an estimate is made of the capitalized loss carryforwards or deferred tax assets on tax loss carryforwards that have not yet been capitalized. Deferred tax assets on tax loss carryforwards that have not yet been capitalized are recognized to the extent that expected future taxable profit will be available. Deferred tax assets on tax loss carryforwards are measured at a lower amount to the extent that it is no longer probable that future taxable profit will be available for that purpose.

Current tax expenses and income as well as deferred tax expenses and income are charged or credited directly to equity if they are based on adjustments to retained earnings due to changes in accounting principles, the correction of an error, exchange rate changes or postings with no effect on profit and loss such as available-for-sale financial assets.

A deferred tax liability is recognized for all taxable temporary differences.

#### 2.1.17 *Revenue*

Revenue is recognized when i) services have been provided or goods delivered and the risk has been transferred to the beneficiary or the buyer, ii) it is probable that the economic benefits attributable to the transaction will flow to the entity, and iii) the amount of revenue can be reliably measured. Revenue is disclosed net of VAT, discounts, customer bonuses and rebates. The revenue generated by the Company is mainly the result of commission and additional fees it receives for brokering stakes. Stakes received from players are disclosed in the income statement as billings for information only. Remitted stakes less commission are then deducted from this amount to give the revenue generated by the Company. Revenue is recognized when the bets have been made, the lottery ticket information passed on to the lottery organizer and confirmation of receipt of the information has been obtained. By contrast, the revenue generated by the Company from selling »Klassenlotterie« tickets (a single raffle lottery played over a number of months where players' tickets are entered into monthly draws with winnings increasing over time) is recognized at the time the draw takes place. This is due to the different arrangement made in the sales agreement.

Ventura24 and Puntogioco24 receive advance payments from some of their customers for subscriptions. Payments received are deferred and the revenue pursuant to IAS 18 is only recognized when the lottery ticket information has been passed on to the lottery organizer and confirmation of receipt of the information has been obtained.

#### **2.1.18 Interest income**

Interest income is carried pro rata temporis under consideration of the effective annual return of a financial asset.

#### **2.1.19 Operating expenses**

Operating expenses are recognized at the time the products or goods are delivered or the services provided.

#### **2.1.20 Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred.

#### **2.1.21 Contingent liabilities**

Contingent liabilities are not recognized in the annual financial statements. Contingent liabilities are disclosed if the possibility of an outflow of resources embodying economic benefits is probable.

#### **2.1.22 Segment reporting**

A segment is a distinguishable component of an entity that is engaged in providing specific products or services (business segment) or which provides products or services within a particular economic environment (geographical segment); the risks and returns attributable to each segment are different from those of the other segments.

Tipp24 has chosen geographical segments as its primary reporting format as the Company's risks and return on equity are mainly influenced by the fact that it operates in different countries (Germany, Spain and Italy). The Company distinguishes between the segments »Germany« and »Abroad«. This segment reporting format reflects the internal organizational and management structure of Tipp24, whereby the management board manages the Group's activities on the basis of the respective income statements. So far, the Group's assets, equity and liabilities have been managed centrally and not according to separate geographic segments.

Within the segmented income statement, we do not make any further segmentation according to products. The Group is mainly engaged in brokering lottery stakes, from which it generates commission income and revenues from additional fees. Consequently, there are no distinguishable components as defined by IAS 14 that are engaged in providing an individual product or service and that are subject to risks and opportunities which differ from those of other business segments. Segment results contain items which can either be directly allocated to the segments or else allocated to one segment on a reasonable basis using an allocation key.

#### **2.1.23 Events after the balance sheet date**

Events which become known after the balance sheet date yet which arose economically prior to the balance sheet date, are recognized in the consolidated financial statements. Significant events which arise economically after the balance sheet date are discussed.

### **3 CONSOLIDATED CASH FLOW STATEMENT**

The consolidated cash flow statement is prepared pursuant to IAS 7 (»Cash Flow Statements«). A distinction is made between cash flows from operating, investing and financing activities.

The cash flow from ordinary activities was derived using the indirect method.

Cash and cash equivalents comprise both cash and cash equivalents and current securities, provided that these are not subject to any restrictions (see Section 6, »Cash, Cash Equivalents and Securities«).

## 4 SEGMENT REPORTING

### 4.1 GEOGRAPHIC SEGMENTS

The Group distinguishes between the segments »Germany« and »Abroad«. The »Abroad« segment comprises the Group's activities in Spain and Italy.

In the context of segment reporting for the geographical segments, segment revenue relates to the geographical location of the operating units (group subsidiaries) which generate that revenue. This more or less equates to the geographical location of the respective customers.

IN EUR THOUSAND	GERMANY		ABROAD		CONSOLIDATION		CONSOLIDATED	
	I JAN. - 31 DEC. 2006	I JAN. - 31 DEC. 2005	I JAN. - 31 DEC. 2006	I JAN. - 31 DEC. 2005	I JAN. - 31 DEC. 2006	I JAN. - 31 DEC. 2005	I JAN. - 31 DEC. 2006	I JAN. - 31 DEC. 2005
Billings	246,942	196,041	17,293	8,655	0	0	264,235	204,696
Revenue	30,194	23,889	4,381	2,230	0	0	34,575	26,119
Depreciation/amortization	664	600	79	47	0	0	743	647
<b>EBIT</b>	<b>7,327</b>	<b>7,000</b>	<b>-83</b>	<b>-952</b>	<b>0</b>	<b>0</b>	<b>7,244</b>	<b>6,048</b>
Financial result							1,121	441
Income taxes							-921	-3,172
<b>Consolidated net profit</b>							<b>7,445</b>	<b>3,318</b>
Assets	81,789	70,822	4,992	4,810	-3,986	-3,497	82,794	72,135
Debts	18,504	15,570	4,198	4,340	-559	-960	22,143	18,950
Investments	4,565	6,310	205	61	0	0	4,769	6,371

## 5 CHANGE IN THE STRUCTURE OF THE TIPP24 GROUP

No changes were made to the structure of the Tipp24 AG Group in fiscal year 2006. Puntogioco24 was formed in January 2004, while Ventura24, Schumann OHG and

GSG were formed in fiscal year 2001. All companies have been consolidated within the Group since their formation.

## 6 CASH, CASH EQUIVALENTS AND SECURITIES

IN EUR	31 Dec. 2006	31 Dec. 2005
Cash, bank balances and checks		
Bank balances	5,054,591.22	54,909,377.33
Cash on hand	44,035.55	22,798.60
	<b>5,098,626.77</b>	<b>54,932,175.93</b>
Current securities	55,665,519.26	2,241,435.90
Pledged cash, cash equivalents and securities	-61,387.20	0.00
	<b>55,604,132.06</b>	<b>2,241,435.90</b>
	<b>60,702,758.83</b>	<b>57,173,611.83</b>

The current financial securities disclosed as of 31 December 2006 relate to shares in money market funds of Deutsche Bank AG acquired as a short-term investment with a one-day value date. The shares are publicly traded. The carrying amount was calculated as the market value of the shares as of the balance sheet date. The recognized change in market value (EUR 1,335 thousand, prior year: EUR 31 thousand) was included in the financial result of the income statement.

In addition, short-term financial assets amounting to EUR 6,014 thousand were held as of 31 December 2006. Of this total EUR 3,989 thousand concerned a product which profits from the value development of selected share pairs. An amount of EUR 2,024 thousand was invested in a swing certificate, linked to a basket of 30 international

blue-chip shares. On reaching maturity on 18 April 2007, the lowest percentage upward or downward movement of a share within the basket is calculated. This corresponds to the amount of the final coupon due. A minimum coupon of 2.00% over the period is guaranteed by the issuer Deutsche Bank. The certificate was carried as a held-to-maturity financial instrument. In total, non-recognized profit from the change in fair value of these investments amounting to EUR 22 thousand was disclosed under equity capital.

There were no indications of impairment as of the balance sheet preparation date, as the shares are equipped with a capital guarantee of the investment company.

## 7 TRADE RECEIVABLES

All trade receivables are due in less than one year. There are no restrictions on rights of disposal.

## 8 INCOME TAX REFUND CLAIMS

Tipp24 has disclosed receivables from income tax refunds amounting to EUR 694 thousand. These refer to source and capital gains taxes, as well as the corresponding solidarity

surcharge. These amounts will be refunded by the tax authorities due to existing loss carryforwards.

## 9 OTHER ASSETS AND PREPAID EXPENSES

IN EUR

	31 Dec. 2006	31 Dec. 2005
Receivables from gaming operations	7,406,566.09	6,763,245.63
<i>Receivables from lottery operators</i>	3,796,757.69	3,158,736.45
<i>Receivables from payment systems</i>	2,646,509.40	2,941,210.18
<i>Security retainers</i>	963,299.00	663,299.00
Prepaid expenses	1,520,383.67	113,700.38
Others	637,321.11	326,114.34
<i>Tickets not sold</i>	375,740.00	193,979.50
<i>Creditors with debit balances</i>	105,871.59	6,261.84
<i>Receivables from employees</i>	72,732.02	95,808.86
<i>Other</i>	82,977.50	30,064.14
	<b>9,564,270.87</b>	<b>7,203,060.35</b>

The security retainers were requested by Northwest Lotto und Toto Hamburg (EUR 250 thousand), Northwest Lotto Schleswig-Holstein (EUR 180 thousand), Lotterie-Treuhandgesellschaft mbH Hessen (EUR 200 thousand), Land Brandenburg Lotto GmbH (EUR 33 thousand) and Bremer Toto und Lotto GmbH (EUR 300 thousand) as a minimum amount to cover current bets.

The amount is contractually stipulated as a percentage of the average weekly stakes made during a specified period of time. The security retainers do not bear interest.

All other assets and prepaid expenses are due in less than one year. As of the balance sheet date, there were no indications of impairment which would have entailed the recognition of an impairment loss.

## 10 INTANGIBLE ASSETS

As regards the development of intangible assets, we refer to the following table.

IN EUR	2006	2005
Cost as of 1 January	1,939,872.78	1,550,898.43
Additions	218,134.70	408,449.19
Reclassifications	0.00	959.90
Disposals	-127,731.54	-20,434.74
<b>Cost as of 31 December</b>	<b>2,030,275.94</b>	<b>1,939,872.78</b>
Accumulated amortization as of 1 January	-1,493,559.46	-1,342,339.56
Amortization during the fiscal year	-251,223.81	-171,637.20
Reclassifications	0.00	0.00
Disposals	87,338.41	20,417.30
<b>Accumulated amortization as of 31 December</b>	<b>-1,657,444.86</b>	<b>-1,493,559.46</b>
<b>Carrying amount as of 31 December</b>	<b>372,831.08</b>	<b>446,313.32</b>

The remaining useful lives of the franchises, industrial and similar rights as well as licenses in such rights and assets are between three and five years.

There are no restrictions on rights of disposal for the aforementioned intangible assets. There continued to be no assets pledged as collateral for liabilities.



## 11 PROPERTY, PLANT AND EQUIPMENT

As regards the development of property, plant and equipment, we refer to the following table.

IN EUR	2006	2005
Cost as of 1 January	2,548,184.94	1,878,273.30
Additions	551,289.65	970,262.86
Reclassifications	-14,781.77	-959.91
Disposals	-464,967.97	-299,391.31
<b>Cost as of 31 December</b>	<b>2,619,724.85</b>	<b>2,548,184.94</b>
Accumulated depreciation as of 1 January	-1,372,728.78	-1,156,875.46
Depreciation during the fiscal year	-491,896.71	-475,943.52
Reclassifications	0.00	0.00
Disposals	461,617.96	260,090.20
<b>Accumulated depreciation as of 31 December</b>	<b>-1,403,007.53</b>	<b>-1,372,728.78</b>
<b>Carrying amount as of 31 December</b>	<b>1,216,717.32</b>	<b>1,175,456.16</b>

There are currently no assets from financial leases.

IN EUR	2006	2005
Cost as of 1 January	13,317.61	183,101.55
Additions	0.00	0.00
Disposals	-13,317.61	-169,783.94
<b>Cost as of 31 December</b>	<b>0.00</b>	<b>13,317.61</b>
Accumulated depreciation as of 1 January	-5,425.70	-172,696.30
Depreciation during the fiscal year	0.00	-2,513.34
Disposals	5,425.70	169,783.94
<b>Accumulated depreciation as of 31 December</b>	<b>0.00</b>	<b>-5,425.70</b>
<b>Carrying amount as of 31 December</b>	<b>0.00</b>	<b>7,891.91</b>

## 12 FINANCIAL ASSETS

Securities included under financial assets amounting to EUR 3,000,000.00 were carried at amortized cost using the effective interest rate method.

This is a type of bearer bond on the issuer Deutsche Bank, which is linked to the 6-month Euribor («Zinssammler»).

On the semi-annual coupon payment days (31 May and 30 November), a coupon amounting to 4.10% p. a. is paid for those business days on which the 6-month Euribor was below certain barriers. The product falls due on 30 November 2009 and is carried as a held-to-maturity financial instrument. It is secured by a capital guarantee provided by the issuer.

## 13 LIABILITIES FROM FINANCIAL LEASES

IN EUR	31 Dec. 2006	31 Dec. 2005
Due in less than one year	0.00	37,475.65
Due in one to five years	0.00	44,837.79
Due in more than five years	0.00	3,055.46
	<b>0.00</b>	<b>85,368.90</b>

There are currently no liabilities from financial leases. The contract for a telephone system was prematurely terminated.

## 14 OTHER LIABILITIES

IN EUR	31 Dec. 2006	31 Dec. 2005
<b>Tax liabilities</b>		
VAT	174,011.60	238,967.50
Wage and church tax	191,982.75	152,666.12
	<b>365,994.35</b>	<b>391,633.62</b>
<b>Liabilities for social security</b>		
Social security contributions	<b>89,941.78</b>	<b>164,119.17</b>
<b>Miscellaneous other liabilities</b>		
Liabilities to players	13,592,936.00	11,667,367.04
Liabilities to lottery companies	3,655,591.39	3,369,425.52
Liabilities to Business Service partners	507,154.48	305,467.35
Vacation obligations	218,226.23	181,750.45
Liabilities relating to the preparation/audit of the financial statements	82,080.00	68,000.00
Outstanding invoices	43,117.63	889,003.27
Other	255,180.23	157,796.74
	<b>18,354,285.96</b>	<b>16,638,810.37</b>
	<b>18,810,222.09</b>	<b>17,194,563.16</b>

All other liabilities are due in less than one year.

## 15 PROVISIONS

IN EUR	AS OF 1 JAN. 2006	UTILIZATION	INCOME FROM REVERSAL	ALLOCATION	AS OF 31 DEC. 2006
Provision for bonuses	159,286.97	148,762.96	7,499.96	343,228.86	346,252.91
Provision for litigation	39,792.26	0.00	15,000.00	0.00	24,792.26
Other	1,202.96	1,202.96	0.00	0.00	0.00
	<b>200,282.19</b>	<b>149,965.92</b>	<b>22,499.96</b>	<b>343,228.86</b>	<b>371,045.17</b>

## 16 DEFERRED INCOME

The company disclosed deferred income of EUR 379 thousand (Tipp24 EUR 32 thousand, Ventura24 EUR 307 thousand and Puntogioco24 EUR 41 thousand). It relates to payments received prior to 31 December 2006 yet which can only be recognized when the service is provided in the following year.

## 17 EQUITY

### 17.1 SHARE CAPITAL

The Company's share capital equals its capital stock of EUR 8,872,319.00 and is divided into 8,872,319 no-par value registered shares.

### 17.2 AUTHORIZED AND CONDITIONAL CAPITAL

Authorized Capital I of up to a total of EUR 3,331,136.00 and Conditional Capital of up to a total of EUR 500,000.00 remain unchanged as of the balance sheet date.

### 17.3 CAPITAL RESERVES

Capital reserves remain unchanged as of the balance sheet date at EUR 41,143,321.36.

### 17.4 EMPLOYEE PARTICIPATION PROGRAM

As part of the creation of Conditional Capital I at the general shareholders' meeting of 7 September 2005, the Executive Board was authorized to establish a stock option plan (Stock Option Plan 2005). The stock options are limited to a period of up to five years and intended exclusively for issue to members of the Executive Board, selected executives and other key employees of the Company as well as the general management, selected executives and key employees of associated companies, as defined by §15, German Stock Corporation Law (AktG). As part of the first tranche of the Stock Option Plan 2005, 18,000 shares were issued to entitled employees on 1 March 2006. No stock options were issued to members of the Executive Board. As part of the second tranche of the Stock Option Plan 2005, the Executive Board resolved on 16 February 2007 to offer entitled employees a total of 24,000 stock options. The offer must be accepted by 1 March 2007, otherwise it expires. No stock options were offered to members of the Executive Board.

**18 PERSONNEL EXPENSES**

IN EUR	2006	2005
Wages and salaries	6,836,089.39	5,899,047.54
Social security	1,440,783.82	1,090,648.24
	<b>8,276,873.21</b>	<b>6,989,695.78</b>

In Germany, pension insurance contributions of EUR 409 thousand (prior year: EUR 345 thousand) were made by the employer. The proportion of employer social security contributions accounted for by pension insurance contributions is not disclosed by the authorities in Spain and Italy.

**19 OTHER OPERATING EXPENSES**

IN EUR	2006	2005
Advertising and marketing expenses	8,434,661.02	5,854,038.78
Commissions for third-party brokers	3,412,814.89	1,633,055.68
<b>Total marketing expenses</b>	<b>11,847,475.91</b>	<b>7,487,094.46</b>
Handling of customer payments	1,446,936.18	1,072,794.91
Bad debt allowances and impairment losses on other assets	837,303.21	801,010.94
Data communication	444,820.63	430,278.20
Gaming operations expenses	287,061.72	219,524.22
<b>Total direct costs of operations</b>	<b>3,016,121.74</b>	<b>2,523,608.27</b>
Legal and consulting fees	1,084,456.90	832,454.39
Rent and leases	740,251.36	520,464.04
Press and lobbying costs	418,082.55	0.00
Maintenance	340,349.61	361,520.95
Representation costs	202,903.25	124,683.10
Office expenses	191,673.21	182,934.04
Insurance	149,502.12	98,927.94
Non-offsettable operating expenses	72,898.44	128,700.01
Offline shipping costs	0.00	67,450.02
Other	678,552.56	501,081.99
<b>Total other costs of operations</b>	<b>3,878,670.00</b>	<b>2,818,216.48</b>
	<b>18,742,267.65</b>	<b>12,828,919.21</b>

**20 OTHER OPERATING INCOME**

IN EUR	2006	2005
Elimination of liabilities	122,946.94	39,210.69
Income not relating to the period	83,334.75	0.00
Offsetting of benefits in kind	58,435.24	53,696.00
Income from lottery tickets bought for own account	55,022.44	114,316.64
Reversal of provisions	22,499.96	72,866.43
Placement of third-party banner advertising	0.00	17,229.42
Other	88,680.93	98,123.06
	<b>430,920.26</b>	<b>395,442.24</b>

**21 FINANCIAL RESULT**

IN EUR	2006	2005
<b>Other interest and similar income</b>		
Income from securities and other loans	960,773.69	0.00
Interest and similar income	607,607.63	454,576.73
<b>Financial income</b>	<b>1,568,381.32</b>	<b>454,576.73</b>
<b>Interest and similar income</b>		
Compensation payments for reverse convertible transactions	-9,277,637.55	0.00
Dividend income from reverse convertible transactions	9,277,637.55	0.00
<b>Financial income</b>	<b>0.00</b>	<b>0.00</b>
<b>Interest and similar expenses</b>		
Fees for reverse convertible transactions	-440,340.31	0.00
Interest expenses for current liabilities	-6,752.15	-3,863.96
Interest expenses for finance leases	0.00	-9,235.56
<b>Financing costs</b>	<b>-447,092.46</b>	<b>-13,099.52</b>
	<b>1,121,288.86</b>	<b>441,477.21</b>

## 22 INCOME TAXES

Income taxes paid or payable as well as deferred taxes are recognized as income taxes.

Income taxes comprise corporate income tax, trade tax and the solidarity surcharge.

Trade tax on income is levied on the taxable income of an entity, less income not subject to trade tax on income plus expenses not deductible for trade tax on income purposes. The effective trade tax on income rate depends on the municipality in which the entity maintains a permanent establishment for carrying on its operations. The average trade tax on income rate for Hamburg in 2005 and 2006 was 19.03%. Trade tax on income is deductible from the tax base for corporate income tax.

A corporate income tax rate of 25.0% (prior year: 25.0%), a solidarity surcharge of 5.5% on assessed corporate income tax and trade tax on income of 19.03% are used for calculating deferred taxes.

Deferred taxes under IAS 12 are calculated at the anticipated average tax rate at the time the differences are reversed (40.38%; prior year: 40.38%).

The investment of the majority of liquid funds in tax-efficient reverse convertible transactions during the first half-year resulted in income which was free of corporation tax.

IN EUR	2006	2005
Actual tax expense	-1,431,520.29	-474,091.45
Tax expense for IPO costs (offset directly from equity)	0.00	-1,707,628.86
Tax expense/income from the recognition/reversal of deferred tax assets on loss carryforwards/temporary differences	477,059.79	-988,462.70
Tax expense/income from the use/recognition of deferred tax liabilities due to temporary differences	33,951.72	-1,819.93
Deferred taxes	511,011.51	-2,697,911.49
<b>Actual and deferred income taxes</b>	<b>-920,508.78</b>	<b>-3,172,002.94</b>
Earnings before taxes	8,365,342.98	6,489,528.21
Anticipated income tax expense	-3,378,659.80	-2,620,471.49
Tax effects from non-deductible operating expenses	-16,596.43	-42,572.05
Unrecognized tax loss carryforwards	-31,557.54	-355,299.02
Tax rate difference for foreign subsidiaries	151,902.04	-57,410.06
Tax effects from income not fully taxable resulting from share loan transactions	2,325,081.16	0.00
Non-taxable expenses/income from consolidation	-206.08	0.00
Non-taxable expenses from utilization of IFRS 2	0.00	-111,445.25
Tax effects from previous years	12,532.54	0.00
Tax effects from income not fully taxable	16,946.55	15,608.70
Other	48.78	-413.76
<b>Income taxes</b>	<b>-920,508.78</b>	<b>-3,172,002.93</b>

Deferred tax assets and liabilities developed as follows:

#### DEFERRED TAX ASSETS

IN EUR	31 DEC. 2005	INCOME/EXPENSE	31 Dec. 2006
Deferred tax assets on temporary differences	31,254.17	-14,307.62	16,946.55
Deferred tax assets on tax loss carryforwards	642,512.76	491,367.41	1,133,880.17
<b>Deferred tax assets</b>	<b>673,766.93</b>	<b>477,059.79</b>	<b>1,150,826.72</b>

#### DEFERRED TAX LIABILITIES

IN EUR	31 DEC. 2005	INCOME/EXPENSE	31 Dec. 2006
Deferred tax liabilities due to temporary differences	48,200.72	33,951.72	14,249.00
<b>Deferred tax liabilities</b>	<b>48,200.72</b>	<b>33,951.72</b>	<b>14,249.00</b>

In 2006, the parent company Tipp24 AG generated net profit for the fifth consecutive year (EUR 7,041 thousand). Based on corporate planning, positive results and cash flows and therefore taxable income can be expected in the future. For this reason, tax loss carryforwards, which mainly result from tax exemption for dividend earnings, are expected to be utilized in full in the future.

In 2002, EUR 108 thousand of the tax loss carryforwards was recognized for Ventura24 S.L., Madrid, Spain. Due to the positive results in 2006, tax refund claims for losses of the years 2003–2005 were capitalized. Based on current business planning, positive results and cash flows – and thus taxable income – are also expected to be generated in future. Tax loss carryforwards are expected to be utilized in full in the future.

Due to its negative performance record and start-up losses, no deferred taxes on tax loss carryforwards were recognized for Puntogioco24 s.r.l., Monza, Italy.

As of 31 December 2006, the tax loss carryforwards amounted to approx. EUR 3.1 million for Tipp24 AG, to approx. EUR 0.6 million for Ventura24 S.L. and to approx. EUR 2.0 million for Puntogioco24 s.r.l.

### 23 EARNINGS PER SHARE

Earnings per share (undiluted and diluted) increased in the past fiscal year from EUR 0.46 to EUR 0.84 per share. The increase in earnings per share (+82.2%) is less than the total increase in net profit (+124.4%), due to the pro rata temporis effect in 2005 of the capital increase of 2,176 thousand shares during the initial public offering and the full-year effect in 2006.

Undiluted earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (adjusted to account for the diluting effects from stock options).

## 24 LEASES

### 24.1 FINANCE LEASES

The assets used by the Company under finance leases relate to a telephone system.

The contract for the telephone system was prematurely terminated.

IN EUR	31 Dec. 2006	31 Dec. 2005	31 Dec. 2006	31 Dec. 2005
	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS	
Obligation from subsequent year	0.00	39,025.86	0.00	37,475.65
Between one and five years	0.00	55,414.00	0.00	44,837.79
Over five years	0.00	4,084.11	0.00	3,055.46
<b>Total minimum lease obligations</b>	<b>0.00</b>	<b>98,523.97</b>	<b>0.00</b>	<b>85,368.90</b>
Less interest	0.00	13,155.07	0.00	0.00
<b>Present value of minimum obligations</b>	<b>0.00</b>	<b>85,368.90</b>	<b>0.00</b>	<b>85,368.90</b>

### 24.2 OPERATING LEASES

The Company has concluded several leases under which beneficial ownership is attributable to the lessor.

Tipp24 AG recognized lease payments amounting to EUR 50 thousand for six vehicles in profit and loss.

In contrast to the previous year, financial obligations amounting to EUR 1,433 thousand from leases for the business premises of Tipp24 AG, Ventura24 S.L. and Puntogioco24 s.r.l. were disclosed under Operating Leases instead of Other Financial Obligations.

The future minimum lease payments and the present value of the minimum lease payments for the above operating leases are as follows:

IN EUR	31 Dec. 2006	31 Dec. 2005	31 Dec. 2006	31 Dec. 2005
	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS	
Obligation from subsequent year	611,648.05	40,358.43	561,145.01	34,042.30
Between one and five years	1,483,216.33	44,953.86	1,150,856.02	34,626.96
Over five years	0.00	0.00	0.00	0.00
<b>Total minimum lease obligations</b>	<b>2,094,864.38</b>	<b>85,312.29</b>	<b>1,712,001.03</b>	<b>68,669.26</b>
Less interest	382,863.34	16,643.03	0.00	0.00
<b>Present value of minimum obligations</b>	<b>1,712,001.04</b>	<b>68,669.26</b>	<b>1,712,001.03</b>	<b>68,669.26</b>



### 24.3 OTHER FINANCIAL OBLIGATIONS

Other significant financial obligations arising from other contracts, including cooperating agreements, insurance contracts, license agreements and maintenance agreements are as follows:

IN EUR	2007	2008	2009	2010	2011 AND BEYOND	TOTAL
<b>Other contracts</b>	<b>1,217,545.62</b>	<b>432,835.56</b>	<b>100,980.03</b>	<b>5,529.00</b>	<b>40,662.00</b>	<b>1,797,552.21</b>

## 25 RELATED PARTIES

The members of the Executive Board and the Supervisory Board of Tipp24 AG are considered to be related parties within the meaning of IAS 24. In the fiscal year, there were no material business relationships between the Executive Board and the supervisory board members on the one hand and the companies included in the consolidated financial statements on the other, apart from those which are explicitly mentioned here.

### 25.1 MANAGEMENT AGREEMENT WITH SCHUMANN OHG

Tipp24 acts as a broker for participation in the NKL and SKL class lotteries in cooperation with Schumann OHG. Schumann OHG has entered into a sales agreement with the management of NKL; Schumann OHG has been appointed a state-licensed lottery collector by the management of SKL.

Schumann OHG is not a subsidiary of Tipp24 AG from a corporate law perspective. Marc Peters and Jens Schumann, members of the Executive Board of Tipp24 AG, are the only partners in Schumann OHG. This structure is necessary since the class lotteries' current practice is only to issue sales licenses to natural persons or companies where neither the company's liability nor the liability of the direct or indirect partners is limited. A management agreement is in place between Tipp24 AG and Schumann OHG governing the processing of game participation of class lottery customers by Schumann OHG. Under the terms of the agreement, Schumann OHG must pay all commissions and other brokerage fees collected in this context to Tipp24 AG. Tipp24 AG provides Schumann OHG with controlling, bookkeeping, marketing and technical services and bears the costs incurred by Schumann OHG in running its operations.

Since Marc Peters and Jens Schumann operate Schumann OHG in the interest of Tipp24 AG, Tipp24 AG has undertaken to indemnify them in the event of any personal claims by third parties arising from or in connection with the operation of Schumann OHG. Indemnification is limited to the extent that fulfilment of this indemnification may not cause Tipp24 AG to become insolvent or over-indebted.

### 25.2 CONSULTANCY AGREEMENTS WITH SANNWALD JAENECKE & CIE. GMBH

Sannwald Jaenecke & Cie. GmbH, Munich, in which Supervisory Board Chairman Mr Klaus F. Jaenecke holds an interest, provided the Company with consultancy services relating to its acquisition strategy, for which it received total fees of EUR 84 thousand. Remuneration was in line with standard market conditions.

### 25.3 CONSULTANCY AGREEMENT WITH DR.-ING. ULRICH CORNEHL

In fiscal year 2006, the Company used the planning services of Dr.-Ing. Ulrich Cornehl's architect office in connection with various reconstruction measures. An amount of EUR 3 thousand was invoiced. Dr.-Ing. Ulrich Cornehl is the brother of Executive Board member Dr. Hans Cornehl.

## **26 FINANCIAL INSTRUMENTS**

### **26.1 CREDIT RISK**

The scope of the credit risk of Tipp24 AG equals the sum of the trade receivables and other receivables.

Due to the nature of its business activities, the Company does not generate any receivables from customers as the amounts owed by them are collected directly by direct debit or credit card. Risks resulting from returned direct debits or credit cards from customers without sufficient credit standing are charged directly to operating expenses.

The Company generates receivables from lottery organizers such as federal state lottery companies from customer winnings which are passed on directly to the winners upon receipt. Due to the credit standing of the lottery organizers, the Company does not anticipate any significant default on payment.

Receivables from payment systems such as credit card companies entail the risk that the customers of these companies themselves fail to meet their payment obligations. This risk is recognized directly in profit or loss in the event of default by a customer.

### **26.2 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following methods and assumptions are used to measure fair value:

#### ***Cash, cash equivalents and current securities***

The nominal value of cash, cash equivalents and current securities more or less corresponds to fair value as they can be converted into cash and cash equivalents at short notice. The fair value of publicly traded financial instruments is based on the price quotations available for these or similar instruments. For non-publicly traded financial instruments, fair value is measured on the basis of a reasonable estimate of future net cash flows.

#### ***Non-current financial assets***

The fair value of non-current financial assets is based on the issue price available for like or similar securities. The fair value can differ considerably from the acquisition cost carried in the balance sheet. The amortized costs as of December 31, 2006 for the »Zinssammler« product amounted to EUR 3,000,000.00 (acquisition cost EUR 3,000,000.00). The product is equipped with a capital guarantee.

#### ***Current liabilities***

The fair value of current liabilities is based on the issue price available for like or similar debt instruments. The fair value of current liabilities more or less equals the amount repayable.

#### ***Non-current liabilities***

The fair value of non-current liabilities is based on the issue price available for like or similar debt instruments. The fair value of non-current liabilities more or less equals the amount repayable.

## 27 EVENTS AFTER THE BALANCE SHEET DATE

In early January 2007 the German state of Saxony-Anhalt served an injunction forbidding Tipp24 AG from carrying out its business operations in Saxony-Anhalt. According to the wording of the injunction, this affects both the brokerage of participation in lotteries in Saxony-Anhalt, especially as the commercial organizer of lottery clubs, and advertising for lotteries which are illegal in Saxony-Anhalt and which can be called up in Saxony-Anhalt. The prohibition had immediate effect. Tipp24 has filed a suit for temporary legal protection with the relevant administrative court. A decision is still pending. The prohibition was suspended until a decision has been made regarding temporary legal protection.

On 12 February 2007 we announced the implementation of a share buy-back programme. As part of this share buy-back programme, up to 5% of share capital corresponding to 443,615 shares are to be acquired. The programme is to run from 19 February to 30 September 2007. The price paid by Tipp24 AG per share (without ancillary purchase costs) may not be more than 10% higher or lower than the

stock market price. We commissioned a credit institute to buy back the shares from the market. Decisions concerning the timing and respective volumes of the share purchase are thus made independently, albeit with the proviso that the shares should be acquired as cheaply as possible and with respect to the interests of Tipp24. No more than 25% of average daily purchases of Tipp24 AG shares in computer trading (XETRA) or floor trading at the Frankfurt Stock Exchange are made per day.

The share buy-back serves primarily to provide the Company with shares which it can offer in the course of business combinations or to acquire companies or equity interests in companies. Alternatively, the shares may be fully or partially eliminated. All share buy-back purchases are announced after completion on the Tipp24 AG website ([www.tipp24-ag.de](http://www.tipp24-ag.de)).

## 28 OTHER DISCLOSURES ACC. TO GERMAN COMMERCIAL LAW

### 28.1 EXECUTIVE BOARD

The following persons held seats on the Executive Board in fiscal year 2006:

- Dr. Hans Cornehl, businessman, *Finance, Human Resources and Investor Relations*
- Marc Peters, businessman, *Marketing and Sales*
- Jens Schumann, businessman, *Product, Technology and Strategy*

The members of the Executive Board worked on a full-time basis. The remuneration of the Executive Board consisted of the following elements:

IN EUR	FIXED SALARY	OTHER BENEFITS	VARIABLE REMUNERATION	2006	2005
Dr. Hans Cornehl	169,468.00	20,232.33	34,000.00	223,700.33	197,939.04
Marc Peters	169,468.00	17,422.92	34,000.00	220,890.92	197,901.63
Jens Schumann	169,468.00	17,424.63	34,000.00	220,892.63	197,903.34
<b>Total</b>	<b>508,404.00</b>	<b>55,079.88</b>	<b>102,000.00</b>	<b>665,483.88</b>	<b>593,744.01</b>

In fiscal year 2006, total remuneration of the Executive Board members amounted to EUR 665 thousand. Other benefits include costs for direct insurance as well as the

proportionate premium for pecuniary damage liability insurance taken out by the Company for corporate bodies of legal entities.

## 28.2 SUPERVISORY BOARD

The following persons held seats on the Supervisory Board in fiscal year 2006:

- Klaus F. Jaenecke, businessman, Chairman
- Dr. Hans-Wilhelm Jenckel, lawyer, Deputy Chairman
- Annet Aris, businesswoman, regular member

The remuneration of the Supervisory Board in fiscal year 2006 consisted of the following elements

IN EUR	FIXED SALARY	OTHER BENEFITS	VARIABLE REMUNERATION	2006	2005
Klaus F. Jaenecke	30,000.00	15,708.33	15,000.00	60,708.33	28,927.07
Dr. Hans-Wilhelm Jenckel	18,000.00	15,708.33	9,000.00	42,708.33	18,927.07
Annet Aris	12,000.00	15,708.33	6,000.00	33,708.33	13,927.07
Dorothee Bölke	–	–	–	–	4,000.00
<b>Total</b>	<b>60,000.00</b>	<b>47,124.99</b>	<b>30,000.00</b>	<b>137,124.99</b>	<b>65,781.21</b>

Other benefits include for each member the proportionate premium for pecuniary damage liability insurance taken out by the Company for corporate bodies of legal entities.

## 28.3 DIRECTORS' DEALINGS

The following table shows the number of shares held in Tipp24 AG by members of the corporate bodies as of 31 December 2006, as well as changes in shareholdings since 1 January 2006. Members of the corporate bodies do not hold any subscription rights to shares of Tipp24 AG.

SHARES	31 DEC. 2005	ADDITIONS	DISPOSALS	31 DEC. 2006
<b>Executive Board</b>				
Dr. Hans Cornehl	134,695	0	0	134,695
Marc Peters	903,520	0	0	903,520
Jens Schumann	903,518	0	0	903,518
<b>Supervisory Board</b>				
Dr. Hans-Wilhelm Jenckel	17,517	0	17,517	0

## 28.4 DECLARATION OF CONFORMITY WITH GERMAN CORPORATE GOVERNANCE CODE

On 9 January 2007, the Executive Board and Supervisory Board submitted their declaration of conformity with the German Corporate Governance Code pursuant to § 161 AktG and made the declaration permanently available to shareholders via the Company's website.

### 28.5 EMPLOYEES

The average number of employees of Tipp24 AG and the Group is shown below:

	TIPP24 AG		GROUP	
	2006	2005	2006	2005
Executive Board	3	3	3	3
General Managers	0	0	2	2
Salaried employees	91	72	144	114
Apprentices	3	3	3	3
<b>Total employees</b>	<b>97</b>	<b>78</b>	<b>152</b>	<b>122</b>

### 28.6 AUDITING COSTS

The following fees were paid to the auditors of the annual financial statements, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, in fiscal year 2006:

IN EUR THOUSAND	2006
Auditing fees	80
Other auditing and assessment services	49
Services performed for the parent company or its subsidiaries	13
<b>Total</b>	<b>142</b>

### 28.7 CONSOLIDATED GROUP

The following subsidiaries are included in the consolidated financial statements of Tipp24 AG. Shareholdings in these companies are given below:

	2006 %	2005 %	INITIAL CONSOLIDATION
Ventura24 S.L., Madrid/Spain	100	100	2001
GSG Lottery Systems GmbH, Hamburg	100	100	2001
Puntogioco24 s.r.l., Monza/Italy	100	100	2004

Schumann OHG, Hamburg, was included in the consolidated financial statements in accordance with IAS 27 and SIC 12.10 even though Tipp24 AG has no equity interest or voting rights in the company. We refer to our comments in Section »2.1.5 Consolidation Principles«.

Hamburg, 22 February 2007

**Dr. Hans Cornehl**

**Marc Peters**

**Jens Schumann**

## **INDEPENDENT AUDITOR'S REPORT**

We have issued the following opinion on the consolidated financial statements and the group management report:

»We have audited the consolidated financial statements prepared by the Tipp24 AG, Hamburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to §315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis

within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to §315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.«

Hamburg, 2 March 2007

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Möbus  
Wirtschaftsprüfer

Hoyer  
Wirtschaftsprüfer

## REPORT OF THE SUPERVISORY BOARD

### *Advising and monitoring management*

The Supervisory Board closely followed the development of Tipp24 AG throughout the fiscal year 2006. The Supervisory Board fulfilled without qualification the tasks and responsibilities conferred upon it by law and the company's articles to advise and monitor the Executive Board. The Executive Board kept the Supervisory Board in written and oral reports informed regularly, fully and promptly about all material issues of business development, as well as significant events, current earnings, possible risks and the company's risk management system. At its meetings, the Supervisory Board dealt with these reports and discussed them together with the Executive Board. A total of four meetings were held in the fiscal year under review. Between these meetings, the Supervisory Board was also informed about all projects and events of particular significance. Wherever necessary, resolutions were adopted in writing. The Chairman of the Supervisory Board also met regularly with the Executive Board to exchange information and provide advice.

### *Main topics of discussion*

The meetings of the Supervisory Board focused on the following topics:

- the development of sales and earnings, as well as the financial position, both of the Group as a whole and its subsidiaries operating in Germany, Spain and Italy,
- corporate planning, including investment and personnel planning of the Group and its individual subsidiaries,
- the development of the regulatory and economic environment in those markets in which Tipp24 operates, focusing in particular on the development of the regulatory discussion relating to the draft State Treaty on Gaming in Germany,
- the strategic alignment and especially growth strategy of the Group,
- the ongoing development of the early risk warning systems and
- discussion and consultation of all business transactions requiring approval.

### *Composition of the Supervisory Board*

The Supervisory Board of Tipp24 AG consists of three members. Chairman of the Supervisory Board is Klaus F. Jaenecke. He was appointed to the Supervisory Board together with Annet Aris on 10 August 2005. Dr. Hans-Wilhelm Jenckel is Deputy Chairman of the Supervisory Board. He has been a member of the Supervisory Board since 19 March 2001 and was re-elected on 10 August 2005.

### *Committees*

As the Supervisory Board consists of only three members, no committees were formed.

### *Corporate Governance and the Declaration of Conformity*

The Supervisory Board dealt in detail with the further implementation of measures recommended by the German Corporate Governance Code. On 9 January 2007, the Executive Board and Supervisory Board submitted a Declaration of Conformity, pursuant to §161 German Stock Corporation Law (AktG) and made it permanently available to shareholders via the Company's website [www.tipp24-ag.de](http://www.tipp24-ag.de).

### *Auditing of the parent company and consolidated annual financial statements*

The annual financial statements and management report for fiscal 2006 of Tipp24 AG, as prepared by the Executive Board in accordance with the German Commercial Code (HGB), and the consolidated annual financial statements and Group management report prepared in accordance with International Financial Reporting Standards (IFRS) were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, which issued an unqualified audit certificate in each case. The audit also included an examination of the respective accounting systems.

With the knowledge of these audit reports, the Supervisory Board also examined the annual financial statements, management report and proposal for appropriation of the balance sheet profit prepared by the Executive Board, as well as the consolidated annual financial statements and Group management report. At the Supervisory Board meeting on 23 March 2007, the chief auditors were on hand to report on the main results of their audit.

The Supervisory Board concurred with the auditor's findings and, also on the basis of its own final examination, raised no objections. At its meeting on 23 March 2007, the Supervisory Board approved the annual financial statements prepared by the Executive Board as well as the consolidated annual financial statements. The annual financial statements are thus adopted. The Supervisory Board agrees with the proposal of the Executive Board with regard to the appropriation of the balance sheet profit for fiscal 2006.

### *Concluding statement*

The members of the Supervisory Board would like to thank the customers, business partners and shareholders of Tipp24 AG for the trust they placed in the Company once again in 2006. The Executive Board and all employees deserve our utmost respect and recognition for significantly raising sales and earnings once again, for the seventh consecutive year, despite the tremendous burden placed on them by the ongoing regulatory uncertainties. Their expert knowledge and unswerving commitment to the Company and the pursuit of customer satisfaction form the basis for Tipp24's success. We would like to take this opportunity to express our profound gratitude.

Hamburg, 23 March 2007



Klaus F. Jaenecke  
(Chairman of the Supervisory Board)





# MILESTONES

- 1999**
  - FOUNDATION OF COMPANY
  - FINANCING BY EARLYBIRD VENTURE CAPITAL
- 2000**
  - LAUNCH OF WWW.TIPP24.DE WEBSITE
- 2001**
  - SIGNING OF THE FIRST AGREEMENT WITH A STATE LOTTERY OPERATOR
  - MARKET LEADER FOR THE FIRST TIME\*
- 2002**
  - BREAK-EVEN POINT REACHED
  - MARKET ENTRY IN SPAIN
- 2003**
  - BILLINGS EXCEED EUR 100 MILLION EURO FOR FIRST TIME
- 2004**
  - CUSTOMER BASE OF 1 MILLION AT YEAR-END
  - LAUNCH OF BUSINESS SERVICES WITH WEB.DE
- 2005**
  - MARKET ENTRY IN ITALY
  - EXPANSION OF BUSINESS SERVICES WITH RTLTIPO.DE AND LOTTERIE.T-ONLINE.DE
  - INITIAL PUBLIC OFFERING
- 2006**
  - BREAK-EVEN REACHED IN SPAIN
  - START OF POLITICAL AND LEGAL MARKET CHANGES DUE TO SPORTS BETTING VERDICT (BVERFG)

\*TIPP24's own estimates, based on transaction volume

## KEY CONSOLIDATED FIGURES OF TIPP24 AG ACC. TO IAS/IFRS

AS OF 22 FEBRUARY 2007		2006	2005	2004
<b>Customers</b>				
Number of registered customers ( <i>at year-end</i> )	THOUSAND	1,770	1,322	1,031
Number of registered new customers	THOUSAND	448	291	356
Customer activity rate		28.6%	28.6%	30.9%
Average billings/customer	EUR	598	609	584
Acquisition costs per new customer	EUR	18.81	20.12	17.01
<b>Income statement</b>				
	EUR THOUSAND			
Billings		264,235	204,696	154,094
Revenue		34,575	26,119	19,504
EBIT		7,244	6,048	3,207
EBT		8,365	6,490	3,324
Net profit		7,445	3,318	1,575
<b>Balance sheet</b>				
	EUR THOUSAND			
Cash, cash equivalents and securities ( <i>incl. pledged cash, cash equivalents and securities</i> )		60,764	57,174	13,202
Other current assets		16,290	7,666	3,092
Total non-current assets		5,740	7,296	2,602
<b>ASSETS</b>		82,794	72,135	18,896
Current liabilities		22,128	18,854	10,955
Non-current liabilities		14	96	124
Equity		60,652	53,185	7,817
<b>EQUITY AND LIABILITIES</b>		82,794	72,135	18,896
<b>Cash flow</b>				
	EUR THOUSAND			
Cash flow from operating activities		8,360	10,308	5,375
Cash flow from investing activities		-4,769	-6,371	-600
Cash flow from financing activities		-	40,035	175
<b>Personnel</b>				
Number of employees ( <i>Average no. of full-time staff without board members/managing directors/interns/apprentices</i> )	NO.	144	114	95
Personnel expenses	EUR THOUSAND	8,277	6,990	5,522
Expenses per employee	EUR THOUSAND	58	61	58
R&D expenses	EUR THOUSAND	2,767	2,151	1,938
R&D staff	NO.	56	44	38
<b>Share (from 2004)</b>				
Average number of shares ( <i>undiluted</i> )	NO.	8,872,319	7,191,100	6,451,928
Earnings per share ( <i>undiluted</i> )	EUR	0.84	0.46	0.24
Operating cash flow per share ( <i>undiluted</i> )	EUR	0.94	1.43	0.83
<b>Ratios</b>				
	%			
Gross margin		13.1%	12.8%	12.7%
EBIT margin		21.0%	23.2%	16.4%
Net operating margin		21.5%	12.7%	8.1%
RoE		12.3%	6.2%	20.1%

\* 1999–2003: unaudited; 1999: Short fiscal year from 31 July until 31 December

	2003*	2002*	2001*	2000*	1999*
	675	441	323	121	0
	234	118	202	121	0
	30.3%	31.4%	N/A	N/A	N/A
	620	591	N/A	N/A	N/A
	17.52	14.21	N/A	N/A	N/A
	104,812	70,926	42,933	5,200	0
	14,085	8,284	3,808	691	0
	1,000	1,019	-3,170	-5,364	-682
	1,070	1,055	-3,124	-5,695	-690
	2,994	1,752	-3,289	-5,697	-690
	8,251	4,217	2,100	3,878	269
	3,940	2,440	1,558	809	143
	3,845	2,104	1,371	1,366	220
	16,036	8,761	5,029	6,053	633
	9,872	5,797	3,897	1,659	1,068
	99	150	70	46	
	6,065	2,814	1,062	4,349	-435
	16,036	8,761	5,029	6,053	633
	4,570	2,546	-1,321	-5,569	-412
	-506	-399	-457	-1,304	-236
	-30	-30	0	10,481	917
	72	47	26	17	3
	4,285	3,021	2,005	1,076	81
	60	64	77	63	27
	1,420	N/A	N/A	N/A	N/A
	30	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	N/A	N/A	N/A
	13.4%	11.4%	8.9%	13.3%	N/A
	7.1%	12.6%	-83.2%	-776.3%	N/A
	21.3%	21.6%	-86.4%	-824.5%	N/A
	49.4%	62.3%	-309.7%	-131.0%	158.6%

## **FINANCIAL CALENDAR 2007**

<i>26 MARCH</i>	<i>ANNUAL PRESS CONFERENCE</i>
<i>7 MAY</i>	<i>INTERIM REPORT 1<sup>ST</sup> QUARTER</i>
<i>24 MAY</i>	<i>ANNUAL GENERAL MEETING</i>
<i>6 AUGUST</i>	<i>INTERIM REPORT 2<sup>ND</sup> QUARTER</i>
<i>5 NOVEMBER</i>	<i>INTERIM REPORT 3<sup>RD</sup> QUARTER</i>
<i>NOVEMBER</i>	<i>ANALYST CONFERENCE (FRANKFURT)</i>

### *EDITOR*

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