Tipp24.de

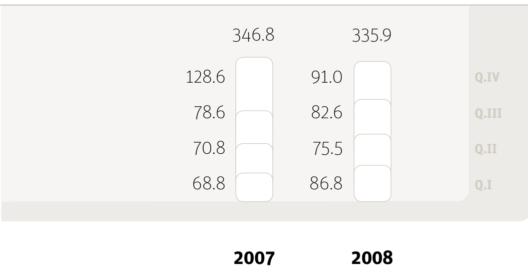
ANNUAL REPORT 2008

WIN ROUND THE CLOCK!

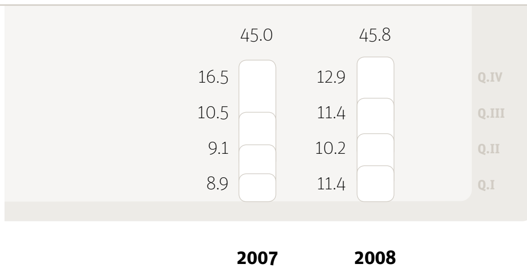
THE NO. 1 FOR ONLINE LOTTERY

CONTENTS

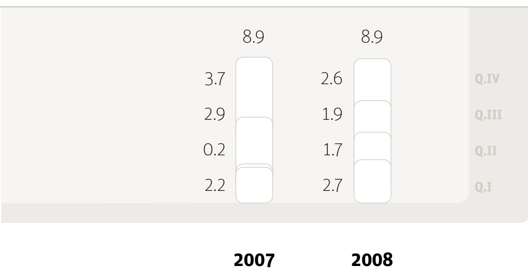
BILLINGS in EUR million



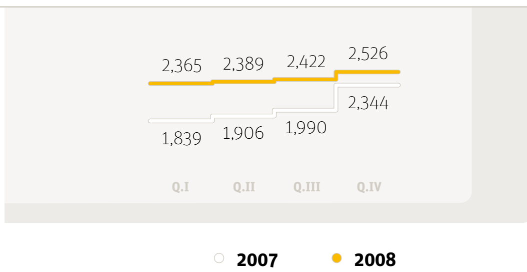
REVENUES in EUR million



EBIT in EUR million



REGISTERED CUSTOMERS in thousand



(Rounding differences possible due to presentation in EUR thousand)

FOREWORD

Ladies and gentlemen,

Fiscal year 2008 was once again dominated by the ongoing political and legal discussions about the controversial new State Treaty on Gaming (GlüStV), which came into effect in Germany on 1 January 2008. Its negative repercussions for the German market and the lack of any relevant jackpots prevented us from reaching our targets with regard to developing our key performance indicators.

Against this backdrop, we regard the fact that we succeeded in raising revenues of Tipp24 (+1.9%) and only suffering a slight fall in billings (–3.1%) as satisfactory. The number of new customer registrations (+203 thousand) suffered from the conditions imposed by the GlüStV (»Schufa« inquiry and »PostIdent« process). Compared with the previous year, EBIT fell slightly by 0.6% while the EBIT margin reached 19.4%, following 19.9% in 2007.

In addition to the adverse jackpot situation, the costs for the renewal and internationalization of our gaming software and considerable expenses for legal advice, the fall in earnings was mainly due to start-up costs for the establishment of our UK business and the new Skill-Based Games division. With the launch of these self-developed, skill-based games on 26 September 2008, we expanded our core business by adding a new dimension of web-based entertainment not subject to restrictive gaming regulations.

As of 1 January 2009, the GlüStV imposed a general ban on the brokering of all gaming products, including lotteries, via the Internet. Numerous law experts and institutions believe that the GlüStV contravenes constitutional, anti-trust and EU law. This view has been confirmed by the verdicts of several administrative courts. Moreover, in the first principal proceedings of the Administrative Court of Berlin regarding lottery brokerage with reference to EU law, it was decided that central regulations of the GlüStV were not applicable for the commercial brokerage of lotteries by Tipp24. The Federal Constitutional Court's rejection in late October of a constitutional complaint brought by Tipp24 AG and the Administrative Court of Hanover's rejection of a complaint brought by Tipp24 have not changed our assessment of the legal situation.

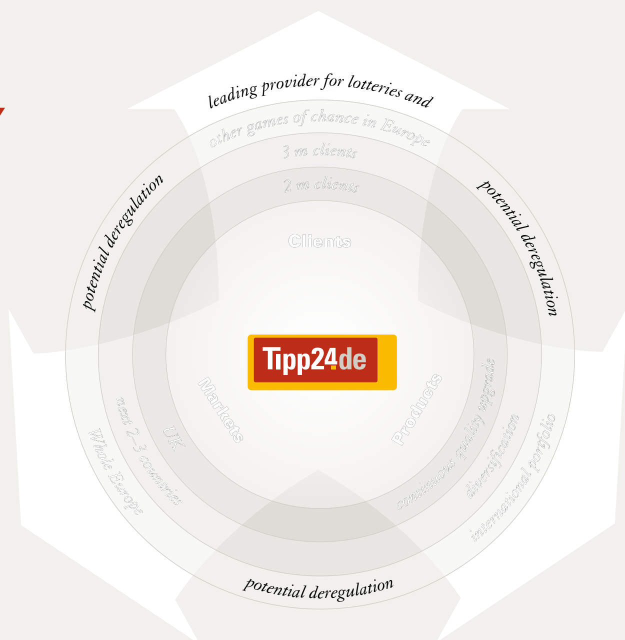
Nevertheless, we **restructured our business fields** as of 1 January 2009 as a consequence of the situation on the German market: the majority of our European activities in connection with the brokerage or offer of lottery products have since been pooled with MyLotto24 Ltd., which has been operating in the UK since 2007. This move has laid the foundations for a positive development of our foreign business.

We shall continue to pursue legal action against the State Treaty on Gaming, as its content is untenable. Its underlying claim that lotteries are addictive has still not been proven by any studies. If it were true, we believe that the German lottery companies should not have been allowed to play the New Year's Eve lottery ExtraLotto for a second time in 2008 (following its launch in 2005) with guaranteed minimum winnings of EUR 20 million, nor should they be allowed to announce the introduction of a further new European lottery with jackpots of up to EUR 90 million in 2009.

As soon as the legal situation has clearly changed in our favour – whether through change in legislation or court verdicts – we aim to immediately resume our German operations.

Irrespective of the situation in Germany, we will continue to expand our activities in the field of skill-based games and our growth strategy in the rest of Europe.

STRATEGY



OUR USPs

- Wide and established product range
- Unique positioning in Europe
- Safe and reliable transaction technology
- Robust and scalable business model
- Direct contact to loyal customers
- Effective and efficient marketing
- Powerful technology

We therefore confirm once again our positive assessment of the future development of Tipp24, which is excellently positioned in a highly promising market. This statement is underlined by our decision to launch a third share buyback programme in the light of the current valuation of our stock, which is obviously suffering from considerable deductions to account for risk.

Against the backdrop of considerable legal uncertainty in our core market to date, Germany, it is not possible to make a reliable forecast for revenues and earnings at present. Following the current transition phase of the European lottery markets and in view of our alternative business scenario, however, we still expect a return to our historically proven medium-term growth targets – an annual increase in revenue of 30% and a disproportionately stronger increase in EBIT.

The Executive Board

Jens Schumann
(Chairman
of the Executive Board)

Dr. Hans Cornehl
(Deputy Chairman
of the Executive Board)

Marcus Geiß

Petra von Strombeck

JENS SCHUMANN

35, lawyer, is one of the two founders of today's Tipp24 AG and has been Managing Director and Executive Board member since 1999. In March 2008 he was appointed Chairman of the Executive Board. From December 1998 to the formation of Tipp24, he worked as a business consultant at Icon Medialab AG. Mr. Schumann studied law at the University of Münster from 1993 to 1998 and finished his studies with the first State Exam.

DR. HANS CORNEHL

41, has a doctorate in chemistry. He has been a member of the Executive Board of Tipp24 since June 2002 and was appointed Deputy Chairman of the Executive Board in March 2008. Before joining Tipp24, Dr. Cornehl was Senior Investment Manager at the venture capital company Earlybird, where he specialized in investments in the media and telecommunications sector. He had previously gained management experience as a turnaround manager at a hospital. Dr. Cornehl started his career as an adviser for start-up, high-tech and spin-off companies at McKinsey & Company. Dr. Cornehl studied chemistry at the Technical University of Munich and gained his doctorate at the Technical University of Berlin.

EXECUTIVE BOARD OF TIPP24 AG

MARCUS GEISS

38, holds a degree in industrial engineering and a master's degree in private equity. He was appointed to the Executive Board of Tipp24 AG in March 2008. He joined the Group in September 2003 as General Manager of Puntogioco24 S.r.l, a wholly-owned Tipp24 subsidiary which launched operations in Italy in 2005. In early 2006 he was also made Managing Director International Business. Prior to joining Tipp24, Mr. Geiss was Managing Director of Advertico AG in Cologne for two years. After completing his studies in Cologne and Milan, he began his career in 1998 as a Senior Business Consultant for Mummert + Partner Consulting AG.

PETRA VON STROMBECK

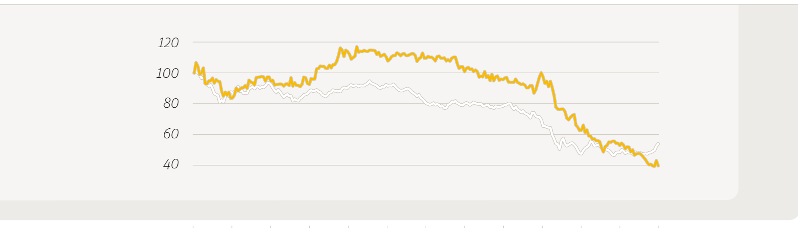
39, studied business administration and has been a member of the Executive Board of Tipp24 AG since March 2008, after being appointed Marketing Director in November 2007. Prior to joining Tipp24, she was Managing Director of a French subsidiary of Tchibo from 2004 onwards. From 1999 to 2004 she was responsible for Tchibo's online sales as head of e-commerce. Prior to this, she was responsible for advertising at Premiere Medien. From 1993 to 1996 she worked for Danone as a product manager. Mrs. von Strombeck graduated in international business administration from the EAP in Paris, Oxford and Berlin.

SHARE & CORPORATE GOVERNANCE

TIPP24 SUCKED INTO FINANCIAL CRISIS

THE STOCK MARKETS WERE IN TURMOIL IN 2008. IN THE WAKE OF THE FINANCIAL SECTOR CRISIS AND ITS IMPLICATIONS FOR THE GLOBAL ECONOMY, STOCK PRICES AROUND THE WORLD CRUMBLED: THE GERMAN DAX LOST 40.4%, THE MDAX FELL BY 43.2% AND THE SDAX SLUMPED 46.1%. THE MASS EXODUS OUT OF SHARES HIT SMALL CAPS THE HARDEST.

PERFORMANCE OF THE TIPP24 SHARE



28.12.2007		30.12.2008
EUR 14.38	Tipp24	EUR 5.71
5,191.56	SDAX	2,800.73

SHARE

Stock exchanges in 2008 were dominated by the financial market crisis. First signs of the crisis were already visible in the summer of 2007, but by the end of 2008 it was also having an extremely adverse effect on the real economy. As a consequence, Germany's major share indices tumbled by up to 40% and the Tipp24 share was unable to escape this bearish mood: especially as a result of the ongoing regulatory discussions about the German gaming market, our share price fell by 62.8% during the year – from EUR 15.33 to EUR 5.71.

The Tipp24 share is listed for trading on the Regulated Market of the Frankfurt Stock Exchange, as well as for unofficial trading on the other German stock exchanges. We meet the internationally valid transparency requirements of all shares listed in the »Prime Standard« segment of the Frankfurt Stock Exchange.

DIVIDEND

In line with the Company's consistent dividend policy and the very encouraging business development of the past few years, the Executive Board and Supervisory Board propose to pay a dividend of 50 cents per share once again for the fiscal year 2008.

SHAREHOLDER STRUCTURE

In comparison with the previous year, our shareholder structure has changed as follows: in May 2008 our major investor Günther Holding increased its shareholding to over 25%. At the Annual General Meeting of 28 May 2008, the CEO of Günther Holding, Oliver Jaster, was appointed to the Supervisory Board.

IR ACTIVITIES

In the period under review we once again pursued our investor relations targets – to maintain an open and ongoing exchange of information with the capital market – by participating in roadshows and capital market conferences in various financial centres of Europe. The main focus of our investor relations work was once again the explanation of the current regulatory discussions.

Following our second share buyback programme – announced on 5 October 2007 and completed on 13 May 2008 – Tipp24 AG held a total of 887,231 treasury shares (10% minus one share of capital stock) as of 31 December 2008, including those treasury shares purchased during the first buyback programme.

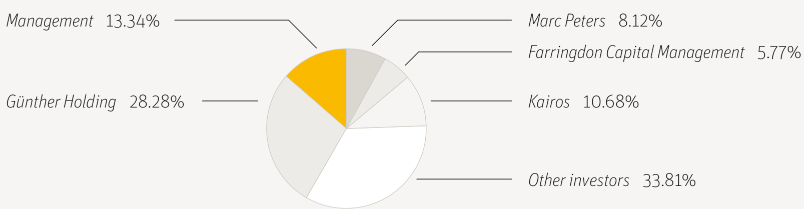
CORPORATE GOVERNANCE

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.

SHAREHOLDER STRUCTURE



as of 31 Dec. 2008

KEY SHARE FIGURES

Day of initial listing	**12.10.2005**
Year-opening price	**EUR 14.38**
Market capitalization *(Year-opening)*	**EUR 127.58 million**
Year-end price	**EUR 5.71**
Market capitalization *(Year-end)*	**EUR 50.66 million**
Highest price *(08.05.2008)*	**EUR 16.82**
Lowest price *(23.12.2008)*	**EUR 5.67**
Number of shares	**8,872 thousand**
Average daily trading *(until 31.12.2008)*	**9,345**
Earnings per share *(undiluted and diluted)*	**EUR 0.82**

SHAREHOLDER SERVICE

WKN	**784714**
ISIN	**DE0007847147**
Ticker symbol	**TIM.DE**
Stock exchange	**Frankfurt**
Market segment	**Official Market, Prime Standard**
Designated Sponsor	**Sal. Oppenheim**
Coverage	**Berenberg, Deutsche Bank, Sal. Oppenheim, Warburg/ SES**
Reuters	**TIMGn.DE**
Bloomberg	**TIM GR**

Tipp24 generally follows the recommendations of the German Corporate Governance Code (GCGC) in its current version of 6 June 2008 (www.corporate-governance-code.de). The exceptions are listed and explained in our Declaration of Conformity below. The currently valid version of our Declaration of Conformity is also posted on our website at www.tipp24-ag.de and thus permanently available to all shareholders. Declarations of Conformity which are no longer valid are kept there for a period of five years each. We would like to highlight certain areas of our Corporate Governance policy in the following:

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 and in a comprehensive and timely manner 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 rules of procedure of the Executive Board include provisions regarding the necessary approval of the Supervisory Board for significant business transactions.

Directors' Dealings acc. to § 15a WpHG

According to § 15a WpHG (German Stock Trading Law), members of the Executive Board and Supervisory Board, as well as related persons, are obliged to declare any purchase or sale of Tipp24 shares, insofar as the value of the transactions during one calendar year reaches or exceeds EUR 5,000. Tipp24 immediately publishes details of such transactions on its website and submits the corresponding voucher to the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht).

The following purchase transactions were reported to Tipp24 AG in the past fiscal year:

Name/company of the reporting party	Status	Type of transaction	Date and location	Number of shares	Share price in EUR	Volume in EUR
Marcus Geiß	Member of the Executive Board	Share purchase	21.05.2008 XETRA	6,000	16.45	98,695.64
Marcus Geiß	Member of the Executive Board	Share purchase	24.09.2008 XETRA	7,150	13.66	97,669.00
Petra von Strombeck	Member of the Executive Board	Share purchase	10.10.2008 XETRA	900	10.99	9,890.93
Marcus Geiß	Member of the Executive Board	Share purchase	14.11.2008 XETRA	7,745	7.85	60,782.00
Dr. Hans Cornehl	Member of the Executive Board	Redemption of securities loan	09.12.2008 over the counter	694	–	–
Jens Schumann	Member of the Executive Board	Redemption of securities loan	16.12.2008 over the counter	4,653	–	–

REMUNERATION REPORT

Remuneration of the Supervisory Board

The Annual Shareholders' Meeting of Tipp24 AG of 29 May 2008 adopted a remuneration system for the Supervisory Board which consists of a fixed payment, a performance-oriented bonus, further benefits and the reimbursement of expenses. The remuneration regulations were adopted for the fiscal year 2008 and the following years, unless a different resolution was adopted for the future by a subsequent Annual Shareholders' Meeting. This remuneration is based on the responsibility and scope of activities, as well as on the economic situation and success of the company. Moreover, the Company bears the cost of premium for suitable insurance coverage regarding legal liability from Supervisory Board activities (D&O insurance).

In addition to the reimbursement of their expenses, members of the Supervisory Board thus receive a fixed annual payment of EUR 13.8 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 based on consolidated EBIT, whereby this additional performance-based remuneration is limited to a total amount of no more than EUR 7 thousand. Moreover, the members of the Supervisory Board receive a performance-based annual payment with a long-term incentive effect based on consolidated earnings per share. This additional remuneration is also limited to an amount of no more than EUR 7 thousand.

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

in EUR	Fixed salary	Variable remuneration	2008
Klaus F. Jaenecke (Chairman)	34,500.00	21,875.00	56,375.00
Oliver Jaster (Deputy Chairman, since 29 May 2008)	8,625.00	5,468.75	14,093.75
Dr. Hans-Wilhelm Jenckel (Deputy Chairman, until 29 May 2008)	13,800.00	8,750.00	22,550.00
Hendrik Pressmar (since 19 Dec. 2008)	0	0	0
Annet Aris (until 19 Dec. 2008)	12,075.00	7,656.25	19,731.25
Total	**69,000.00**	**43,750.00**	**112,750.00**

in EUR	Fixed salary	Variable remuneration	2007
Klaus F. Jaenecke (Chairman)	30,000.00	21,250.00	51,250.00
Dr. Hans-Wilhelm Jenckel (Deputy Chairman, until 29 May 2008)	18,000.00	12,750.00	30,750.00
Annet Aris (until 19 Dec. 2008)	12,000.00	8,500.00	20,500.00
Total	**60,000.00**	**42,500.00**	**102,500.00**

Remuneration of the Executive Board

The annual remuneration of the Executive Board is determined by the Supervisory Board of Tipp24 AG and agreed with all members of the Executive Board. It consists of fixed and variable remuneration components and is largely based on the regulations of the GCGC. In the case of premature termination, the service contracts of Executive Board members do not include any specific severance pay provisions. No pension benefit commitments have been made to members of the Executive Board.

The remuneration of the Executive Board members consists of a fixed basic salary of EUR 180 thousand and a variable component. 50% of this variable component is based on revenue growth of the current and past year and 50% on the growth and absolute size of the EBIT margin in the current fiscal year. On achievement of the targets, the variable component amounts to 55% of the fixed component. If targets are exceeded, the variable component can rise to around 110% of the fixed amount. There is also a long-term variable component, which is based on the growth of the 3-year average of earnings per share. On achievement of the targets, this component can also reach up to 55% of the fixed component. In exceptional circumstances, the Supervisory Board can adjust the variable components by up to 50%, upwards or downwards.

The amount and structure of the remuneration package is continually monitored by the Supervisory Board and is agreed and updated with each member of the Executive Board.

in EUR	Fixed salary	Variable remuneration	2008
Dr. Hans Cornehl	180,000.00	261,731.28	441,731.28
Marcus Geiß	135,000.00	158,798.25	293,798.25
Jens Schumann	180,000.00	261,731.28	441,731.28
Petra von Strombeck	135,000.00	158,798.25	293,798.25
Total	**630,000.00**	**841,059.06**	**1,471,059.06**

in EUR	Fixed salary	Variable remuneration	2007
Dr. Hans Cornehl	189,468.00	66,658.00	256,126.00
Marc Peters	94,734.00	0.00	94,734.00
Jens Schumann	189,468.00	66,658.00	256,126.00
Total	**473,670.00**	**133,316.00**	**606,986.00**

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 6 June 2008 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.

5.3.1, 5.3.2 and 5.3.3 – Formation of committees, setting up of Audit and Nomination Committees

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 nor Nomination 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 2007, Tipp24 AG has complied with all recommendations of the German Corporate Governance Code in the version dated 6 June 2008, with the exception of recommendations made under 3.8, 5.3.1, 5.3.2, 5.3.3 and 7.1.4.

Hamburg, 26 November 2008

For the Supervisory Board	For the Executive Board
Klaus F. Jaenecke	Jens Schumann

GROUP MANAGEMENT REPORT

STABILITY DESPITE REGULATORY RESTRICTIONS

2008 CONTINUED TO BE DOMINATED BY THE ONGOING POLITICAL AND LEGAL DISCUSSIONS SURROUNDING THE GERMAN GAMING MARKET. THE CONTROVERSIAL AND, IN OUR EYES, ILLEGAL STATE TREATY ON GAMING (GLÜSTV) CAME INTO EFFECT ON 1 JANUARY 2008. DESPITE ITS ADVERSE EFFECT ON THE GERMAN MARKET, WE SUCCEEDED IN LIFTING REVENUES OF THE TIPP24 GROUP BY 1.9% AS A WHOLE. AT 19.4% THE EBIT MARGIN WAS MARGINALLY LESS THAN THE PRIOR-YEAR FIGURE OF 19.9%.

EBIT was burdened by costs for lobbying and legal advice concerning the regulatory discussions, start-up costs for our UK business and the new Skill-Based Games division, and costs for the renewal and internationalization of our gaming software. As a result of tougher registration conditions imposed by the GlüStV as of 1 January 2008, and the unfavourable jackpot situation in the period under review, the number of new customers grew by just 203 thousand. With regard to customer demand, the online lottery market continues to offer considerable growth potential. Market deregulation would also provide additional attractive opportunities for expansion. The Tipp24 Group (hereinafter Tipp24) is excellently positioned to exploit such opportunities.

THREAT TO BUSINESS MODEL IN GERMANY

The GlüStV contains a general prohibition for the brokering of all gaming products, including lotteries, via the Internet from 1 January 2009 onwards. According to the GlüStV, the state-run lottery (e.g. Lotto 6 from 49) constitutes a public gaming product, the operation and brokerage of which via the Internet is forbidden pursuant to § 4 (4) of the GlüStV. Brokers require permission in each federal state, without which brokerage is forbidden. Even if all requirements have been fullfilled, the granting of this permission is at the discretion of the federal states themselves.

In our opinion, however, the GlüStV contravenes constitutional, anti-trust and EU law. This assessment is supported by a wide range of expert legal opinions prepared by highly reputable professors of law, as well as by the Scientific Services of the state parliaments of Schleswig-Holstein and Lower Saxony, the verdicts of national and European courts, the resolutions and warnings of Germany's anti-trust authorities and a written rejection of key legislation passages from the European Commission as part of infringement proceedings already instituted. Any assessment of future developments remains difficult, however, due to the contradictory statements made by various courts. For example, in first principal proceedings regarding lottery brokerage, the Administrative Court of Berlin stated with reference to EU law that central regulations of the GlüStV were not applicable for commercial lottery brokerage. On the other hand, in its verdict of 14 October 2008 the Federal Constitutional Court refused to take a decision on a constitutional complaint brought by Tipp24 AG against various regulations of the GlüStV and the execution legislation in Lower Saxony and Berlin. The Administrative Court of Hanover also rejected a similar complaint to the Berlin proceedings.

We therefore continue to assume that due to the contravention of central passages of the GlüStV with regard to EU law, the courts responsible should grant legal protection for the continuation of commercial lottery brokerage. Moreover, we also assume that we will be able to continue the business of the Tipp24 Group as a whole, even if we are forced to adapt our current business model in Germany. At the beginning of 2009 we adapted our business model in Germany to the regulatory environment by focusing on Skilled-Based Games and our foreign business. These annual financial statements were therefore prepared on the assumption that the company will continue trading.

BUSINESS & ECONOMIC CONDITIONS

BUSINESS MODEL

Until 31 December 2008, Tipp24 brokered state-licensed and guaranteed gaming products via electronic media, especially the Internet. The product portfolio comprised the products of the »Deutsche Lotto- und Totoblock« (DLTB), the class lotteries, the German TV lottery and value-added combined products. With the introduction of the State Treaty on Gaming on 1 January 2008, Tipp24 decided to discontinue its brokerage of the state-operated sports betting system »Oddset«, the »Keno« lottery and scratch cards. Outside Germany, we have been represented on the Spanish market by Ventura24 S.L. since 2002, on the Italian market by Puntogioco24 S.r.l. since early 2005 and on the UK market by MyLotto24 Ltd. since November 2007. As of September 2008, Tipp24 AG also offers online games (Skill-Based Games) through a new Internet portal via its wholly owned subsidiary Tipp24 Entertainment GmbH.

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 various federal state lottery companies, we were able to acquire any amount of any of the lottery products offered by the German Lotto and Toto Bloc (DLTB) on behalf of our customers, within the framework of the current regulatory environment. Any technical difficulties affecting a particular partner could be seamlessly bypassed through the use of completely separate connection systems. At the turn of the year, the state lottery companies attempted to terminate GSG's receiving office agreements or to close the connection with reference to the Internet ban. GSG is seeking temporary legal protection in this matter from the civil courts and has already obtained such protection from one regional court and one regional appeal court. Other courts have decided to the contrary.

In the fiscal year 2008, the handling of »Klassenlotterie« tickets was governed by an agreement with Schumann e. K., whose sole shareholder is the Executive Board member Jens Schumann. 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 German Lotto and Toto Bloc 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. Billings generated by customers in Germany comprise the stake money that is remitted to the gaming operators. We generate revenues from commissions received for submitting lottery tickets to the lottery companies. In addition, we also charge customers additional fees for certain products.

The newly created Skill-Based Games division is operated via the platform www.tipp24games.de. Our wholly owned subsidiary Tipp24 Entertainment GmbH acts as developer and operator of the platform. Revenues in the Skill-Based Games division are generated from operator fees resulting from amounts paid by players for various games. Revenue is recognized at the moment of participation in the game and mainly generated from retaining a defined proportion of the stakes remitted.

End user business abroad

In **Spain,** our wholly owned subsidiary Ventura24 S.L. currently offers the national 6 out of 49 lottery (La Primitiva) and related lottery teams, the Christmas lottery (Sorteo de Navidad), the European lottery EuroMillones and a number of other Spanish lotteries. The product range of our wholly owned subsidiary in **Italy** Puntogioco24 S.r.l. currently comprises the national 6 out of 90 lottery (SuperEnalotto) as well as related lottery teams. In **the UK,** our wholly-owned subsidiary MyLotto24 Ltd. organizes bets on European lotteries. Our revenues in Spain and Italy are mainly generated by additional fees which we charge players. Revenues in the UK are generated from stakes received less the prize money distributed.

Business services

In the course of the GlüStV implementation, we restricted our end-user business with so-called business service partners in Germany in the period under review in favour of direct processing by Tipp24. Operations were discontinued at year-end. The service was offered to selected business service partners as an opportunity to operate lottery services on their own websites and under their own names, while using Tipp24's transaction platform for the technical processing. We generally received a one-time setup fee for this service from our business service partners. In accordance with the relevant agreements, the partners were granted a share of the revenues generated by their customers.

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 and the reliability of our proprietary technology. A further success factor are the good and direct relationships we enjoy with our loyal customers.

SIGNIFICANT ECONOMIC AND LEGAL FACTORS AFFECTING BUSINESS

Large jackpots

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

Such 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 in a subsequent 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.

Product portfolios of the lottery companies

The further development or expansion of product portfolios offered in our current foreign markets may positively influence the development of our business due to higher billings per customer. Against the current legal backdrop in Germany, however, no significant impetus is expected from new product developments of the local lottery companies. Nevertheless, the »ExtraLotto« New Year's Eve lottery launched in 2005 was held for the second time during the period under review. For 2009, the lottery companies have declared their intention to launch a new European lottery with jackpots of up to EUR 90 million. The necessary approval for such a lottery is still unclear.

Regulatory environment of the European gaming market

The business success of Tipp24 is dependent on there being no changes to the regulatory framework in which Tipp24 operates which would require a restriction of our activities. The GlüStV came into effect on 1 January 2008. A one-year grace period until the end of 2008 was planned for existing market players, like Tipp24, which nevertheless contains significant barriers, especially with regard to online brokerage and gaining new customers. The GlüStV contains a general prohibition for the brokering of all gaming products, including lotteries, via the Internet from 1 January 2009 onwards as well as sweeping restrictions, for example in the field of advertising in Germany.

Considering what we believe is the obvious illegality of the GlüStV with regard to constitutional, anti-trust and European legislation (supported by a wide range of expert opinions with respect to EU law prepared by respected professors of law, as well as by the Scientific Services of the state parliaments of Schleswig-Holstein and Lower Saxony, the verdicts of national and European courts, the resolutions and warnings of Germany's anti-trust authorities and a written rejection of key legislation passages from the European Commission as part of an official notification process), we believe that those provisions of the GlüStV which are particularly critical for our business are probably not applicable.

Moreover, there are also strong indications that the gaming market in Germany and the rest of Europe may be liberalized in the medium term, influenced by the European Community and legislation of the European Court of Justice. In the course of such a »deregulation process«, 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 further European countries, offering both our existing product range and products from different European countries.

However, despite the possible non-applicability of the GlüStV, Tipp24 is not protected in the short term from significant de facto restrictions or long-term damage to its business in Germany through official orders or non-official measures, such as those of certain state lottery companies.

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. This is illustrated by the high growth rates which persist in those markets in which this sales channel has been legally introduced. In general, we estimate that the online share of the lottery market will continue to grow significantly. 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 is derived from the accumulated contributions of active customers to total billings, 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 steer the company are: number of registered and active customers, billings per active customers, gross margin, acquisition costs per new customer, personnel expenses and the development of key return ratios. Against the backdrop of significant legal restrictions and uncertainties in our current core market, Germany, we are currently unable to provide a reliable forecast of these key indicators.

Number of registered and active customers

Our aim is to significantly raise the **number of registered customers** in the current year and over the medium term. Due to the uncertain legal situation in our main market of Germany, it would not be prudent to make more accurate forecasts regarding new customer figures. The same applies to the average activity rate (the ratio of active customers in a fiscal year to the number of registered customers in a fiscal year).

The number of customer registrations is principally influenced by continually optimized marketing activities. We concentrate primarily on online activities, which we conduct in cooperation with other partners or directly by ourselves. In 2008, growth in the number of registered customers was proportionately much weaker than in the previous year – due in particular to the unfavourable jackpot situations of the reporting period and the more complex registration process introduced by the GlüStV (see page 24 for explanation).

One 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.

Against the backdrop of clearly effective restrictions of the GlüStV already introduced in 2008, the **average activity rate** fell by 4.0 %-points to 24.7%.

Billings per active customer and gross margin

In addition to the development of registered and active customers, a further significant factor for our business success is **billings** per active customer. This figure is influenced by two principal factors: the variety and attractiveness of our product portfolio and the effectiveness of customer retention measures. In 2008, billings per active customer were somewhat down on the previous year at EUR 566 (EUR 588) due to the restricted product portfolio in Germany. It is positively influenced by regular customer care and updating of our product portfolio in the field of lotteries. Significant legal restrictions on the German market have resulted in a reduction of this key performance indicator.

In 2008, **gross margin** (defined as the ratio of revenues to billings) reached 13.6% (prior year: 13.0%). It was still heavily influenced by our German business, although gross margins in Spain, Italy and the UK are significantly higher than in Germany. Comparatively stronger growth in these markets raises the overall level of gross margin.

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 number of new customers gained. We devote the major share of our »Marketing expenses for own customers« to the acquisition of new customers. A smaller proportion is used for ongoing retention of existing players. Marketing expenses for own customers significantly influence the growth and 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 line with the new legal regulations of the GlüStV introduced on 1 January 2008, Tipp24 was obliged to tighten its mechanisms for the protection of minors when registering new customers. This involves checks with the German credit reference agency (»Schufa«) and successfully passing the »PostIdent« identification process. These requirements constituted a genuine hurdle in the registration process during the period under review, and significantly restricted the development of new customer figures while causing increased **customer acquisition costs** of EUR 46.44 (prior year: EUR 20.11) per new customer. This negative development was compounded by higher prices on the advertising market and an unfavourable jackpot situation. Our aim is to limit increases as far as possible. To this end, we permanently review and optimize our marketing measures. Furthermore, we regular check – both for online and offline advertising – as to whether there are new possibilities of informing potential customers about our brand and services, in order to stabilize the efficiency of our marketing measures and increase their reach. In line with the regulations of the GlüStV, Tipp24 completely terminated all advertising activities on the German gaming market at the beginning of 2009.

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. However, this trend was outweighed in 2008 by new staff recruitment, especially in connection with the establishment of our Skill-Based Games division in February 2008. As expected, this new business has not yet contributed any significant revenue.

Development of key earnings ratios

We benefit from considerable economies of scale, which enable us to steadily raise our **EBIT margin:** in the period under review, the ratio reached 19.4% and was thus slightly below the prior-year figure of 19.9%, for the reasons described above. In 2007, there were also two special items which resulted in costs of EUR 1,772 thousand. Adjusted for these items, the EBIT margin in 2007 would have amounted to 23.8%.

At 14.4% **net operating margin** was above the prior-year level of 13.9% – due mainly to reduced tax rates of 32.3% as a result of the corporate tax reform introduced on 1 January 2008 in Germany and effects of certain financial investments on profit after tax. Negative effects resulted from start-up losses of certain subsidiaries, which could not be offset with the positive results of other subsidiaries. In the period under review, **return-on-equity** grew to 12.0% (prior year: 11.3%), as a result of the higher consolidated net profit.

		2004	2005	2006	2007	2008
Number of registered customers	Thsd.	1,031	1,322	1,770	2,344	2,526
Average activity rate	%	30.9	28.6	28.6	28.7	24.7
Number of active customers in fiscal year	Thsd.	264	336	442	589	593
Billings per active customer	EUR	584	609	598	588	566
Gross margin	%	12.7	12.8	13.1	13.0	13.6
Acquisition costs per new customer	EUR	17.01	20.12	18.81	20.11	46.44
Personnel expense ratio	%	28.3	26.8	23.9	23.0	27.6
EBIT margin	%	16.4	23.2	21.0	19.9	19.4
Net operating margin	%	8.1	12.7	21.5	13.9	14.4
Return-on-equity	%	20.1	6.2	12.3	11.3	12.0

Number of registered customers: *Number of customers who have successfully completed the registration process on the company's website and the »PostIdent« process. 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 per fiscal year and the number of registered customers per fiscal year.*

Number of active customers in the fiscal year: *Product of the average activity rate and the average number of registered customers in the fiscal year.*

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

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

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

STRATEGY: MULTI-DIMENSIONAL GROWTH

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

- achieve a binding legal clarification of the regulatory situation in our core market of Germany, in order to lay the foundation for renewed sustainable growth,
- strengthen our foreign business by achieving growth in Spain, Italy and the UK, as well as penetrating further European nations,
- continually improve the quality and scope of our product range with the aim of achieving sustainable first-class service,
- 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 can be accelerated by using freely available liquid funds of around EUR 21 million and short-term financial investments of around EUR 45 million.

Due to the uncertain legal situation of the German gaming market, we have temporarily postponed all decisions concerning the specific use of available liquidity for growth activities. As a consequence of our very encouraging performance over the past few years, we are proposing a further dividend payment of 50 cents per share for the fiscal year 2008. Once the legal parameters have been settled, we will also examine and implement the 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.

MANAGEMENT & CONTROL

Management team

As of 1 April 2008, the Tipp24 Group has been led by four members of its Executive Board together with an operating management team consisting of divisional managers and further managers in Germany. Its foreign subsidiaries are led by largely independent and experienced general managers.

Remuneration of Executive Board members

The remuneration of the Executive Board members consists of a fixed basic salary of EUR 180 thousand and a variable component. 50% of this variable component is based on revenue growth of the current and past year and 50% on the growth and absolute size of the EBIT margin in the current fiscal year. On achievement of the targets, the variable component amounts to 55% of the fixed component. If targets are exceeded, the variable component can rise to around 110% of the fixed amount. There is also a long-term variable component, which is based on the growth of the 3-year average of earnings per share. On achievement of the targets, this component can also reach up to 55% of the fixed component. In exceptional circumstances, the Supervisory Board can adjust the variable components by up to 50%, upwards or downwards.

Remuneration of Supervisory Board members

In addition to the reimbursement of their expenses, members of the Supervisory Board receive a fixed gross annual payment of EUR 13.8 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 7 thousand.

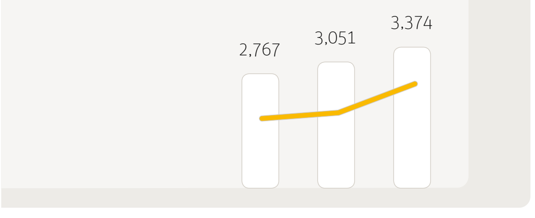
Moreover, the members of the Supervisory Board receive a performance-based annual payment with a long-term incentive effect which depends on consolidated earnings per share. This additional remuneration is also limited to an amount of no more than EUR 7 thousand.

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

Remuneration of the second management tier: 15–33% variable

In addition to their fixed basic salary, the divisional heads in Germany also receive a variable remuneration component. Depending on their respective position, this amounts to 15–33% 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 divisional heads participate in our stock option programme. The General Managers of our foreign subsidiaries are paid in the same way, whereby the agreed economic targets relate to their respective regional objectives.

R&D EXPENSES/STAFF



	2006	2007	2008
R&D Expenses in EUR thsd.			
ø number of R&D staff	56	58	68

RESEARCH & DEVELOPMENT

The research activities of Tipp24 mainly focus on 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 betting systems (software and hardware)
- Development and implementation of new and updated system technologies
- Development of new, and improvement of existing, products and services

The first two areas are implemented exclusively by our IT team. The third area also receives considerable input from various company divisions – especially marketing.

In fiscal 2008, our development activities focused mainly on the updating and internationalization of our gaming software. In cooperation with external service companies, we expect to complete the project on schedule in 2009. Apart from this project, our other development activities focused on the following new products and product modifications:

- Integration of an innovative navigation for »Quicktipp« games in the basket
- Integration of the new Lotto features »Jackpot Hunter«, »Editing for repeat tickets« and »Postdating tickets for future draws«
- Development of an »Easter Lotto« syndicate
- Development of a »Summer Lotto« syndicate
- Introduction of a lottery number archive
- Introduction of a new Lotto minisite
- Launch of syndicate products on the basis of the Spanish lotteries (Primitiva, El Gordo de la Primitiva Club, Bono Loto)
- Relaunch of the »MyLotto24« website.

In addition to meeting GlüStV requirements by adapting various aspects of our software, we also introduced the following new technologies and carried out the following optimizations:

- Ongoing development of software systems to analyze gaming behaviour of our customers
- Launch of an enhanced credit card validation system
- Ongoing adaptation of security systems to the latest standards
- Ongoing development of software systems for expanded capacity.

The above-mentioned projects were successfully completed by our in-house development departments in the period under review. We also acquired external R&D know-how for certain projects during the past year. The new product developments made a major contribution towards raising revenue. In fiscal 2008, an average of 68 employees (prior year: 58 employees) were involved with R&D activities on a full-time or part-time basis. R&D expenses amounted to EUR 3,374 thousand (prior year: EUR 3,051 thousand) and resulted mainly from personnel costs.

OVERVIEW OF BUSINESS DEVELOPMENT

GENERAL ECONOMIC CONDITIONS

Economic downswing continues

Whereas the global economy began 2008 in a relatively robust state, with high energy costs and raw material prices, the economic downswing gathered increasing pace during the course of the year. Although global economic growth once again reached 3.6%, forecasts regarding the current economic situation and expectations for the next six months were both strongly downgraded. All three major global regions are affected by the downturn. The USA could no longer be counted on to drive global growth and there was even a noticeable slowdown in the previously strong emerging nations. World trade almost came to a complete standstill and despite government invention the financial markets have still not calmed down. Both trust between banks and credit terms are still suffering from mutual mistrust among the market players.

Euro zone sliding into recession

Economic growth in the Euro zone ground to a halt in the second half of 2008 – member states are experiencing their first recession since the monetary union was formed. In the second quarter of 2008, real gross domestic product (GDP) fell by 0.7% and shrank to an annual rate of −0.8% in the third.

High inflation and the ailing global economy dampened consumer spending well into the third quarter of 2008, while foreign trade deteriorated in line with overall economic activity. The strengthening Euro led to a falling propensity to invest in capital goods, which in turn hit exports. Unemployment began to rise. This sudden downturn affected all major countries in the Euro zone.

Growth forecasts for Germany revised

In December 2008, Germany's economic research institutes made downward adjustments to their forecasts for the domestic economy: real GDP growth in 2008 was just 1.5%, instead of 1.9%. Due to similar downturns among the country's foreign trading partners, exports and GDP had already begun to crumble in the summer half-year of 2008, but in the last few months of 2008 almost all economic indicators showed drastic falls. In the face of empty order books, especially in the manufacturing sector, corporate investment stagnated and thus failed to provide any support to the economy. Numerous major corporations shut down production, and kept plants idle well into the first quarter of 2009. Germany's business confidence index has been falling strongly since mid 2008. Following a period of weakness due to strong price increases (3.3%) until the present moment, consumer spending has only risen slightly – despite low inflation of just 1.4%.

There are also signs of change in Germany's labour market: the annual growth in the number of people in employment fell to 1%, compared with 1.6% in the first 6 months of 2008, and the fall in unemployment came to an end – at 7.5% the unemployment rate was just 0.5 %-points below the figure of mid 2008.

Despite intensive efforts by the state to stabilize the banking sector and the boost provided by various recovery packages, the economy is not expected to escape the downward trend in the coming year.

MARKET AND SECTOR

Intensive political and legal discussions continue

In the period under review, the legislative basis for the brokerage of lotteries and gaming in Germany was 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 was the State Treaty on Gaming – 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.

The intensive political and legal discussions about Germany's gaming market and its respective legal conditions continued to dominate our segment in 2008. The following significant legal decisions were made:

- The new **State Treaty on Gaming came into effect** in Germany on 1 January 2008. It contains regulations which seriously impede significant parts of Tipp24 AG's business activities, or even forbid them completely. According to the wording of the new legislation, the online brokerage of gaming was highly restricted in 2008 and is completely prohibited from 2009 onwards. During the transition phase in 2008, Tipp24 AG had to seek permission for its activities in all 16 federal states of Germany – something which was not required prior to the introduction of the new legislation. There was no legal claim to the granting of these licences. Tipp24 AG received permission from two federal states (Hamburg, Hessia), while 6 states refused to grant permission. All other states have neither granted nor refused permission.
- On 31 January 2008 the **European Commission** resolved to institute formal infringement proceedings against the Federal Republic of Germany, referring specifically to the new State Treaty on Gaming of 1 January 2008. The Commission made it clear that should no changes be made to the current legislation, it would file a suit with the European Court of Justice. In its detailed letter to the German government, as the party responsible, it criticized in particular the general Internet ban, the ban on Internet advertising and the regulations regarding approval procedures for private gaming brokers. The institution of formal infringement proceedings, especially in connection with its comprehensive justification, may represent a major aspect for Tipp24 AG in defence of its current business model. On 20 May 2008, the German government (as the body responsible) submitted a reply to the EU Commission's detailed letter.
- On 22 September 2008 the **Administrative Court of Berlin** decided in principal proceedings that the central regulations of the GlüStV did not apply to commercial lottery brokers. The court responded to declaratory proceedings brought by Tipp24 AG by stating that the Internet ban, the obligation to seek permission and the advertising restrictions, among others, were invalid.
- On 14 October 2008 a chamber of the **Federal Constitutional Court** rejected a constitutional complaint brought by Tipp24 AG against various regulations of the GlüStV and the execution legislation in Lower Saxony and Berlin.
- On 24 November 2008 the **Administrative Court of Hanover** rejected a complaint brought by Tipp24 AG regarding the permissibility of brokering state-organized games via the Internet.

SIGNIFICANT EVENTS FOR BUSINESS DEVELOPMENT

Ongoing regulatory discussions in Germany

The continuation of regulatory discussions in Germany had an impact on the development of our business for a number of reasons: we incurred considerable lobbying costs in order to position Tipp24 in connection with the impending legislation changes. As a result of the regulatory discussions, a number of our state-owned competitors discontinued their online activities or adapted them to the changed legal conditions (in the same way as Tipp24). These adjustments resulted in far more complex registration procedures for potential customers.

Blockade of our Italian website

In mid 2006 the relevant authorities blocked access to the website of our Italian subsidiary, resulting in a significant restriction of its business and in particular to our growth in Italy. In September 2007 the blockade was lifted without any explanation and then imposed again without explanation in March 2008. The Italian state monopolies commission (AAMS) granted Giochi24 S.r.l., a wholly owned subsidiary of Tipp24, a concession to operate and market online games of chance in October 2008. This concession enables Tipp24 to market all state-licensed gaming products in Italy via the Internet from 2009 onwards.

UK market entry

In the period under review we entered the UK market via our new wholly-owned subsidiary »MyLotto24 Ltd.«. In November 2007 Tipp24 went online with a new business model under the website address www.mylotto24.co.uk: on the basis of the corresponding licence, MyLotto24 Ltd. operates lotteries based on the outcome of European lotteries.

Skill-Based Games

On 26 September 2008 our product portfolio was expanded by the addition of skill-based games via our new online gaming portal Tipp24games.de. A number of the games were developed by our subsidiary Tipp24 Entertainment GmbH, which was only founded at the beginning of the past year. As the games on offer are knowledge- or skill-based games, they are not subject to restrictive gaming regulations.

CONCLUDING ASSESSMENT OF BUSINESS DEVELOPMENT

The Executive Board of Tipp24 AG judges business development to have been generally satisfactory in 2008. As a result of the difficult regulatory situation in Germany and the lack of any relevant jackpots, we were unable to achieve our objectives with regard to the development of billings, revenues and EBIT.

The changing political and legal conditions for lottery markets in many parts of Europe may lead to significant additional prospects for our business in the medium term. Against the backdrop of recent developments in Germany's regulatory environment, however, there are also significant additional risks, at least in the short term. Due to the low volume of our relatively young business in Italy, the limitation of our Italian activities in 2008 only had a minor negative influence on the Group's revenue development.

EARNINGS, FINANCIAL POSITION AND NET ASSETS

EARNINGS

Continued growth at low level

Compared with the growth rates of previous years, the Tipp24 Group made much more modest progress in the period under review. Three special items are to be considered when comparing figures with those of the previous year:

- In line with the new legal regulations of the GlüStV introduced on 1 January 2008, Tipp24 is obliged to tighten its mechanisms for the protection of minors when registering new customers. This involves checks with the German credit reference agency (»Schufa«) and successfully passing the »PostIdent« identification process. These requirements constitute a genuine hurdle in the registration process, significantly restrict the development of new customer figures and result in greatly increased customer acquisition costs in Germany.
- Due to the introduction on 1 January 2008 of the GlüStV, Tipp24 has discontinued its marketing of the state-run sporting bet Oddset, the Keno lottery and scratch cards. In the fiscal year 2007, these products accounted for around 7.5% of domestic billings.
- In contrast to the previous year, during which the biggest jackpot in German history was played for in December 2007, there were no major jackpots by chance in 2008.

All in all, we were unable to significantly raise billings, revenue or EBIT over the previous year in fiscal 2008.

DEVELOPMENT OF EARNINGS

In fiscal 2008, **EBIT** fell by 0.6% to EUR 8,897 thousand, while the EBIT margin was below the prior-year level at 19.4% (prior year: 19.9%). We succeeded in decreasing the marketing expense ratio by 7.4 %-points to 26.4%. The personnel expense ratio rose by 4.6 %-points to 27.6%. While the ratio for direct cost of gaming operations fell strongly to 7.1% (prior year: 8.8%), other operating costs climbed 3.0 %-points to 17.8% of revenues.

EBIT of our **German operations** continued to dominate the development of consolidated EBIT and amounted to EUR 10,976 thousand (+8.9%) in the period under review. Adjusted for non-recurring costs in fiscal 2007, EBIT fell by 7.4%. At 27.5% the EBIT margin in Germany was up 2.3 %-points on the previous year, even though the segment was burdened by start-up costs for the development of our Skill-Based Games business and increased other operating expenses for legal and project consultation services.

Earnings of our **foreign subsidiaries** in the period under review amounted to EUR –2,079 thousand (prior year: EUR –1,127 thousand). This figure is dominated by the start-up costs for our market entry in the UK. Our Spanish operations were able to make a positive contribution to EBIT.

Due to a lower average level of cash and cash equivalents in fiscal 2008 compared with fiscal 2007, the Group's **financial result** fell to EUR 1,823 thousand (prior year: EUR 2,243 thousand). This decline resulted mainly from disbursements for dividend payments, investments in the ongoing renewal of international gaming software and the implementation of a share buyback programme.

	1 Jan.–31 Dec. 2008		1 Jan.–31 Dec. 2007		
	EUR thsd.	%	EUR thsd.	%	change %
Billings	335,947		346,776		–3.1%
Remitted stakes less commissions	–290,108		–301,802		–3.9%
Revenues	**45,838**	**100.0**	**44,974**	**100.0**	**+1.9%**
Personnel expenses	–12,667	–27.6	–10,324	–23.0	+22.7%
Other operating expenses	–23,496	–51.3	–25,774	–57.3	–8.8%
Less other operating income	811	1.8	944	2.1	–14.1%
Operating expenses	**–35,352**	**–77.1**	**–35,154**	**–78.2**	**+0.6%**
EBITDA	**10,486**	**22.9**	**9,820**	**21.8**	**+6.8%**
Amortization and depreciation	–1,589	–3.5	–871	–1.9	+82.4%
EBIT	**8,897**	**19.4**	**8,949**	**19.9**	**–0.6%**
Financial result	1,823	4.0	2,243	5.0	–18.7%
Earnings before taxes	**10,720**	**23.4**	**11,192**	**24.9**	**–4.2%**
Income taxes	–4,114	–9.0	–4,920	–10.9	–16.4%
Profit	**6,606**	**14.4**	**6,272**	**13.9**	**+5.3%**
Breakdown of other operating expenses					
Marketing expenses	–12,084	–26.4	–15,186	–33.8	–20.4%
– Marketing expenses for own customers	–9,427	–20.6	–11,550	–25.7	–18.4%
– Business Service commissions	–2,657	–5.8	–3,636	–8.1	–26.9%
Direct operating expenses	–3,247	–7.1	–3,941	–8.8	–17.6%
Other expenses of operations	–8,165	–17.8	–6,647	–14.8	+22.8%
Other operating expenses	**–23,496**	**–51.3**	**–25,774**	**–57.3**	**–8.8%**

(Rounding differences possible due to presentation in EUR thousand)

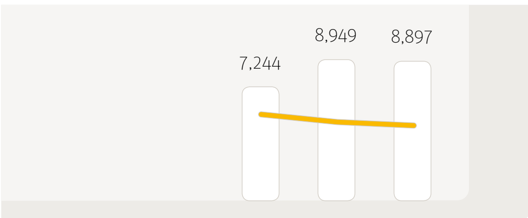
Consolidated net profit increased by 5.3% to EUR 6,606 thousand, compared with the previous year. Net operating margin after tax grew by 0.5 %-points to 14.4%. Compared with the previous year, the Group's tax ratio fell by 5.6 %-points to 38.4%. There were positive effects on earnings after tax from the Corporate Tax Reform introduced in Germany on 1 January 2008, with reduced tax rates of 32.3%, and from effects resulting from various financial investments. The start-up losses of certain subsidiaries could not be netted with the positive results of other subsidiaries and thus had a negative impact on earnings.

In the period under review **return-on-equity** rose from 11.3% to 12.0%.

Earnings per share (undiluted and diluted) grew from EUR 0.74 to EUR 0.82 in the period under review.

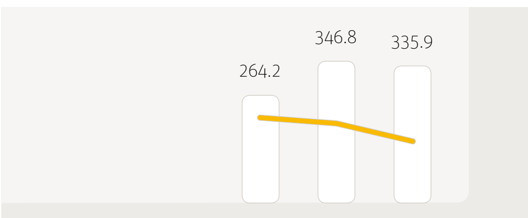
Net loss for the year acc. to HGB of Tipp24 AG amounted to EUR 1,887 thousand in 2008. The Executive Board proposes to pay a dividend of 50 cents per share once again for the fiscal year 2008.

EBIT/EBIT MARGIN



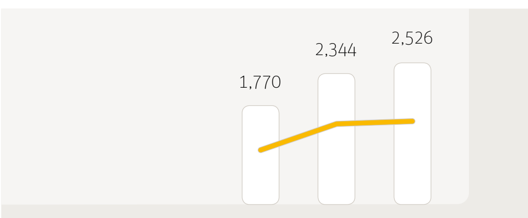
	2006	2007	2008
EBIT in EUR thsd.			
EBIT margin in %	*21.0%*	*19.9%*	*19.4%*

BILLINGS



	2006	2007	2008
Total billings in EUR million			
per customer in EUR	*598*	*588*	*566*

REGISTERED/ACTIVE CLIENTS



	2006	2007	2008
Registered in thsd.			
Active in thsd.	*442*	*589*	*593*

DEVELOPMENT OF REVENUES

The number of **registered customers** grew by 203 thousand to 2,526 thousand in fiscal 2008. Due to the considerable registration restrictions of the GlüStV and the unfavourable jackpot situation during the period under review, growth was 371 thousand less than in the previous year (574 thousand). We also sold outstanding receivables from 22 thousand inactive customers to a debt collection agency and deleted these customers from our client base.

At 24.7% the **active customer ratio** was down on the prior-year level (28.7%). Billings per active customer were also down on the previous year at EUR 566 (EUR 588). Overall, **billings** amounted to EUR 335,947 thousand in the period under review and were thus 3.1% below the prior-year figure. At 13.6% the ratio of billings to revenues – our **gross margin** – exceeded the figure for 2007 (13.0%).

We succeeded in raising total **revenues** by 1.9% to EUR 45,838 thousand, of which 87.2% were generated in Germany. Domestic revenues thus remained stable at EUR 39,983 thousand (–0.1%). Domestic billings fell by 4.5% to EUR 310,979 thousand, while gross margin rose correspondingly to 12.9% (prior year: 12.3%).

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

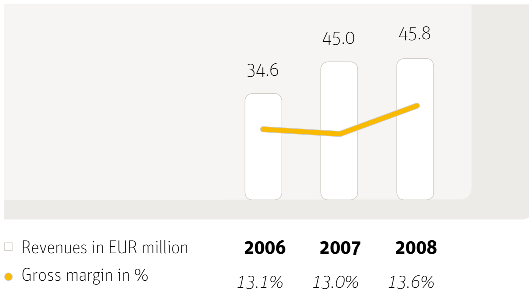
In the period under review, **personnel expenses** grew by 22.7% to EUR 12,667 thousand. After adjustment for a special charge of EUR 350 thousand in fiscal year 2007, the increase amounted to 27.0%. This was due mainly to the establishment of our Skill-Based Games business from February 2008 onwards. As expected, this segment has not yet generated significant revenues. The personnel expense ratio rose by 4.6 %-points to 27.6%.

There was a year-on-year fall in other operating expenses of 8.8% to EUR 23,496 thousand in 2008. The development in detail was as follows:

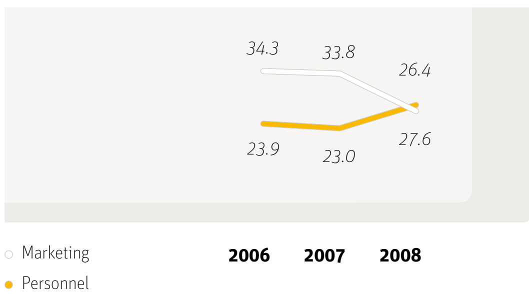
- **Marketing costs** fell by 20.4% to EUR 12,084 thousand (26.4% of revenues; –7.4 %-points). They consist of marketing expenses for our own customers and commissions paid to Business Service partners. In 2008, marketing expenses for our own customers were down 18.4% on 2008 at EUR 9,427 thousand. The amount of commissions paid to Business Service partners fell by 26.9% to EUR 2,657 thousand.
- In 2008 **direct operating expenses** fell by –17.6% to EUR 3,247 thousand and thus developed proportionately more slowly than billings. They represented 1.0% of total billings (prior year: 1.1%). Once again, there were positive effects from improvements in the dunning process and from the sale of receivables to collection agencies.
- **Other operating expenses** rose by 22.8% to EUR 8,165 thousand (prior year: EUR 6,647 thousand). Adjusted for special charges of EUR 1,422 thousand in fiscal year 2007, the rise amounted to 56.3%. This increase was largely due to legal advice in connection with the current difficult regulatory situation, as well as consultancy costs in connection with labour-intensive development projects, especially with regard to the renewal and internationalization of the gaming operation platform.

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

REVENUES/GROSS MARGIN



COST RATIOS in %



In comparison with the previous year, **amortization/depreciation** on intangible assets and property, plant and equipment grew by EUR 718 thousand (+82.4%) to EUR 1,589 thousand in 2008. This is in line with the volume of 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. 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.
- **Funds** covering short-term liabilities from betting operations are to be invested in safe investment categories (Standard & Poor's credit rating of at least AA/A) and are covered 100% by the deposit guarantee fund. The overwhelming majority of these investments are medium-term, with maturities of nine months 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 believes that it is principally possible to leverage its financial position by means of interest-bearing debt. We shall also continue to distribute equity capital which is not required for the company's strategic objectives in the form of dividends in future.

Financial analysis of the Tipp24 Group

The financial situation of Tipp24 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 3.8% to EUR 27,821 thousand (prior year: EUR 26,811 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. In total, there are long-term liabilities in 2008 of EUR 2,607 thousand in the form of deferred tax liabilities. Tipp24 has not taken out any long-term interest-bearing debt.

Against this backdrop, our key performance indicator with regard to financial analysis is the company's equity ratio (i.e. the relation between equity and total capital).

After the completion of the second share buyback programme on 13 May 2008, Tipp24 AG held a total of 887,231 treasury shares in the period under review (10% minus one share of share capital), which reduced equity by EUR 14,729 thousand.

On 30 May 2008, Tipp24 AG also distributed a total of EUR 3,993 thousand in its dividend payment of 50 cents per no-par value share with dividend rights. Compared with the previous year, equity capital therefore fell by EUR 708 thousand to EUR 54,922 thousand, while the equity ratio fell by 1.6 %-points from 60.6% to 59.0% compared with 31 December 2007. The balance sheet total grew by 1.5% to EUR 93,151 thousand.

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 180 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 1,527 thousand (prior year: EUR 1,324 thousand).

Investment analysis

In the period under review we made total investments of EUR 47,049 thousand. Proceeds and disbursements from financial investments resulted in a net balance of EUR 37,194 thousand. A further share of total investment was allocated to the acquisition of assets belonging to Enter.TV GmbH, an innovative supplier of skill-based games (EUR 8,662 thousand). We also invested in the improvement of our gaming software and continually developed our live systems. We will continue to expand these systems in 2009 in line with growing capacity requirements and the ongoing development of security standards. We also plan to continually update our Office systems.

Liquidity analysis

Cash flow

At EUR 9,651 thousand, **cash flow from operating activities** was much lower than in the previous year (EUR 17,886 thousand). The difference is mainly due to the fact that the balance of changes in other assets and other liabilities – which mainly reflect the accounting of gaming operations (receivables from banks and credit card companies, receivables/payables from/to lottery organizers, payables to customers) – made a significantly smaller contribution to cash flow (EUR +907 thousand, prior year: EUR +3,319 thousand). However, this change is within the usual statistical variation in the processing of gaming activities. Moreover, comparatively high trade payables as of the balance sheet date resulted from increased marketing during the record jackpot period in December 2007 and were subsequently settled in the course of the reporting period.

Key cash flow positions in EUR thsd.	**2008**	**2007**
Cash flow from operating activities	9,651	17,886
Cash flow from investing activities	–47,049	–1,200
Cash flow from financing activities	–7,386	–11,335
= Change in cash and cash equivalents	**–44,784**	**5,351**
Cash and cash equivalents at the beginning of the period	65,821	60,703
Non-cash income/loss	–75	5
Change in pledged cash	–250	–239
= Cash and cash equivalents at the end of the period	**20,711**	**65,821**

(Rounding differences possible due to presentation in EUR thousand)

Cash flow from investing activities fell by EUR 45,849 thousand to EUR –47,049 thousand. The main causes were the above mentioned financial investment of EUR 37,194 thousand and much higher investment in our operating divisions, for example for the renewal of international gaming software described above.

Cash flow from financing activities amounted to EUR –7,386 thousand and was caused by the above mentioned share buyback programme and the dividend paid out on 30 May 2008. In the previous year it amounted to EUR –11,335 thousand. As a result of the aforementioned investments during the period under review, **free cash flow** amounted to EUR –37,398 thousand (prior year: EUR 16,686 thousand).

As of the balance sheet date, existing balances were invested as follows: EUR 10 million in medium-term financial assets with a fixed and variable interest component, EUR 35 million in short-term financial assets and EUR 21 million in cash and bank accounts with credit institutes in order to have sufficient short-term liquidity for gaming operations, e.g. for the payment of possible jackpot winnings.

Capital costs

Tipp24's debts consist mainly of other liabilities, especially from betting operations. There is no interest-bearing debt. We calculate the cost of equity at 7.1%. This figure is calculated on the basis of a risk-free basic interest rate of 2.9% (net yield) plus a risk premium of 4.2%, which results from the general market risk premium of 5.1% (market risk less risk-free basic interest rate) multiplied by a beta factor of 0.83 (peer group comparison used, beta to Eurostoxx is 0.23). As Tipp24 is not financed with interest-bearing debt, average capital costs as of the balance sheet date amounted to 7.1% (prior year: 7.9%).

Other liabilities

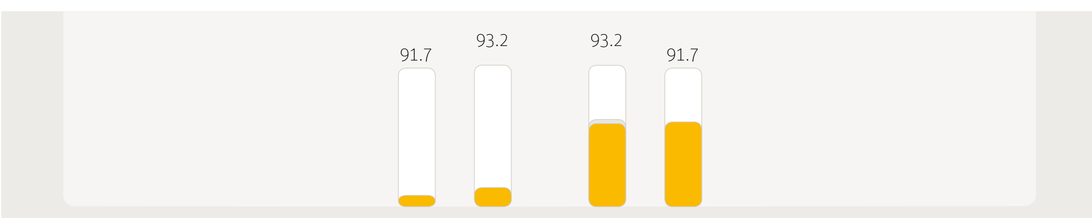
Our other liabilities consist mainly of liabilities to players from advance payments as well as to gaming companies from billings not yet paid. These liabilities are subject to considerable statistical fluctuations depending on any claims to major winnings originating before the balance sheet date not 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 were EUR 1,011 thousand above the prior-year level at EUR 27,821 thousand.

ASSET SITUATION

Asset structure analysis

The assets of Tipp24 mainly comprise current assets amounting to EUR 80,848 thousand (31 December 2007: EUR 84,526 thousand). In turn, these consist largely of cash and cash equivalents (EUR 20,711 thousand), other assets and prepaid expenses (EUR 14,349 thousand), short-term financial assets (EUR 45,211 thousand) and pledged cash (EUR 550 thousand). Moreover, Tipp24 has intangible assets (mainly software) amounting to

BALANCE SHEET STRUCTURE in EUR million



	2007	2008	2008	2007	
Current assets	*84.5*	*80.8*	*35.6*	*35.8*	Current liabilities
Non-current assets	*7.2*	*12.3*	*2.6*	*0.3*	Non-current liabilities
			54.9	*55.6*	Equity

EUR 9,620 thousand, property, plant and equipment (mainly hardware and office equipment) amounting to EUR 2,571 thousand and deferred tax assets amounting to EUR 112 thousand.

The development of assets reflects increased billings, the development of earnings and effects from our share buyback programme and the dividend payment.

Assets not recognized

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

- **Customers:** about 25% 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.

Against the backdrop of significant restrictions imposed by the GlüStV in Germany, however, non-recognized assets contain considerable temporary risks.

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

Tipp24 has future obligations from agreements totalling EUR 931 thousand. These consist of obligations from cooperation, insurance, maintenance and license agreements. There are also liabilities from an operating lease with a present value of EUR 1,527 thousand.

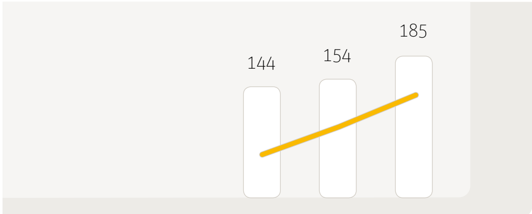
Employees

In addition to the members of its Executive Board and the general managers of its foreign subsidiaries, the Tipp24 Group had an average of 184.5 full-time employees (year-end: 190) and four apprentices in 2008. The fluctuation rate was 19.3% and the average age 33. There were also an average of 50 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. In the period under review, Tipp24 invested EUR 304 thousand (prior year: EUR 199 thousand) in external training activities.

NUMBER OF EMPLOYEES/PERSONNEL EXPENSES



	2006	2007	2008
ø number of employees			
Personnel expenses in EUR thsd.	8,277	10,324	12,667

Based on current information, Tipp24 regularly ensures compliance with all industrial health and safety standards required by law. In 2008, there were no industrial accidents.

Other intangible assets

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 situation bears the risk of at least medium-term disruption, up to the complete prohibition of our present business model in Germany as of 1 January 2009 – particularly as a result of the GlüStV, which has been ratified by all German states. This could thus have a considerable impact on the earnings, financial position and net assets 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 conditions. Above all, however, in view of the obvious incompatibility of current gaming legislation in Germany with constitutional, EU and anti-trust law, it seems unlikely that such legislation can prevail in the long term. At the same time, the Executive Board sees the opportunity for sustained encouraging growth in the future. In comparison with other sectors, the online lottery market in Germany – as well as in Spain, Italy and the UK – is still underdeveloped.

Against this backdrop, there is therefore a strong probability that the sector will enjoy significant growth in the coming years. Tipp24 is excellently positioned to benefit strongly from such growth. Furthermore, we see attractive additional potential in new product categories and in the course of possible deregulation of European lottery markets. The Group has extensive financial liquidity, mainly from equity capital. This gives us considerable scope to grasp future growth opportunities – for example by means of acquisitions. The global financial crisis has so far had no negative effects on the Tipp24 Group.

Influence of balance sheet policy on the economic position

Our balance sheet consists to a large extent of liquid funds covered by equity. They provide a solid basis for our growth strategy and for any new growth opportunities resulting from a change in the regulatory environment.

DISCLOSURES PURSUANT TO THE GERMAN TAKEOVER DIRECTIVE IMPLEMENTATION ACT (§ 315 (4) HGB)

The following mandatory disclosures are in compliance with the German Takeover Directive Implementation Act passed on 8 July 2006 in accordance with § 315 German Commercial Code (HGB):

- As of 31 December 2008, the Company's subscribed capital amounted to EUR 8,872,319.00 divided into 8,872,319 no-par value registered shares. The shares are fully paid.
- 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	Share-holding	Reporting date
Günther Holding GmbH, Hamburg	25.45%	28 April 2008
Jens Schumann, Hamburg	10.18%	11 November 2005
Kairos Investment Management, London	10.10%	03 April 2008

- In accordance with § 84 and § 85 of the German Stock Corporation Act (AktG), the Supervisory Board is responsible for appointing and dismissing members of the Executive Board. In § 5 of the Articles of Tipp24 AG, it is further specified that the Supervisory Board appoints the members of the Executive Board, determines their number and regulates the division of responsibility.
- Pursuant to § 119 (1) No. 5 AktG, resolutions concerning changes of the Company's Articles must be adopted by the Annual Shareholders' Meeting. The corresponding specific rules of procedure are listed in §§ 179, 181 AktG in conjunction with § 15 of the Articles of Tipp24 AG (amendments to the company's articles).
- The resolution of the Annual Shareholders' Meeting of 15 September 2005 authorizes the Executive Board, with the consent of the Supervisory Board, to increase the Company's share capital on one or more occasions in the period up to 31 July 2010 by up to EUR 3,331,136.00 by issuing new shares against cash contributions or contributions in kind (Authorized Capital I). Moreover, the Company is authorized to increase its share capital in the period up to 31 December 2010 by up to EUR 500,000.00 by issuing new shares (Conditional Capital I). It serves to ensure that subscription rights can be exercised for stock options issued by the Company between 1 January 2006 and 31 December 2010 as part of the 2005 stock option plan. At the Annual Shareholders' Meeting of 29 May 2008, the Executive Board was also authorized to purchase shares in the Company up to a relative amount of approximately 10% of share capital, corresponding to 887,231 shares. This authorization shall also enable the Company to quickly dispose of a sufficient number of its own shares for the acquisition of companies, or investments in other companies, and to offer such shares as compensation to the seller without having to use the Stock Exchange.

Explanatory report of the Executive Board regarding the details provided pursuant to § 315 (4) HGB:

- As of 31 December 2008, the Company's share capital amounts to EUR 8,872,319.00 and is divided into 8,872,319 registered no-par value shares. Each share entitles the owner to one vote and is decisive for profit participation.
- The Company is managed and represented by the Executive Board. In accordance with § 84 AktG, the Supervisory Board is responsible for appointing and dismissing members of the Executive Board. Mr. Marcus Geiß and Ms. Petra von Strombeck were appointed to the Executive Board on 1 April 2008.
- The last amendment to the Articles was made during the Annual Shareholders' Meeting of 29 May 2008; § 14 of the Articles referring to Supervisory Board remuneration was revised.
- In the period under review, the Executive Board utilized its authorization to buy back Company shares. As of 31 December 2008, a total of 887,231 shares, or 10% of share capital less one share, were bought back.

SUBSEQUENT EVENTS

Tipp24 AG reorganized its business fields as of 1 January 2009. We transferred the majority of our activities in connection with the brokerage or offer of lottery products to MyLotto24 Ltd., which has been active in the UK since 2007, and its subsidiaries. This concerns both the brokerage of state-run German lottery products, as well as our subsidiaries Ventura24 S.L. in Spain and Puntogioco24 S.r.l. in Italy. The German class lotteries NKL and SKL continue to be marketed by Schumann e. K..

By pooling our gaming activities with MyLotto24 in the UK, we are laying the foundations for a positive development of our foreign business. We have therefore drawn the consequences from the German State Treaty on Gaming, which we believe contravenes valid law. The second stage of this Treaty came into effect on 1 January 2009 and bans the brokerage of state-run lotteries via the Internet. The Executive Board of Tipp24 AG will focus in future on expanding the Tipp24Games division and identifying and acquiring new business models in Germany and Europe. After the legal situation has been settled in its favour, Tipp24 AG intends to begin its activities from Germany again as swiftly as possible.

Up to 8 January 2009, Tipp24.com submitted its tickets directly to the state lotteries. Since this date, however, Tipp24.com has assumed the complete processing of the tickets. In line with its internationalization strategy, the tickets are no longer submitted to the systems of the state lotteries but processed by the high-performance systems of Tipp24 Services Ltd. in UK and transferred to MyLotto24 Ltd., which organizes an English lottery based on the German Lotto. In contrast to Tipp24 Services Ltd., which merely acts as a broker, MyLotto24 Ltd. bears the bookmaking risk. Active repeat tickets from 2008 or earlier will continue to be submitted to the German »Lottoblock«. They are still entitled to receive winnings from German state lottery draws. Apart from this, tickets are no longer brokered to German customers.

Since January 2009 we have been involved in a legal dispute with various state lottery companies which refused to accept the orderly submission of tickets from Tipp24. The Regional Appeal Court of Koblenz, for example, decreed on 20 January 2009 that the state lottery of Rhineland-Palatinate must continue to accept tickets, even if they were generated via the Internet. The same was decided by the Regional Court of Hamburg for the state lottery of Hamburg on 20 February 2009.

The Executive Board of Tipp24 AG has adopted a resolution to implement a further share buyback programme. In the period from 2 February 2009 to no later than 30 June 2009, shares of Tipp24 with a total value of up to EUR 2,000,000 (including transaction costs) are to be bought through the stock exchange. During the share buyback programmes of February and October 2007, Tipp24 AG already acquired a total of 887,231 treasury shares, corresponding to 10.00% less one share of total capital stock. On 23 January 2009, these treasury shares were cancelled by means of a simplified capital reduction with a corresponding reduction in capital stock of EUR 887,231 to EUR 7,985,088.

RISK REPORT

RISK MANAGEMENT

Tipp24 is an 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 potential dangers. We focus in particular on the early recognition, evaluation, prevention and control of risks.

In 2008 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 as quickly as possible. For the implementation of our early warning system, we observe guidelines based on the scope of our current activities and the size of Tipp24.

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 recognize and react swiftly to any unusual events.

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 the fiscal year 2007 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 development is strongly dependent on the prices in the respective advertising markets, especially the online markets. A significant increase in prices would raise 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

- **State Treaty on Gaming (GlüStV)**

  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, the state premiers of all Germany's federal states have signed a State Treaty on Gaming (GlüStV), which was ratified by their respective parliaments. The second stage of the GlüStV with its various regulations came into effect on 1 January 2009. As a consequence, Tipp24 was forced to restructure its business fields and the basis for the overwhelming part of its German operations was removed.

  The legality of the GlüStV is 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. Moreover, an expert opinion published on 4 October 2007 by the Scientific Services of the state parliament of Schleswig-Holstein also came to the conclusion that the GlüStV contravenes EU law and is unconstitutional, at least with regard to gaming brokers. The Scientific Services of the state parliament of Lower Saxony come to the same conclusion with regard to contravening EU law. Due to an EU guideline, a notification process had to be instituted with the EU Commission in December 2006 for the draft version of the GlüStV. On 22 March 2007 the German government was informed in a »Detailed Opinion« that the notified GlüStV contravened EU legislation in significant areas. As the representative of the federal states at EU level, the German federal government was ordered to review and revise the critical points of the notified GlüStV by 23 April 2007. In their reply, the federal states insisted on their draft treaty. This led the EU Commission to write a further letter in which additional infringements of the GlüStV against EU law were specified. Despite the infringements against applicable EU law highlighted by the EU Commission, the Minister Presidents of the individual federal states signed the notified GlüStV in its current version and had it ratified by their respective state parliaments. As a reaction to this step, the EU Commission instituted formal infringement proceedings against the Federal Republic of Germany in late January 2008. In an extensive accompanying letter, the German government (as representative of the federal states) was called upon to submit a response. This response was submitted to the EU Commission on 20 May 2008. In reply to an interpellation in early February 2009, the relevant EU Commissioner confirmed that there were still doubts about the legality of the GlüStV with regard to EU law.

  Tipp24 expects that the law courts responsible will grant the Company permission to continue its activities in Germany. This assessment is based primarily on the fact that the provisions contravene EU law, as expressed by the EU Commission in their »Detailed Opinion«, in further official pronouncements of the EU Commission to the German government in the past year and in the accompanying letter to the German government as part of infringement proceedings instituted by the EU Commission. In cases challenging the legality of the GlüStV brought before various administrative courts during the period under review by affected private suppliers of gaming, temporary legal protection was granted with regard to the continuation of their activities. However, there were also contrary verdicts passed by administrative courts, especially in the field of sports betting. On 22 September 2008, the Administrative Court of Berlin decided in principal proceedings that the central restrictions of the GlüStV did not apply to commercial lottery brokers. The court responded to declaratory proceedings brought by Tipp24 AG by stating that the Internet ban, the obligation to seek permission and the advertising restrictions, among others, were invalid insofar as they were applied to the brokerage of lotteries operated with the permission of a federal state and provided there were no more than two draws per week. This applies to the products »Lotto 6 from 49 with additional lotteries«, »Glücksspirale«, the »Class lotteries« and the »ARD TV lottery«, which are brokered by Tipp24.

However, the Federal Constitutional Court decided on 14 October 2008 to refuse to take a decision on a constitutional complaint brought by Tipp24 AG against various regulations of the State Treaty on Gaming and the execution legislation in Lower Saxony and Berlin. The GlüStV was thus regarded as being in line with Germany's constitution. The Administrative Court of Hanover also rejected a corresponding complaint, but allowed an appeal.

Should the law courts responsible confirm the GlüStV, contrary to expectations, this would not only affect the Company in the short term but have a significant long-term negative impact on earnings in our domestic market. It would also seriously weaken the future growth opportunities of the Tipp24 Group.

- **Electronic betting in Italy**

  From 4 July 2006 to 27 August 2007 the website of Puntogioco24 S.r.l. was blocked due to a directive issued by the Italian authorities. It was therefore not possible for Tipp24 AG to carry out its business activities in Italy. Puntogioco24 S.r.l. took legal action and claimed for damages. A final ruling on the matter is expected soon. In May 2005, the public prosecutor had launched a preliminary investigation against the managing director of Puntogioco24 S.r.l. 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. Criminal proceedings instituted on 12 July 2006 at trial court ended on 27 September 2007 with an acquittal. No appeal was submitted by the public prosecutor. The verdict is therefore final. Tipp24 does not believe that Puntogioco24's activities breach the above mentioned provisions because Puntogioco24 S.r.l. 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; the lottery player therefore has a direct claim to the prize proceeds. The website of Puntogioco24 S.r.l. is currently blocked once again without reason.

  In our opinion, and on the basis of the court verdict, this blockade contravenes valid law. Even in the case of a permanent blockade, no adverse effect on revenues or earnings is expected. Due to the previous long-term blockade, no significant contribution of Puntogioco24 S.r.l. was included in Tipp24's sales forecasts and the company is not currently generating profit. However, the great potential which the Italian market offers for Tipp24, already indicated during the establishment of business prior to the blockade, would no longer be accessible to Tipp24 in the longer term. The investments made by Tipp24 in Puntogioco24 S.r.l. so far consist mainly of its cumulative start-up losses.

  On 28 October 2008, the Italian state monopolies commission (AAMS) granted Tipp24's subsidiary Giochi24 S.r.l. a concession to operate and market online games of chance. This concession enables Tipp24 to market all state-licensed gaming products in Italy via the Internet. The specific use of the concession for lottery products depends on technical specifications being provided by the state, which we expect in early 2009.

Business risks

- **Financing and currency risks**
  As the Group conducts the majority of its business in the Euro zone there is no currency risk for its core activities. The newly founded UK subsidiary, whose contribution to the Group's total business is still only minor, only exposes the Group to a currency risk regarding the British Pound. This risk is very limited as operating activities are mainly conducted in the local currency. The subsidiary's profit margin will thus not be affected by currency fluctuations. Foreign subsidiary operations are completely autonomous within their respective markets. This is underlined 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 in the execution of very large development projects**
  Tipp24 is currently investing in the international standardization and improvement of its gaming software as part of a very large development project involving several external partners and binding considerable internal resources. As a result of its complexity and sudden significant changes in requirements – particularly due to the very volatile regularly environment, at least in Germany – there is a risk that this major project will not be completed in the expected scope, the expected quality and within the expected investment budget. This may lead to a partial adjustment in the carrying value of this intangible asset, which in turn would have a significant adverse effect on the earnings, financial position and net assets of Tipp24.

- **Risks from payment transaction restrictions**
  There is a risk that restrictions to payment transaction may be introduced in connection with the further regulation of the gaming market. This would have a significant adverse effect on the business activities of Tipp24, but is regarded by us as fairly unlikely to occur.

- **Risks from financial investments**
  Tipp24 only invests in financial assets secured by a capital guarantee offered by various German financial institutes. Moreover, the overwhelming proportion of these investments is also completely protected by the German deposit guarantee fund. Should the global financial crisis deepen further and should – against all expectations – neither the national bank support systems nor the support packages provided by the leading industrialized states fail to avert the collapse of individual banks, this may result in the breakdown of various or possibly all credit institutes as well as all national support systems. Such a scenario may lead to the partial or complete loss of our cash deposits and financial assets. The collapse of individual credit institutes but not of the national support systems may lead to the partial or complete loss of interest income expected from our financial assets. The financial assets currently held also bear a limited interest risk. Both factors apply merely to a part of the potential yield, but not to the invested amounts.

- **Risks from the economic development**
  The gaming behaviour of Tipp24's customers has so far been largely unaffected by the macroeconomic fluctuations experienced in Germany since the launch of gaming operations in 2000. Nevertheless, a possible, exceptionally strong economic downturn triggered by the global financial crisis may adversely affect the gaming behaviour of our customers and thus also impact our earnings, financial position and net assets.

- **Risks from significant contracts**
  Tipp24 has signed agreements with nine German 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. Four of these contracts were terminated by the respective state lottery company as of 31 December 2008. There is a considerable risk that the remaining agreements may be terminated at short notice or that tickets will not be accepted – whether the agreement has been formally terminated or not.

This would mean that the currently remaining part of our German business – the processing of tickets from repeat orders placed before 1 January 2009 – would cease to exist.

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.

We counter the risk of a failure of all relevant components for gaming operations (e.g. database servers, application servers, web servers, firewalls, routers) by either using redundant systems or entering into 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 new staff, 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

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 plan to expand our business in new markets and new product areas in the coming years. 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 further development of the Tipp24 Group, this could lead to an impaired ability to recognize and manage risks, trends and undesirable developments in a timely manner.

CONCLUDING STATEMENT CONCERNING THE GROUP'S RISK SITUATION

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 adopting a corresponding 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 which limits the Group's overall risk.

After evaluating the current and future risk factors, and in particular the risks emanating from the above-mentioned regulatory situation regarding a possible complete discontinuation of our current business in Germany, we believe that the continued existence of Tipp24 is still not endangered for the following reasons:

To the best of our knowledge, the major restrictions for our business resulting from the GlüStV represent a gross contravention of EU legislation and are in conflict with the rulings of the German Federal Cartel Authority. We therefore assume that such restrictions cannot be implemented in the long term.

Even in the case of a lasting, legally valid implementation of the GlüStV, we do not believe our existence is endangered. Tipp24 has the necessary abilities and skills, as well as the personnel resources and sufficient financial means, to successfully shift 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 with regard to continuing our business on a long-term and profitable basis.

FORECAST REPORT

GROUP ALIGNMENT

In general, Tipp24 plans to clarify the legal and political conditions for its business in Germany by utilising all available appeal possibilities and continuing its political lobbying. In addition, we intend to expand our activities in the field of skill-based games and continue our growth strategy throughout Europe.

EXPECTED ECONOMIC CONDITIONS

General economy

The major economic research institutes expect a severe downturn in the global economy for 2009. Irrespective of the various state aid programmes aimed at supporting the financial sector, only very gradual relief is expected for the financial markets. The recently launched economic recovery packages can only dampen the effects of falling production output. Early indicators show that the downturn is likely to intensify over the coming months in both the USA and Europe.

Due to weakening demand, real GDP is expected to decline by over 2% in 2009, both in the Euro zone and in the UK. There will be significant falls in exports, investment in new equipment and house construction, while finance terms will remain poor in the short term. Consumer spending, on the other hand, may provide support for the flagging economy: despite a rise in unemployment, falling inflation is likely to result in a slight increase in real disposable incomes. At 0.4% the growth in global production is expected to be even lower than in the recession year 1982. The utilization of total production capacity will fall sharply in 2009, accompanied by much weaker price increases in most countries. Although the uncertainty of such forecasts is unusually high at the moment, a gentle recovery of the global economy is generally expected for 2010.

A 2.7% fall in GDP is expected for Germany, coupled with a rise in unemployment of 750,000 by the end of 2009 and an increase in the unemployment rate to 8.8%. The inflation rate will fall sharply. Providing that the financial crisis subsides in the meantime, the German economy is expected to gradually stabilize in 2010: exports will grow again, sales prospects will improve and real GDP should begin to increase slightly in the second half of the year.

Sector

The European gaming markets, especially Germany, 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, especially for the online segment, has grown – as to has the possibility of initial steps being taken to open up the markets by means of pan-European deregulation.

EXPECTED EARNINGS POSITION

Against the backdrop of considerable legal uncertainty in our core market to date, Germany, it is not possible to make a reliable forecast for revenues and earnings.

Following the current transition phase of the European lottery markets, we expect a return to our historically proven medium-term growth targets – an annual increase in revenue of 30% and a disproportionately stronger increase in EBIT.

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.

In 2009 we plan to maintain our investment activities at the level of 2008. In particular, we aim to continue the internationalization and improvement of our gaming software. In addition, we will continue our current investments with the aim of steadily improving the performance of our gaming systems, regularly updating our security systems and software, and replacing outdated hardware. We expect a total investment volume of around EUR 7 million for 2009.

OPPORTUNITIES

In the above-mentioned discussions of the legal framework, we believe it is unlikely that Germany's legislators will act against valid law and political common sense by restricting the growing market of online lottery brokerage. Recently announced verdicts of Germany's anti-trust authorities, various temporary verdicts at German administrative courts and the first principal proceedings of the Administrative Court of Berlin regarding lottery brokerage with reference to EU law – as well as supplementary regulations and official pronouncements 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 customers, above all, would gain access to further highly attractive products in the rest of Europe and enable Tipp24 to enter new markets with its existing products.

CONCLUDING STATEMENT

The GlüStV bears the risk of at least medium-term disruption, up to the complete prohibition of our present business model in Germany as of 1 January 2009. Against the backdrop of the current global financial and economic crisis, there is also the risk of an unparalleled economic downturn which would also affect the lottery markets. Both factors may have a significantly adverse effect on the company's situation, at least for a temporary period. At the same time, the Executive Board sees the opportunity for sustained encouraging progress in the medium term. Tipp24 operates in a highly dynamic European online lottery market offering considerable and sustained 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 also offers additional growth potential. Tipp24 is well placed to take full advantage of this excellent potential.

Hamburg, 20 February 2009

The Executive Board

Jens Schumann Dr. Hans Cornehl Marcus Geiß Petra von Strombeck

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER ACC. TO IFRS

in EUR	Notes	2008	2007
Billings		335,946,908.84	346,776,139.27
Remitted stakes less commissions		–290,108,469.24	–301,801,785.01
Revenue		**45,838,439.60**	**44,974,354.26**
Other operating income	20	810,782.05	944,238.34
Total operating performance		**46,649,221.65**	**45,918,592.60**
Operating expenses			
Personnel expenses	18	–12,666,797.66	–10,324,014.31
Amortization/depreciation on intangible assets and property, plant and equipment	10, 11	–1,589,190.07	–871,082.49
Other operating expenses	19	–23,496,359.77	–25,774,473.29
Total marketing expenses		–12,084,134.55	–15,186,391.67
Total direct costs of operations		–3,247,178.41	–3,940,880.74
Total other costs of operations		–8,165,046.81	–6,647,200.88
Result from operating activities		**8,896,874.15**	**8,949,022.51**
Revenues from financial activities		2,150,192.28	2,251,680.64
Expenses from financial activities		–327,170.75	–8,450.86
Financial result	21	**1,823,021.53**	**2,243,229.78**
Result from ordinary activities		**10,719,895.68**	**11,192,252.29**
Income taxes	22	–4,114,318.75	–4,920,393.86
Consolidated net profit		**6,605,576.93**	**6,271,858.43**
Earnings per share (undiluted and diluted; in EUR/share)		0.82	0.74
Weighted average of ordinary shares outstanding (undiluted and diluted, in shares)		8,032,265	8,524,199

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER ACC. TO IFRS

ASSETS in EUR	Notes	31 Dec. 2008	31 Dec. 2007
Current assets			
Cash & cash equivalents	6	20,711,388.10	65,820,775.65
Pledged cash	6	550,000.00	300,000.00
Short-term financial assets	6	45,211,423.06	4,144,200.00
Trade receivables	7	5,314.97	6,955.12
Income tax refund claims	8	20,909.35	8,965.81
Other assets and prepaid expenses	9	14,348,744.23	14,245,207.31
Total current assets		**80,847,779.71**	**84,526,103.89**
Non-current assets			
Intangible assets	10	9,620,439.39	1,581,953.18
Other equipment, furniture & fixtures and leased assets (property, plant & equipment)	11	2,571,246.28	2,349,101.53
Financial assets	12	0.00	3,000,000.00
Deferred tax assets	22	111,824.65	281,761.02
Total non-current assets		**12,303,510.32**	**7,212,815.73**
		93,151,290.03	**91,738,919.62**

EQUITY AND LIABILITIES in EUR	Notes	31 Dec. 2008	31 Dec. 2007
Current liabilities			
Trade payables		4,822,352.74	5,958,519.16
Other liabilities	14	27,821,166.83	26,810,648.21
Deferred income	16	355,632.32	416,233.67
Income tax liabilities		931,481.90	1,693,382.74
Provisions	15	1,692,280.31	894,893.95
Total current liabilities		**35,622,914.10**	**35,773,677.73**
Non-current liabilities			
Deferred tax liabilities	22	2,606,522.15	335,258.61
Total non-current liabilities		**2,606,522.15**	**335,258.61**
Equity			
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	135,719.37	62,943.49
Retained earnings		19,499,242.01	16,886,209.08
Own shares	17	–14,728,747.96	–11,334,809.65
Total equity		**54,921,853.78**	**55,629,983.28**
		93,151,290.03	**91,738,919.62**

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

	2008	2007
in EUR		
Result from operating activities	8,896,874.15	8,949,022.51
Adjustments for:		
Amortization/depreciation on non-current assets	1,589,190.07	871,082.49
Loss on the disposal on non-current assets	4,397.80	984.83
Changes in:		
Trade receivables	1,640.15	11,215.15
Other assets	–103,536.92	–4,680,936.44
Trade payables	–1,136,166.42	3,835,912.57
Other liabilities	1,010,518.62	8,000,426.12
Provisions	797,386.36	523,848.78
Deferred Income	–60,601.35	36,755.65
Interest received and similar income	1,401,894.22	2,251,680.64
Interest paid and similar expenses	–327,170.75	–8,450.86
Non-cash expenses from stock option programme	23,315.00	36,085.00
Taxes paid	–2,446,963.22	–1,941,596.45
Cash flow from operating activities	**9,650,777.71**	**17,886,029.99**
Investments in financial investments	–44,100,000.00	0.00
Disbursements for financial investments	6,905,678.93	2,013,814.44
Investments in intangible assets	–8,661,621.05	–1,476,688.32
Investments in property, plant and equipment	–1,192,597.78	–1,736,885.31
Cash flow from investing activities	**–47,048,539.90**	**–1,199,759.19**
Purchase of own shares	–3,393,938.31	–11,334,809.65
Dividends paid	–3,992,544.00	0.00
Cash flow from financing activities	**–7,386,482.31**	**–11,334,809.65**
Change in cash and cash equivalents	–44,784,244.50	5,351,461.15
Cash and cash equivalents at the beginning of the period	65,820,775.65	60,702,758.83
Change in cash from exchange rate differences	–83,916.38	–91,632.39
Non-disclosed profit/loss from financial assets	8,773.33	96,800.86
Change in pledged cash and cash equivalents	–250,000.00	–238,612.80
Cash and cash equivalents at the end of the period	**20,711,388.10**	**65,820,775.65**
Composition of cash and cash equivalents at the end of the period		
Cash on hand and bank balances	19,852,614.77	11,139,348.87
Cash equivalents	1,408,773.33	54,981,426.78
Pledged cash and cash equivalents	–550,000.00	–300,000.00
	20,711,388.10	**65,820,775.65**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR	Share Capital	Capital Reserves	Other Reserves	Retained Earnings	Own Shares	Total Equity
As at 1 January 2007	**8,872,319.00**	**41,143,321.36**	**21,690.02**	**10,614,350.65**	**0.00**	**60,651,681.03**
Own shares	0.00	0.00	0.00	0.00	−11,334,809.65	−11,334,809.65
Share-based payments	0.00	0.00	36,085.00	0.00	0.00	36,085.00
Unrealized gains	*0.00*	*0.00*	*96,800.86*	*0.00*	*0.00*	*96,800.86*
Foreign currency translation	*0.00*	*0.00*	*−91,632.39*	*0.00*	*0.00*	*−91,632.39*
Total result recognized directly in equity	0.00	0.00	5,168.47	0.00	0.00	5,168.47
Net profit for the period 2007	0.00	0.00	0.00	6,271,858.43	0.00	6,271,858.43
Total net profit for the period 2007	0.00	0.00	5,168.47	6,271,858.43	0.00	6,277,026.90
As at 1 January 2008	**8,872,319.00**	**41,143,321.36**	**62,943.49**	**16,886,209.08**	**−11,334,809.65**	**55,629,983.28**
Own shares	0.00	0.00	0.00	0.00	−3,393,938.31	−3,393,938.31
Share-based payments	0.00	0.00	23,315.00	0.00	0.00	23,315.00
Dividend payment	0.00	0.00		−3,992,544.00	0.00	−3,992,544.00
Unrealized gains	*0.00*	*0.00*	*133,377.26*	*0.00*	*0.00*	*133,377.26*
Foreign currency translation	*0.00*	*0.00*	*−83,916.38*	*0.00*	*0.00*	*−83,916.38*
Total result recognized directly in equity	0.00	0.00	49,460.88	0.00	0.00	49,460.88
Net profit for the period 2008	0.00	0.00	0.00	6,605,576.93	0.00	6,605,576.93
Total net profit for the period 2008	0.00	0.00	49,460.88	6,605,576.93	0.00	6,655,037.81
As at 31 December 2008	**8,872,319.00**	**41,143,321.36**	**135,719.37**	**19,499,242.01**	**−14,728,747.96**	**54,921,853.78**

NOTES TO THE CONSOLIDATED STATEMENTS AS AT 31 DECEMBER 2008 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 e. K., Hamburg (hereinafter referred to as Schumann e. K.), Tipp24 Entertainment GmbH (hereinafter referred to as Tipp24 Entertainment), Ventura24 S.L., Madrid, Spain (hereinafter referred to as Ventura24), Puntogioco24 S.r.l., Monza, Italy (hereinafter referred to as Puntogioco24), Giochi24 S.r.l., Monza, Italy, (hereinafter referred to as Giochi24), MyLotto24 Ltd., London, UK (hereinafter referred to as MyLotto24), Tipp24 Services Ltd., London, UK (hereinafter referred to as Tipp24 Services) and Tipp24 Operating Services Ltd., London, UK (hereinafter referred to as Tipp24 Operating Services).

Tipp24 mainly operated as a commercial gaming broker until the end of 2008, enabling 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, in 2005 it entered the Italian market through its subsidiary Puntogioco24, and in 2007 it entered the UK market through its subsidiary MyLotto24. In 2008, Tipp24 Entertainment was formed, which offers a portal for online games – so-called skill-based games – at its website www.tipp24games.de. Business operations in Germany are processed via the website www.tipp24.com, in Spain via www.ventura24.es, in Italy via www.puntogioco24.it, and in the UK via www.mylotto24.co.uk. Tipp24 AG's registered offices are located at Falkenried-Piazza, Strassenbahnring 11–13, 20251 Hamburg, Germany.

The balance sheet date is 31 December 2008. Fiscal year 2008 covered the period from 1 January 2008 to 31 December 2008.

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

These consolidated financial statements as of 31 December 2008 were prepared and approved for publication in accordance with a resolution of the Executive Board of 20 February 2009. 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 2008 were prepared in accordance with the valid IFRS and IFRIC of the International Accounting Standards Board (IASB), as applied in the EU, as of the balance sheet date.

The accounting and valuation principles applied correspond with the methods used in the previous year, with the following exceptions:

As of 1 January 2008, the Group applied the following new IFRS interpretations for the first time. The application of these new IFRS standards and interpretations did not, however, have any impact on the consolidated annual financial statements.

Amendments to IAS 39: »Financial Instruments: Recognition and Measurement« and IFRS 7 »Financial Instruments: Disclosures«: The amendments to IAS 39 and IFRS 7 were released in October 2008 and came into effect retrospectively on 1 July 2008. The amendments allow the reclassification, in certain cases, of non-derivative financial assets. This change had no impact on the Group's annual financial statements.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions: As the Group has not issued any instruments subject to the application field of this interpretation, it has no effect on the Group's annual financial statements.
- IFRIC 12 Service Concession Arrangements: As no Group company owns concessions, this interpretation has no effect on the Group's annual financial statements.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: As the Group has not yet granted any pension benefits, this interpretation has no effect on the Group's annual financial statements.

Moreover, Tipp24 adopted the following IFRS standard prematurely as of 1 January 2008:

- IFRS 8 Operating Segments comes into effect on 1 January 2009

  The application of this standard has no effect on the earnings, financial position and net assets of the Company. The main effects of these changes are as follows:

  IFRS 8 Operating Segments: The IASB published IFRS 8 in November 2006. From the moment of coming into force, IFRS 8 replaces IAS 14 Segment Reporting (IAS 14). Tipp24 adopted this change prematurely as of 1 January 2008. Figures in accordance with IFRS 8 are disclosed in section 4 with adapted comparable information. Tipp24 does not have a complex structure of business fields. For this reason, the Group's business segments identified according to IFRS 8 correspond to the previously identified segments according to IAS 14.

Tipp24 did not apply the following published but not yet mandatory standards. The future application of these standards will not have any impact on the Group's net assets, financial position and earnings. However, they may result in additional disclosures:

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements acc. to IFRS: The amendments to IFRS 1 allow a company to determine the »acquisition cost« of an investment in a subsidiary, jointly controlled entity or associated company in its IFRS opening balance sheet in accordance with IAS 27 or using the carrying amounts or fair values of the previous GAAP as a substitute for acquisition cost. The amendment to IAS 27 requires that all dividends of subsidiaries, jointly controlled entities or associated companies are to be recognized in profit and loss in separate annual financial statements. Both revisions are to be applied for the first time for fiscal years starting on or after 1 January 2009. The amendment to IAS 27 is to be applied prospectively. The new requirements have no effect on the consolidated annual financial statements.

IFRS 2 Share-based Payment: The IASB released an amendment to IFRS 2 in January 2008 in which the term »vesting conditions« is defined more precisely and the balance sheet treatment of effect-
ively annulled commitments is regulated. The Group does expect any impact on its net assets, financial position and earnings as no events have occurred which are affected by this amendment.

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements acc. to IFRS: The amended standards were released in January 2008 and are first applicable for the fiscal years beginning on or after 1 July 2009. The standard introduces amendments to the balance sheet treatment of business combinations occurring after this time, with an effect on the measurement of goodwill, the results of the reporting period in which a company is acquired, and on future results. IAS 27R prescribes that any change in the size of an investment in a subsidiary (without loss of control) is to be recognized as an equity transaction. The amendments pursuant to IFRS 3R and IAS 27R will have an effect on future acquisitions, losses from control and transactions with minority interests.

IAS 1 Presentation of Financial Statements (revised): The revised standard was released in September 2007 and is applicable for the fiscal years beginning on or after 1 January 2009. The standard requires separate presentation of changes in equity resulting from transactions with shareholders in their capacity as providers of equity capital, as well as other changes in equity. The statement of changes in equity includes all details on business transactions with shareholders, while all other changes in equity are presented in a single line. The standard also introduces a presentation of »comprehensive income« for the period, which includes all recognized components of income either in one single statement or in two related statements. The Group has not yet decided whether to present comprehensive income in one or two statements.

IAS 23 Borrowing Costs (revised): The IASB released an amendment to IAS 23 in April 2007. The revised IAS 23 requires the expensing of borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets. As the Group does not currently finance any qualifying assets by means of debt, this revision is not expected to have any effect on the consolidated financial statements.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation: The amendments to IAS 32 and IAS 1 were released in February 2008 and are applicable for the fiscal years beginning on or after 1 January 2009. The amendments allow to a limited extent exceptions which permit a classification of puttable financial instruments as equity, providing they meet certain criteria. The amendments to these standards will not impact the Group's net assets, financial position and earnings, as the Group has not issued any instruments of this type.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items: The amendments to IAS 39 were released in August 2008 and are applicable for the fiscal years beginning on or after 1 July 2009. The amendment specifies how the principles contained in IAS 39 regarding the designation of hedging instruments of a one-sided risk in a hedged item and the designation of inflation risks as a hedged item are to be applied. The amendment clarifies that it is permissible to designate only part of the changes in fair value or of cash flow fluctuations of a financial instrument as a hedged item. The Group assumes that the change will not affect its net assets, financial position and earnings, as the Group has not entered into any transactions of this type.

Improvements to IFRS 2008: In May 2008, the Board released its first collective standard resulting from the amendment of various IFRS standards with the primary aim of removing inconsistencies and clarifying formulations. The Group has not yet adopted the following amendments and assumes that these amendments will not have any significant effect on the annual financial statements.

- IFRS 7 Financial Instruments: Disclosures: Elimination of the reference to »Total interest income« as a component of financing costs.
- IAS 1 Presentation of Financial Statements: In agreement with IAS 39, assets and liabilities classified as held-for-trading in the balance sheet are not automatically classified as current. As the Group does not hold any assets and liabilities classified as held-for-trading, no effect on the consolidated financial statements is expected from this amendment.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: It was clarified that only application guidelines representing an integral part of IFRS are to be observed when selecting accounting and measurement methods.
- IAS 10 Events after the Reporting Period: It was clarified that dividends decided after the end of the reporting period do not represent an obligation.
- IAS 16 Property, plant and equipment: Property, plant and equipment held for letting purposes, which would normally be sold after letting as part of normal business activities, is to be reclassified as inventories if held after letting for sales purposes. Moreover, the term »net sales price« was replaced by the expression »fair value less transaction costs«. The Group does not expect any effect on its net assets, financial position and earnings.
- IAS 18 Revenue: The term »direct costs« was replaced by »transaction costs« as defined by IAS 39.
- IAS 19 Employee Benefits: Revision of the definitions of »past service cost«, »income from plan assets« as well as »short-term« and »other long-term« employee benefits. Plan changes which result in a reduction of benefits for services to be rendered in future periods, are recognized as a plan curtailment. The reference to the recognition of contingent debt was deleted in order to maintain agreement with IAS 37.
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance: Loans granted in future without interest or at low interest rates are not exempted from the requirement to calculate the interest benefit. The difference between the amount received and the discounted amount is recognized as a government grant. Moreover, certain formulations were revised in order to maintain consistency with other IFRS standards.
- IAS 23 Borrowing Costs: The definition of borrowing costs was revised insofar as the guidelines in IAS 39 regarding the effective interest rate were adopted. The Group does not expect any effect on its net assets, financial position and earnings.
- IAS 27 Consolidated and Separate Financial Statements: If a parent company carries a subsidiary at fair value in its separate annual financial statements in accordance with IAS 39, this treatment is maintained if the subsidiary is subsequently classified as available-for-sale.
- IAS 28 Investments in Associates: If an associated company is carried at fair value in accordance with IAS 39, only the requirements of IAS 28 are applied which stipulate that the type and scope of significant restrictions in the ability of the associate to transfer finance to the company in the form of cash or loan redemption are to be specified. This amendment will not affect the Group, as there are no associated companies in the Group.
- IAS 29 Financial Reporting in Hyperinflationary Economies: Revision of the reference to the exception from valuing assets and liabilities at historic cost, that only property, plant and equipment is stated as an example instead of giving the impression that the list was complete. Moreover, certain formulations were revised in order to maintain consistency with other IFRS standards.
- IAS 31 Interests In Joint Ventures: If a joint venture is carried at fair value in accordance with IAS 39, only those requirements of IAS 31 are applied in which the obligations of the partner company and of the joint venture are to be stated together with a summary of financial information concerning the assets, liabilities, income and expenditure. This amendment does not affect the Group, as there are no joint ventures in the Group.

- IAS 34 Interim Financial Reporting: If a company is subject to the application area of IAS 33, earnings per share must be stated in the interim financial report.
- IAS 36 Impairment of Assets: Insofar as »fair value less transaction costs« is calculated on the basis of a discounted cash flow model, additional disclosures regarding the discount rate are required in line with the mandatory disclosure requirements if a discounted cash flow model is used to calculate »value in use«. This change will result in additional disclosures in the consolidated financial statements.
- IAS 38 Intangible Assets: Expenditure for advertising campaigns and sales promotion activities are recognized as an expense if the Group has received the right to access the goods or services. This amendment will not affect the Group, as such promotion activities are not carried out.
- IAS 39 Financial Instruments: Recognition and Measurement: After initial recognition, derivatives can be designated as »at fair value through profit or loss« or removed from this category due to a change in circumstances, as this does not qualify as a reclassification as defined by IAS 39. In IAS 39 the reference to a »segment«, regarding whether an instrument fulfilled the criteria for a hedge instrument, was cancelled. The use of the newly calculated effective interest rate is prescribed if a debt instrument is revalued when the hedging relationship is no longer carried in the balance sheet to hedge against fair value.
- IAS 40 Investment Property: Revision of application area insofar as property produced or developed for future use as an investment is classified as an »investment property«. If fair value cannot be reliably measured, the property under construction is valued at cost until fair value can be measured or construction is completed. The conditions for a voluntary change of accounting and measurement methods are now in line with IAS 8. It is clarified that the carrying value of a leased investment property corresponds to fair value plus any recognized liabilities.
- IAS 41 Agriculture: Reference to the use of a discount rate before tax for measuring fair value was cancelled. Cancelation of the prohibition to consider cash flows from additional transformations when estimating fair value. The term »sales costs« was replaced by the term »transaction costs«.

IFRIC 13 Customer Loyalty Programmes: IFRIC released IFRIC 13 in June 2007. According to this interpretation, loyalty benefits granted to customers are to be recognized as a separate element of the revenue activity in which they were granted. Part of the fair value of the proceeds received is allocated to bonus rights and deferred as a liability. This part is subsequently recognized as income in the reporting period in which the benefit is exercised. The Group does not operate any such customer loyalty programmes.

IFRIC 15 Agreements for the Construction of Real Estate: IFRIC Interpretation 15 was released in July 2008 and is applicable for the fiscal years beginning on or after 1 January 2009. This interpretation is to be applied retrospectively. It clarifies when and how income from the sale of property and related expenditure is to be recognized, should a property developer and a buyer come to an agreement before the construction of the property is completed. This interpretation also provides guidelines to determine whether an agreement falls into the application area of IAS 11 or that of IAS 18. IFRIC 15 will not affect the consolidated financial statements, as the Group does not conduct such business activities.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation IFRIC 16 was released in July 2008 and is applicable for the fiscal years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidelines for recognising hedges of a net investment. The interpretation provides guidelines for identifying foreign exchange risks which can be hedged against as part of a hedge of a net investment, which Group companies can hold the hedging instruments of the net investment, and how a company should measure foreign currency gains or losses from the net investment and the hedging instrument which is to be reclassified when selling the net investment. The Group is currently assessing which accounting and measurement method it should apply for reclassification on the sale of a net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners: IFRIC 17 was released in November 2008 and is applicable for the fiscal years beginning on or after 1 July 2009. At present, the Group does not expect any effect on its consolidated financial statements.

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. In certain cases, rounding differences result from presentation in EUR thousand.

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.

In addition, the following forward-looking assumptions and margins of error as of the balance sheet date mean that there is a risk that the carrying values of assets and liabilities may need to be amended in future:

Share-based payment

The cost of granting stock options to employees is measured by the Group using the fair value of these stock options at the moment they were granted. A valuation process has been determined to estimate their fair value; this depends on the conditions attached when granted. The valuation process also requires consideration of further relevant data, in particular the expected option term, volatility and dividend yield, as well as the corresponding assumptions. These assumptions and the related procedures are disclosed in Note 17.4.

Deferred tax assets

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it appears probable that taxable income will be available, so that the loss carryforwards can actually be used. When determining the amount of the deferred tax assets, management must make estimations regarding the expected time and size of the future taxable income, as well as future tax planning. Further details are provided in Note 22.

Development costs

Development costs for intangible assets are capitalized in accordance with the accounting and measurement methods stated in Note 2.1.6. Initial capitalization of costs is based on management estimations as to the proof of the asset's technical and economic feasibility. In order to determine the expected future benefit, management must make assumptions about the size of expected future cash flows from assets, the discount rates to be applied and the period of the expected future cash flows generated by the assets.

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 (directly or indirectly) 100% of the shares in GSG, Ventura24, Puntogioco24, Giochi24, MyLotto24, Tipp24 Operating Services and Tipp24 Services.

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

- the activities of Schumann e. K. 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 e. K.,
- the owner-related and lender-related risks are contractually borne by Tipp24 AG.

Intragroup expenses and income, profits from intragroup transactions and receivables and liabilities between consolidated companies are eliminated.

In the consolidated financial statements, the same accounting 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. The Group holds no intangible assets with non-definable useful lives.

Purchased intangible assets are disclosed in the consolidated financial statements. In the case of self-produced intangible assets, development costs are also capitalized. The estimated useful life of intangible 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 intends to complete the intangible asset as well as to use or sell it.
- 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 2008, research and development expenses of EUR 3,374 thousand were recognized, compared with EUR 3,051 thousand in 2007. The Company capitalized those development costs which met the criteria of IAS 38.57. These only include externally acquired components and services.

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 Impairment or write-backs of non-current assets

The carrying amount of items of property, plant and equipment and of intangible assets is tested annually for impairment, or 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 Company, are classified as held-to-maturity.

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

Held-to-maturity financial instruments with a residual maturity of up to twelve months and available-for-sale financial assets are disclosed under current assets.

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.

Some of the securities held by the Company were classified as available-for-sale financial assets and some as held-to-maturity financial instruments. These are mainly promissory note loans (»Schuldscheindarlehen«) of German financial institutes. They are secured by a capital guarantee provided by the companies themselves, as well as by the deposit guarantee fund with state guarantee on a further level. These securities are used for short-term investment of excess liquidity.

In addition, a smaller proportion was invested in financial instruments of one of our business banks in the form of term deposits, which are also secured by a capital guarantee and which raise the diversification of our investments and reduce our investment and interest income risks.

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 short-term financial assets

Cash and cash equivalents include bank balances and cash on hand and are stated at amortized cost.

Cash equivalents can be converted to cash at all times, are only subject to minor fluctuation in value and have remaining terms of no more than three months.

Short-term financial assets mainly consist of promissory note loans (»Schuldscheindarlehen«) and fixed-term deposits.

We also refer to our comments in Note 6, »Cash, Cash Equivalents and Short-term financial assets«.

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. Provisions are discounted insofar as the interest effect is significant. The other provisions account for all recognizable obligations to third parties.

2.1.16 Share-based payment

A share-based payment is a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. IFRS 2 distinguishes between 3 different types of share-based payment:

- Transactions which are settled with equity instruments (equity-settled shares-based transactions) and measured using fair value at the time of granting
- Transactions which are settled in cash, but whose amount depends on an equity instrument of the company (cash-settled share-based payment transactions) and are measured using fair value as of the balance sheet date
- Transactions in which one or both entities can choose whether to settle the transaction in cash or by issuing an equity instrument.

The stock options issued by the Company are classified as share-based payment transactions, whereby the method of settlement is at the Company's discretion.

The standard provides for all share-based payment instruments issued to employees to be expensed as personnel expenses.

2.1.17 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 law, if it is probable that there will be taxable income against which the deductible temporary differences (resulting from the difference between an asset's carrying value and taxable value) can be offset. Deferred tax claims and debts are measured using the legally binding or announced tax rates as of the balance sheet date for the period in which the asset will be recognized or the debt settled.

Deferred tax assets are recognized for all deductible temporary differences. 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 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.

2.1.18 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 fees it receives for brokering bets. Bets received from players are disclosed in the income statement as billings. Billings 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 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.

Tipp24 Entertainment offers interactive games on a peer-to-peer and multiplayer-online-game basis. Revenue is recognized at the moment of participation in the game and mainly generated from retaining a proportion of the stakes remitted.

2.1.19 Interest income

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

2.1.20 Operating expenses

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

2.1.21 Borrowing costs

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

2.1.22 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.

2.1.23 Foreign currency translation

The consolidated financial statements are prepared in Euro, the Group's functional currency. It is the currency of the primary economic environment in which Tipp24 operates. Every company in the Group determines its own functional currency. All currency differences from foreign exchange transactions are recognized in profit and loss.

The assets and liabilities of our UK subsidiaries are translated from the functional currency of the foreign operations at the closing rate of GBP to Euro. Income and expenditure is translated at the exchange rate prevailing on the day of the transaction.

Any currency differences resulting from this translation are recognized separately in equity.

2.1.24 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, provided that these are not subject to any restrictions. Cash includes cash in hand and sight deposits. Cash equivalents can be converted to cash at all times, are only subject to minor fluctuation in value and have remaining terms of no more than three months.

4 SEGMENT REPORTING

For the purposes of corporate control, the Tipp24 Group is organized in business units with the following reportable segments:

- The »Germany« segment comprises all activities in Germany.
- The »Abroad« segment comprises all activities in Spain, Italy and the UK.

Revenue from these business segments corresponds to the revenue of 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.

No segments were pooled together to form the above business segments. The operating results of the various business units are monitored separately by management in order to take decisions about the allocation of resources and determine the profitability of the two units. The development of each segment is evaluated on the basis of billings, revenues and EBIT. Group financing (including financial expenses and income) and income taxes are controlled in a standard way throughout the Group and not allocated to the individual business segments. Transfer prices between segments are calculated at standard conditions on an arm's length basis.

in EUR thsd.	Germany		Abroad		Consolidation		Consolidated	
	1 Jan.–31 Dec.		1 Jan.–31 Dec.		1 Jan.–31 Dec.		1 Jan.–31 Dec.	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Billings	310,979	325,540	24,968	21,236	0	0	335,947	346,776
Revenue	**39,983**	**40,018**	**5,856**	**4,956**	**0**	**0**	**45,838**	**44,974**
Depreciation/amortization	1,077	756	512	115	0	0	1,589	871
EBIT	**10,976**	**10,076**	**–2,079**	**–1,127**	**0**	**0**	**8,897**	**8,949**
Financial result							1,823	2,243
Income taxes							–4,114	–4,920
Consolidated net profit							**6,606**	**6,272**
Assets	**49,222**	**32,170**	**8,694**	**6,477**	**–10,109**	**–6,324**	**47,807**	**32,323**
Balance sheet reconciliation								
Deferred tax assets							112	282
Tax refund claims							21	9
Short-term financial assets							45,211	59,126
Total assets							**93,151**	**91,739**
Debts	**29,860**	**29,913**	**8,084**	**5,625**	**–3,252**	**–1,458**	**34,691**	**34,080**
Balance sheet reconciliation								
Deferred tax liabilities							2,607	335
Tax liabilities							931	1,693
Total debts							**38,229**	**36,109**
Investments	**8,982**	**1,918**	**872**	**1,295**	**0**	**0**	**9,854**	**3,214**

The segment result of the »Germany« segment for 2007 included the elimination of capitalized consultancy services amounting to EUR 1,422 thousand as a significant non-cash expense. Segment assets do not include deferred taxes, tax refund claims or short-term financial assets. Segment liabilities do not include deferred taxes, tax liabilities or interest-bearing liabilities.

5 STRUCTURE OF TIPP24

The following changes were made to the structure of the Tipp24 Group in fiscal year 2008: Tipp24 Entertainment and Giochi24 were founded in fiscal 2008. MyLotto24, Tipp24 Services and Tipp24 Operating Services were formed in fiscal year 2007, Puntogioco24 was formed in fiscal 2004 and Ventura24, Schumann e. K. and GSG were formed in fiscal 2001. All companies have been consolidated within the Group since their formation.

6 CASH, CASH EQUIVALENTS AND SHORT-TERM FINANCIAL ASSETS

in EUR	31 Dec. 2008	31 Dec. 2007
Cash		
Bank balances	19,816,292.24	11,095,304.68
Cash on hand	36,322.53	44,044.19
	19,852,614.77	**11,139,348.87**
Cash equivalents	1,408,773.33	54,981,426.78
	21,261,388.10	**66,120,775.65**
Pledged cash	–550,000.00	–300,000.00
	20,711,388.10	**65,820,775.65**

Cash equivalents disclosed as of 31 December 2008 relate to available-for-sale Euro-denominated investments with the Commerzbank. The carrying amount was calculated as the market value on the balance sheet date. Cash equivalents disclosed in the previous year include shares in a money market fund of Deutsche Bank AG with a one-day value date and with the Commerzbank with a two-day value date.

in EUR	31 Dec. 2008	31 Dec. 2007
Short-term financial assets		
Available-for-sale	10,363,125.00	4,144,200.00
Held-to-maturity	34,848,298.06	0.00
	45,211,423.06	**4,144,200.00**

Income from financial assets classified as held-to-maturity financial instruments is recognized in the income statement using the effective interest method.

A positive change in equity of EUR 252 thousand (prior year: EUR 97 thousand) was recognized for the change in the market value of available-for-sale short-term financial assets.

An amount of EUR 748 thousand was recognized in profit and loss for held-to-maturity financial assets.

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

As of the balance sheet date for the fiscal year 2008, the Company had claims to income tax refunds amounting to EUR 21 thousand (prior year: EUR 9 thousand).

9 OTHER ASSETS AND PREPAID EXPENSES

in EUR	31 Dec. 2008	31 Dec. 2007
Receivables from gaming operations		
Receivables from lottery operators	6,897,484.06	7,137,438.04
Receivables from payment systems	5,349,510.83	5,041,345.76
Security retainers	893,802.37	680,898.97
Total receivables from gaming operations	**13,140,797.26**	**12,859,682.77**
Prepaid expenses	**934,420.04**	**672,292.81**
Others		
Tickets not sold	27.50	126,732.50
Receivables from employees	56,695.93	61,987.34
Creditors with debit balances	56,628.20	34,499.68
Other	160,175.30	490,012.21
Total others	**273,526.93**	**713,231.73**
	14,348,744.23	**14,245,207.31**

Security retainers were mainly requested by Nordwest Lotto and Toto Hamburg (EUR 250 thousand), Nordwest Lotto Schleswig-Holstein (EUR 180 thousand) and Lotterie-Treuhandgesellschaft mbH Hessen (EUR 400 thousand), as a minimum amount to cover current bets.

The amount was contractually stipulated as a percentage of average weekly revenue in a specified period of time. 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

With regard to the development of intangible assets, we refer to the following table:

in EUR	2008	2007
Cost as of 1 January	**3,506,964.26**	**2,030,275.94**
Additions, acquired individually	2,749,242.39	507,336.68
Additions, self-produced	5,856,868.66	969,351.64
Reclassifications	55,510.00	0.00
Disposals	–1,342.38	0.00
Cost as of 31 December	**12,167,242.93**	**3,506,964.26**
Accumulated amortization as of 1 January	**–1,925,011.08**	**–1,657,444.86**
Amortization during the fiscal year	–623,062.61	–288,382.78
Reclassifications	0.00	20,816.56
Disposals	1,270.15	0.00
Accumulated amortization as of 31 December	**–2,546,803.54**	**–1,925,011.08**
Carrying amount as of 31 December	**9,620,439.39**	**1,581,953.18**

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 above mentioned intangible assets. Once again, no assets were pledged as collateral for liabilities.

Self-produced additions mainly refer to the renewal of international gaming software.

11 PROPERTY, PLANT AND EQUIPMENT

With regard to the development of property, plant and equipment, we refer to the following table:

in EUR	2008	2007
Cost as of 1 January	**4,317,049.83**	**2,619,724.85**
Additions	1,248,107.78	1,736,885.31
Reclassifications	–55,510.00	0.00
Disposals	–357,271.28	–39,560.33
Cost as of 31 December	**5,152,376.33**	**4,317,049.83**
Accumulated depreciation as of 1 January	**–1,967,948.30**	**–1,403,007.53**
Depreciation during the fiscal year	–966,127.46	–582,699.71
Reclassifications	0.00	–20,816.56
Disposals	352,945.71	38,575.50
Accumulated depreciation as of 31 December	**–2,581,130.05**	**–1,967,948.30**
Carrying amount as of 31 December	**2,571,246.28**	**2,349,101.53**

There are currently no assets from financial leases.

12 LONG-TERM FINANCIAL ASSETS

As of the balance sheet date, the Company did not hold any long-term financial assets (prior year: EUR 3,000 thousand).

In the previous year, this item included a type of bearer bond on the issuer Deutsche Bank AG, which was terminated by the issuer (as the bank held unilateral termination rights) as of 30 November 2008.

13 LIABILITIES FROM FINANCIAL LEASES

There are no liabilities from financial leases at present.

14 OTHER LIABILITIES

in EUR	31 Dec. 2008	31 Dec. 2007
Liabilities from gaming operations		
Liabilities to players	20,180,414.73	19,049,030.62
Liabilities to lottery companies	5,837,080.12	4,259,057.31
Liabilities to game brokers	277.30	266.90
Liabilities to Business Service partners	379,727.95	1,368,426.64
Total liabilities from gaming operations	**26,397,500.10**	**24,676,781.47**
Tax liabilities		
VAT	467,126.40	1,156,055.42
Wage and church tax	268,879.83	218,447.03
Total tax liabilities	**736,006.23**	**1,374,502.45**
Liabilities for social security		
Social security contributions	111,467.74	64,755.27
Total liabilities for social security	**111,467.74**	**64,755.27**
Other		
Holiday obligations	194,330.63	255,932.51
Liabilities relating to the preparation/audit of the financial statements	54,278.41	43,979.96
Outstanding invoices	48,632.20	42,300.48
Advance payments received	0.00	66,939.28
Severance pay	0.00	150,000.00
Other	278,951.52	135,456.79
Total other	**576,192.76**	**694,609.02**
	27,821,166.83	**26,810,648.21**

All other liabilities are due in less than one year.

15 PROVISIONS

in EUR	As of 1 Jan. 2008	Utilization	Income from reversal	Allocation	As of 31 Dec. 2008
Provision for bonuses	872,825.69	358,098.04	228,290.74	1,385,843.40	1,672,280.31
Provision for litigation	22,068.26	3,529.94	18,538.32	20,000.00	20,000.00
Total	**894,893.95**	**361,627.98**	**246,829.06**	**1,405,843.40**	**1,692,280.31**

Bonus provisions include a long-term incentive components totalling EUR 275 thousand (prior year: EUR 100 thousand) to be paid out in the first quarter of 2009. Otherwise, all provisions are expected to be used within one year.

16 DEFERRED INCOME

The company disclosed deferred income of EUR 356 thousand (prior year: EUR 416 thousand). It relates to payments received prior to 31 December 2008 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. It is fully paid and divided into 8,872,319 no-par value registered shares.

In the period under review, the Executive Board made use of its authorization to buy back Company shares. As of 31 December 2008 a total of 233,184 shares or 2.63% of capital stock had been bought back in 2008 (654,047 shares or 7.37% of capital stock in 2007). The Company has thus acquired a total of 10% minus one share of capital stock. The number of outstanding shares fell from 8,218,272 to 7,985,088 during the period under review. The share buyback programme of 2008 is thus complete.

On 22 January 2009, these treasury shares were cancelled by means of a simplified capital reduction with a corresponding reduction in capital stock of EUR 887,231 to EUR 7,985,088.

The Executive Board of Tipp24 AG has adopted a resolution to implement a further share buyback programme in 2009. In the period from 2 February 2009 to no later than 30 June 2009, shares of Tipp24 with a total value of up to EUR 2,000,000.00 (including transaction costs) are to be bought through the stock exchange.

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 Share-based payment

As part of the creation of Conditional Capital I at the Annual 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 two tranches of the Stock Option Plan 2005, 10 thousand shares have been issued to entitled employees to date. As part of the third tranche of the Stock Option Plan 2005, the Executive Board resolved on 13 February 2008 to offer entitled employees a total of 18 thousand stock options, which were all accepted.

Members of the Executive Board appointed after issuance hold 8,000 stock options.

The stock option plan of Tipp24 AG is a share-based payment system, whereby the method of compensation is at the Company's discretion. The transaction is expected to be settled via equity instruments, whereby fair value is calculated at the time of granting. As of fiscal year 2007, the Company measures the Stock Option Plan 2005 of Tipp24 AG using financial valuation methods according to the Black-Scholes-Merton formula. A total amount of EUR 23 thousand (prior year: EUR 36 thousand) for share-based payments was recognized in personnel expenses in fiscal year 2008.

With the introduction of the Stock Option Plan 2005, stock options were granted to those employees entitled in two annual tranches. The stock options from all tranches can be exercised no sooner than two years after the respective date of issuance and within a period of three years. Options can only be exercised if an absolute and relative performance target is reached at the end of the lock-up period. At the end of the exercise period, any options which have not been exercised will expire.

In order to determine if and to what extent performance targets have been achieved, the average share price or average index of two periods (reference period and performance period) are compared with each other. The reference period consists of the 20 consecutive trading days prior to the issuance date. The performance period are the last 20 trading days before the lock-up period ends. The average share price is calculated as the average of the closing prices of the Tipp24 share in XETRA trading (or the successor system of Deutsche Börse AG).

The absolute performance target depends on the performance of the Tipp24 share and is said to be achieved if its price increases by at least 20% (final price over issuance price).

The relative performance target is linked to the performance of the Tipp24 share relative to the SDAX index. The relative performance target is achieved if the share performs better than the SDAX index during the above mentioned performance period.

Performance during the fiscal year

The following table illustrates the performance of the share options and the weighted average exercise price (WAEP) during the fiscal year:

Development during the fiscal year

	Dec. 2008 Number	Dec. 2008 WAEP	Dec. 2007 Number	Dec. 2007 WAEP
Share-based payments				
Outstanding at beginning of the reporting period	20,000.00	17.66	0.00	–
Granted during the reporting period	25,000.00	13.52	38,000.00	19.07
Forfeited during the reporting period	17,000.00	15.62	18,000.00	20.64
Exercised during the reporting period	0.00	–	0.00	–
Expired during the reporting period	0.00	–	0.00	–
Outstanding at end of the reporting period	**28,000.00**	**15.20**	**20,000.00**	**17.66**

In the period under review, the range of exercise prices for outstanding options lay between EUR 13.52 and EUR 17.66 (prior year: EUR 17.66 to EUR 20.64). The average contract term was around four years. The prior-year WAEP figures were corrected due to a printing error.

Underlying parameters

The following table contains the underlying parameters for the valuation of both tranches of the Share Option Plan of Tipp24 AG:

Underlying parameters*

	Tranche 1	Tranche 2	Tranche 3
Share-based payments			
Dividend yield (%)	0.0%	0.0%	3.7%
Expected volatility (%)	46.0%	47.9%	44.3%
Risk-free interest rate (%)	3.44%	3.98%	3.72%
Anticipated term of option (years)	2	2	2
Weighted average share price (EUR)	25.08	13.67	13.52
Model applied	Black - Scholes -Merton formula		

* *The parameters of tranches 1 + 2 were adjusted as the necessary historic values were not yet available on the issuance date.*

The anticipated term of the options is based on historical data and does not necessarily correspond to the actual exercise behaviour of the entitled persons. Expected volatility is based on the assumption that historical volatilities can be applied to future trends, whereby actual volatility may differ from these assumptions.

17.5 Development of other reserves

in EUR	As of 1 Jan. 08	Withdrawal	Addition	As of 31 Dec. 08
Stock option programme	36,085.00	0.00	23,315.00	59,400.00
Foreign exchange translation	–91,632.39	0.00	–83,916.38	–175,548.77
Change in fair value	118,490.88	–118,490.88	251,868.14	251,868.14
Total	**62,943.49**	**–118,490.88**	**191,266.76**	**135,719.37**

in EUR	As of 1 Jan. 07	Withdrawal	Addition	As of 31 Dec. 07
Stock option programme	0.00	0.00	36,085.00	36,085.00
Foreign exchange translation	0.00	0.00	–91,632.39	–91,632.39
Change in fair value	21,690.02	0.00	96,800.86	118,490.88
Total	**21,690.02**	**0.00**	**41,253.47**	**62,943.49**

This reserve includes changes in the fair value of available-for-sale financial investments amounting to EUR 252 thousand (prior year: EUR 118 thousand). The reserve is disclosed net of the expected tax burden.

The reserve for foreign currency translation serves to recognize differences between GBP and EUR from the translation of annual financial statements of the Company's UK subsidiaries amounting to EUR –176 thousand (prior year: EUR –92 thousand).

17. 6 Earnings per share

Earnings per share (undiluted and diluted) increased in the past fiscal year from EUR 0.74 to EUR 0.82 per share. In comparison with the previous year, the increase in earnings per share (+11.8%) was stronger than that in net profit (+5.3%), as the average number of weighted outstanding shares fell from 8,524,199 to 8,032,265 as a result of the share buyback programme.

Development of outstanding shares	
As of 31 December 2006	**8,872,319**
Change in 2007	–654,047
As of 31 December 2007	**8,218,272**
Change in 2008	–233,184
As of 31 December 2008	**7,985,088**

Basic 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). In fiscal year 2008, there was no dilutive effect from stock options.

18 PERSONNEL EXPENSES

The Group recognized total personnel expenses of EUR 12,667 thousand in 2008 (prior year: EUR 10,324 thousand). Of this total, an amount of EUR 10,674 thousand (prior year: EUR 8,725 thousand) referred to wages and salaries and EUR 1,993 thousand (prior year: EUR 1,599 thousand) to social security contributions.

In Germany, pension insurance contributions of EUR 517 thousand (prior year: EUR 469 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	2008	2007
Marketing expenses		
Marketing expenses for own customers*	9,426,997.53	11,550,031.58
Business Service commissions	2,657,137.02	3,636,360.09
Total marketing expenses	**12,084,134.55**	**15,186,391.67**
Direct cost of operations		
Handling of customer payments	1,875,319.81	1,915,841.90
Traffic	775,612.50	597,498.69
Cost of product processing	318,943.62	309,294.50
Cost of direct debit returns	218,243.96	1,118,245.65
Hedging expenses	59,058.52	0.00
Total direct cost of operations	**3,247,178.41**	**3,940,880.74**
Other cost of operations		
Legal and consulting fees	4,167,476.51	2,120,078.12
Elimination of capitalized consulting services	0.00	1,422,251.26
Rent and leases	1,831,082.66	1,141,470.86
Representation expenses	502,210.80	362,190.45
Office costs	374,099.28	241,611.18
Training	303,583.86	198,633.73
Lobbying	265,277.41	214,597.85
Insurance	213,129.21	219,593.25
Press & CSR	181,369.77	82,344.93
Non-deductible operating expenses	91,385.13	74,528.47
Other	235,432.18	569,900.78
Total other cost of operations	**8,165,046.81**	**6,647,200.88**
	23,496,359.77	**25,774,473.29**

* *The prior-year values for advertising, marketing and representation costs were corrected due to a printing error in the previous year.*

20 OTHER OPERATING INCOME

in EUR	2008	2007
Other operating income		
Income not relating to the period	325,727.84	467,225.73
Income from lottery tickets bought for own account	66,408.70	163,645.85
Reversal of provisions	246,829.06	124,817.22
Offsetting of benefits in kind	171,816.45	188,549.54
Total other operating income	**810,782.05**	**944,238.34**

Income referring to other periods mainly concerns payments which the Company received in the course of the sale of adjusted receivables in the form of old-line factoring.

21 FINANCIAL RESULT

in EUR	2008	2007
Interest and similar income		
Income from securities and other loans	1,531,971.70	1,488,278.12
Interest and similar expenses	618,220.58	763,402.52
Total interest and similar income	**2,150,192.28**	**2,251,680.64**
Interest and similar expenses		
Interest expenses for current liabilities	–2,268.36	–5,659.15
Interest and similar expenses	–324,902.39	–2,791.71
Total interest and similar expenses	**–327,170.75**	**–8,450.86**
	1,823,021.53	**2,243,229.78**

The average interest income of total financial assets in 2008 amounted to 3.4% (prior year: 3.6%), before considering tax aspects.

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 trading profit of an entity. Trading profit is calculated by taking the taxable income according to income and corporation tax law together with any additions or subtractions according to trade tax law. 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 effective trade tax on income rate for Hamburg in 2008 amounted to 16.45% (2007: 19.03%).

As of 2008 the corporate income tax rate is 15.0% (prior year: 25.0%), while the solidarity surcharge remains 5.5% of corporate income tax.

The same percentages are used to calculate deferred taxes.

Deferred taxes under IAS 12 are calculated at the anticipated average tax rate at the time the differences are reversed (32.28%; prior year: 40.38%).

Tax reconciliation as of 31 Dec. 2008 – Group

in EUR	31 Dec. 2008	31 Dec. 2007
Actual tax expense	**–1,924,686.79**	**–3,837,550.45**
Tax expense/income from the use/recognition of deferred tax assets on loss carryforwards/temporary differences	18,082.29	–815,713.94
Tax expense/income from the recognition/reversal of deferred tax liabilities due to temporary differences	–2,207,714.25	–267,129.47
Deferred taxes	**–2,189,631.96**	**–1,082,843.41**
Actual and deferred income taxes	**–4,114,318.75**	**–4,920,393.86**
Earnings before taxes	**10,719,895.63**	**11,192,252.29**
Expected tax expense	–3,459,846.31	–4,520,413.93
Additions acc. to §8 GewStG (see tax calculation)	–7,797.43	0.00
Tax effects from not fully deductible operating expenses	–34,683.57	–31,542.48
Tax rate difference of foreign subsidiaries	10,906.39	–43,984.31
Tax effects from not fully taxable income	736,714.91	30,036.16
Effects from tax rate decrease due to Corporation Tax Reform Law 2008	0.00	67,067.47
Unrecognized tax loss carryforwards	–1,359,549.92	–420,984.99
Non-taxable expenses/income from consolidation	–1,214.10	140.15
Tax effects from previous years	20,324.43	–711.93
Income taxes	**–4,114,318.75**	**–4,920,393.86**

Deferred tax assets and liabilities developed as follows:

in EUR	1 Jan. 2008	Income/expense	Neutral (via equity)	**31 Dec. 2008**
Deferred tax assets				
Deferred tax assets on temporary differences	28,594.79	–28,594.79	0.00	0.00
Deferred tax assets on tax loss carryforwards	253,166.23	46,677.08	–188,018.66	111,824.65
Total deferred tax assets	**281,761.02**	**18,082.29**	**–188,018.66**	**111,824.65**

in EUR	1 Jan. 2008	Income/expense	Neutral (via equity)	**31 Dec. 2008**
Deferred tax liabilities				
Deferred tax liabilities on temporary differences	335,258.61	2,207,714.25	63,549.29	2,606,522.15
Total deferred tax liabilities	**335,258.61**	**2,207,714.25**	**63,549.29**	**2,606,522.15**

Of the deferred tax assets carried by the Group, an amount of EUR 112 thousand refers to tax effects from losses generated by Ventura24. Based on current business planning, positive results and cash flows – and thus taxable income – are expected to be generated in future. Tax loss carryforwards are thus expected to be utilized in full in the future. Deferred tax liabilities amounting to EUR 2.2 million result mainly from the different treatment of self-produced software.

Due to their negative performance record and start-up losses, deferred taxes on tax loss carryforwards were recognized for other subsidiaries amounting to EUR 5,794 thousand as of 31 December 2008 (prior year: EUR 1,487 thousand).

Tax loss carryforwards for Italy (EUR 539 thousand, prior year: EUR 445 thousand) are limited to five years.

23 PAID AND PROPOSED DIVIDENDS

Dividends on ordinary shares proposed for approval at the Annual General Meeting (not recognized as a liability as of 31 December 2008):

in EUR thsd.	**2008 (proposed)**	**2007 (paid)**
Final dividend of EUR 0.50 per share	3,868	3,993

24 LEASES

24.1 Finance leases

The Company has no finance leases.

24.2 Operating leases

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

Tipp24 AG expensed rental payments for offices amounting to EUR 803 thousand (prior year: EUR 650 thousand) and lease payments for seven vehicles amounting to EUR 37 thousand (EUR 41 thousand).

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. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
	Minimum lease payments		Present value of the minimum lease	
Obligation from subsequent year	763,062.98	611,424.52	700,732.24	561,424.87
Between one and five years	1,016,763.63	948,269.22	826,310.80	762,710.29
Over five years	0.00	0.00	0.00	0.00
Total minimum lease obligations	**1,779,826.61**	**1,559,693.74**	**1,527,043.04**	**1,324,135.16**
Less interest	252,783.57	235,558.58	0.00	0.00
Present value of minimum obligations	**1,527,043.04**	**1,324,135.16**	**1,527,043.04**	**1,324,135.16**

24.3 Other financial obligations

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

in EUR	2009	2010	2011	2012	2013 and beyond	Total
Other contracts	**845,925.09**	**32,012.70**	**11,410.80**	**4,018.20**	**37,554.00**	**930,920.79**

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. Please refer to Note 28 for details on Executive Board remuneration.

25.1 Management agreement with Schumann e. K.

Tipp24 brokers participation in the class lotteries NKL and SKL in cooperation with Schumann e. K.. Schumann e. K. has concluded a marketing agreement with the management of the North German State Lottery (Norddeutsche Klassenlotterie – NKL); Schumann e. K. has been appointed as state lottery collector by the management of the South German State Lottery (Süddeutsche Klassenlotterie – SKL).

In terms of its legal status, Schumann e. K. is not a subsidiary of Tipp24 AG. The sole shareholder of Schumann e. K. is the member of Tipp24 AG's Executive Board Jens Schumann. This structure is necessary as the class lotteries' current practice is only to issue sales licenses to natural persons or companies in which neither the liability of the company or its direct and indirect partners is limited. A management agreement is in place between Tipp24 AG and Schumann e. K. governing the processing of game participation of class lottery customers by Schumann e. K.. Under the terms of the agreement, Schumann e. K. must pay all commissions and other brokerage fees collected in this context to Tipp24 AG. Tipp24 AG provides Schumann e. K. with services in the field of controlling, bookkeeping, marketing and technical services and bears the costs incurred by Schumann e. K. in running its operations.

As Jens Schumann operates Schumann e. K. in the interest of Tipp 24 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 e. K.. 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 Jaenecke & Cie. GmbH

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 11 thousand. Remuneration was in line with standard market conditions.

25.3 Consultancy agreements with Ulrich Cornehl

During the period under review, the Company acquired planning services amounting to EUR 19 thousand from the architecture firm of Dr.-Ing. Ulrich Cornehl in connection with various reconstruction projects. Dr.-Ing. Ulrich Cornehl is the brother of the Executive Board member Dr. Hans Cornehl.

26 OBJECTIVES AND METHODS OF CAPITAL MANAGEMENT

Tipp24 operates a central capital management system. All major decisions concerning the financial structure are taken by the Executive Board. All capital management activities are undertaken at Group level.

26.1 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 short-term financial assets

The amortized cost of cash, cash equivalents and short-term financial assets more or less corresponds to fair value. 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.

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.

The following table illustrates the significance of net profits or losses from significant financial instruments:

Financial assets

in EUR	2008	2007	2008	2007
	Carried in equity		Carried in income statement	
Cash and cash equivalents	**0.00**	**0.00**	**616,619.71**	**754,951.66**
Short-term financial assets				
Available-for-sale financial assets	133,377.27	96,800.86	458,103.76	1,441,278.12
Held-to-maturity financial assets	0.00	0.00	748,298.06	47,000.00
Long-term financial assets				
Available-for-sale financial assets	0.00	0.00	0.00	0.00
Held-to-maturity financial assets	0.00	0.00	0.00	0.00
Financial result			**1,823,021.53**	**2,243,229.78**
Other financial assets (short-term)	0.00	0.00	–31,900.27	–787,553.15
	133,377.27	**96,800.86**	**1,791,121.26**	**1,455,676.63**

The net amount from other financial assets includes expenses from payment default and income from the sale of these receivables, which are included in Other Income and Other Expenses.

The financial instruments included in the following balance sheet items can be allocated to the following categories:

Financial Instruments

in EUR	Amortized cost	Fair value recognized in equity	Non-financial assets		Book Value **31 Dec. 2008**	Fair Value **31 Dec. 2008**
Assets						
Cash and cash equivalents						
Receivables	19,266,292.24			19,266,292.24		
Available-for-sale financial assets		1,408,773.33		1,408,773.33		
Non-financial assets			36,322.53	36,322.53	20,711,388.10	20,711,388.10
Pledged cash						
Receivables	550,000.00				550,000.00	550,000.00
Short-term financial assets						
Available-for-sale financial assets		10,363,125.00		10,363,125.00		
Held-to-maturity financial assets	34,848,298.06			34,848,298.06	45,211,423.06	45,211,423.06
Trade receivables						
Receivables	5,314.97				5,314.97	5,314.97
Other assets						
Receivables	14,348,744.23				14,348,744.23	14,348,744.23
Total					**80,826,870.36**	**80,826,870.36**
– of which receivables					34,170,351.44	34,170,351.44
– of which available-for-sale financial assets					11,771,898.33	11,771,898.33
– of which held-to-maturity financial assets					34,848,298.06	34,848,298.06
Liabilities						
Trade payables						
Other payables	4,822,352.74				4,822,352.74	4,822,352.74
Other liabilities						
Other liabilities	26,704,362.23			26,704,362.23		
Non-financial assets			1,116,804.60	1,116,804.60	27,821,166.83	27,821,166.83
Total					**32,643,519.57**	**32,643,519.57**
– of which other liabilities					31,526,714.97	31,526,714.97

Financial Instruments

in EUR	Amortized cost	Fair value recognized in equity	Non-financial assets		Book Value **31 Dec. 2007**	Fair Value **31 Dec. 2007**
Assets						
Cash and cash equivalents						
Receivables	10,795,304.68			10,795,304.68		
Available-for-sale financial assets		54,981,426.78		54,981,426.78		
Non-financial assets			44,044.19	44,044.19	65,820,775.65	65,820,775.65
Pledged cash						
Receivables	300,000.00				300,000.00	300,000.00
Short-term financial assets						
Available-for-sale financial assets		4,144,200.00		4,144,200.00	4,144,200.00	4,144,200.00
Long-term financial assets						
Held-to-maturity financial assets		3,000,000.00		3,000,000.00	3,000,000.00	3,000,000.00
Trade receivables						
Receivables	6,955.12				6,955.12	6,955.12
Other assets						
Receivables	14,245,207.31				14,245,207.31	14,245,207.31
Total					**87,517,138.08**	**87,517,138.08**
– of which receivables					25,347,467.11	25,347,467.11
– of which available-for-sale financial assets					59,125,626.78	59,125,626.78
– of which held-to-maturity financial assets					3,000,000.00	3,000,000.00
Liabilities						
Trade payables						
Other payables	5,958,519.16				5,958,519.16	5,958,519.16
Other liabilities						
Other liabilities	25,115,457.98			25,115,457.98		
Non-financial assets			1,695,190.23	1,695,190.23	26,810,648.21	26,810,648.21
Total					**32,769,167.37**	**32,769,167.37**
– of which other liabilities					31,073,977.14	31,073,977.14

26.2 Credit risk

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

The Company collects the amounts owed by customers directly via direct debit or credit card. On the basis of many years of collected data, the risk of returned direct debits or credit card charges is statistically limited. Missing amounts from such cancellations 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.

26.3 Liquidity risk

Due to the sufficiency of its liquid assets, the Company is not exposed to any significant liquidity risk. Even in the case of significant restrictions of business against the backdrop of regulatory developments, Tipp24 has sufficient liquidity to service the Company's liabilities at any time. Financial liabilities are mainly due immediately and are not discounted.

26.4 Interest rate risk

in EUR	short-term	long-term	**Total**
31 Dec. 2008			
Cash and cash equivalents			
Variable interest rates	19,302,614.77	0.00	**19,302,614.77**
Fixed interest rates	1,408,773.33	0.00	**1,408,773.33**
	20,711,388.10	0.00	**20,711,388.10**
Pledged cash			
Variable interest rates	550,000.00	0.00	**550,000.00**
Short-term financial assets			
Variable interest rates	0.00	0.00	**0.00**
Fixed interest rates			
Available-for-sale financial assets	10,363,125.00	0.00	**10,363,125.00**
Held-to-maturity financial assets	34,848,298.06	0.00	**34,848,298.06**
	45,211,423.06	0.00	**45,211,423.06**
Long-term financial assets			
Variable interest rates	0.00	0.00	**0.00**
Fixed interest rates	0.00	0.00	**0.00**
	0.00	0.00	**0.00**
Total	66,472,811.16	0.00	**66,472,811.16**

in EUR	short-term	long-term	Total
31 Dec. 2007			
Cash and cash equivalents			
Variable interest rates	65,820,775.65	0.00	**65,820,775.65**
Fixed interest rates	0.00	0.00	**0.00**
	65,820,775.65	0.00	**65,820,775.65**
Pledged cash			
Variable interest rates	300,000.00	0.00	**300,000.00**
Short-term financial assets			
Variable interest rates			
Fixed interest rates	4,144,200.00	0.00	**4,144,200.00**
Available-for-sale financial assets	0.00	0.00	**0.00**
Held-to-maturity financial assets	4,144,200.00		**4,144,200.00**
Long-term financial assets			
Variable interest rates	0.00	3,000,000.00	**3,000,000.00**
Fixed interest rates	0.00	0.00	**0.00**
	0.00	3,000,000.00	**3,000,000.00**
Total	70,264,975.65	3,000,000.00	**73,264,975.65**

Tipp24 only invests in financial assets secured by a capital guarantee. Financial assets currently held bear no currency risk and only a very limited interest risk. Our diversified interest investment policy reduces interest rate risks in the short term. For a total investment volume of around EUR 66 million, the remaining risk amounts to about EUR 150 thousand p.a. should short-term interest rates change by 50 base points. Irrespective of this fact, the current financial crisis has led to an increased default risk with respect to both interest agreed for financial assets as well as the invested sums themselves and bank deposits. Held-to-maturity financial assets mostly have terms of less than 12 months.

26.5 Currency risk

The Company was not exposed to any significant currency risk in the period under review.

26.6 Principles and objectives of capital management

Tipp24 operates a global capital management system. All key decisions concerning the company's financial structure are taken by the Executive Board. Capital 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 betting operations are to be invested in safe investment categories. 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 growth strategy. 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 shall also continue to distribute equity capital not required for the company's strategic objectives in the form of dividends and to use it for the purchase of treasury shares.

Principles and objectives of capital management

in EUR	31 Dec. 2008	31 Dec. 2007
Equity ratio	59.0%	60.6%
Cash and cash equivalents	20,711,388.10	65,820,775.65
Capital expenditures	9,854,218.83	3,213,573.63
Proposed dividend for the fiscal year per share	0.50	0.50

27 EVENTS AFTER THE BALANCE SHEET DATE

Tipp24 AG reorganized its business fields as of 1 January 2009. We transferred the majority of our activities in connection with the brokerage or offer of lottery products to MyLotto24 Ltd., which has been active in the UK since 2007, and its subsidiaries. This concerns both the brokerage of state-run German lottery products, as well as our subsidiaries Ventura24 S.L. in Spain and Puntogioco24 S.r.l. in Italy. The German class lotteries NKL and SKL continue to be marketed by Schumann e. K..

By pooling our gaming activities with MyLotto24 in the UK, we are laying the foundations for a positive development of our foreign business. We have therefore drawn the consequences from the German State Treaty on Gaming, which we believe contravenes valid law. The second stage of this Treaty came into effect on 1 January 2009 and bans the brokerage of state-run lotteries via the Internet. The Executive Board of Tipp24 AG will focus in future on expanding the Tipp24Games division and identifying and acquiring new business models in Germany and Europe. After the legal situation has been settled in its favour, Tipp24 AG intends to begin its activities from Germany again as swiftly as possible.

Up to 8 January 2009, Tipp24.com submitted its tickets directly to the state lotteries. Since this date, however, Tipp24.com has assumed the complete processing of the tickets. In line with its internationalization strategy, the tickets are no longer submitted to the systems of the state lotteries but processed by the high-performance systems of Tipp24 Services Ltd. in UK and transferred to MyLotto24 Ltd., which organizes an English lottery based on the German Lotto. In contrast to Tipp24 Services Ltd., which merely acts as a broker, MyLotto24 Ltd. bears the bookmaking risk. Active repeat tickets from 2008 or earlier will continue to be submitted to the German »Lottoblock«. They are still entitled to receive winnings from German state lottery draws. Apart from this, tickets are no longer brokered to German customers.

Since January 2009 we have been involved in a legal dispute with various state lottery companies which refused to accept the orderly submission of tickets from Tipp24. The Regional Appeal Court of Koblenz, for example, decreed on 20 January 2009 that the state lottery of Rhineland-Palatinate must continue to accept tickets, even if they were generated via the Internet. The same was decided by the Regional Court of Hamburg for the state lottery of Hamburg on 20 February 2009.

The Executive Board of Tipp24 AG has adopted a resolution to implement a further share buyback programme. In the period from 2 February 2009 to no later than 30 June 2009, shares of Tipp24 with a total value of up to EUR 2,000,000 (including transaction costs) are to be bought through the stock exchange. During the share buyback programmes of February and October 2007, Tipp24 AG already acquired a total of 887,231 treasury shares, corresponding to 10.00% less one share of total capital stock. On 23 January 2009, these treasury shares were cancelled by means of a simplified capital reduction with a corresponding reduction in capital stock of EUR 887,231 to EUR 7,985,088.

28 OTHER DISCLOSURES ACC. TO GERMAN COMMERCIAL LAW

28.1 Executive Board

The following persons held seats on the Executive Board in fiscal year 2008:

- Jens Schumann, Strategy, Lobbying and Public Relations (Chairman)
- Dr. Hans Cornehl, Finance, Investor Relations, Human Resources and Technology (Deputy Chairman)
- Marcus Geiß, Corporate Development (since 1 April 2008)
- Petra von Strombeck, Marketing (since 1 April 2008)

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	Variable remuneration	2008
Dr. Hans Cornehl	180,000.00	261,731.28	441,731.28
Marcus Geiß	135,000.00	158,798.25	293,798.25
Jens Schumann	180,000.00	261,731.28	441,731.28
Petra von Strombeck	135,000.00	158,798.25	293,798.25
Total	**630,000.00**	**841,059.06**	**1,471,059.06**

in EUR	Fixed salary	Variable remuneration	2007
Dr. Hans Cornehl	189,468.00	66,658.00	256,126.00
Marc Peters	94,734.00	0.00	94,734.00
Jens Schumann	189,468.00	66,658.00	256,126.00
Total	**473,670.00**	**133,316.00**	**606,986.00**

In fiscal year 2008, total remuneration of the Executive Board members amounted to EUR 1,471 thousand (prior year: EUR 607 thousand).

28.2 Supervisory Board

The following persons held seats on the Supervisory Board in fiscal year 2008:

- Klaus F. Jaenecke, General Partner of Jaenecke & Cie. GmbH & Co. KG (Chairman)
- Oliver Jaster, Chief Executive Officer of Günther Holding (Deputy Chairman), since 29 May 2008
- Dr. Hans-Wilhelm Jenckel, General Partner of DWI Grundbesitz GmbH (Deputy Chairman), until 29 May 2008
- Hendrik Pressmar, consultant, ordinary member, since 19 December 2008
- Annet Aris, Associate Professor for Strategy at INSEAD, ordinary member, until 19 December 2008; also member of the Supervisory Board of Hansa-Heemann AG, Hamburg

in EUR	Fixed salary	Variable remuneration	**2008**
Klaus F. Jaenecke (Chairman)	34,500.00	21,875.00	56,375.00
Oliver Jaster (Deputy Chairman, since 29 May 2008)	8,625.00	5,468.75	14,093.75
Dr. Hans-Wilhelm Jenckel (Deputy Chairman, until 29 May 2008)	13,800.00	8,750.00	22,550.00
Hendrik Pressmar (since 19 Dec. 2008)	0	0	0
Annet Aris (until 19 Dec. 2008)	12,075.00	7,656.25	19,731.25
Total	**69,000.00**	**43,750.00**	**112,750.00**

in EUR	Fixed salary	Variable remuneration	**2007**
Klaus F. Jaenecke (Chairman)	30,000.00	21,250.00	51,250.00
Dr. Hans-Wilhelm Jenckel (Deputy Chairman, until 29 May 2008)	18,000.00	12,750.00	30,750.00
Annet Aris (until 19 Dec. 2008)	12,000.00	8,500.00	20,500.00
Total	**60,000.00**	**42,500.00**	**102,500.00**

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 2007, as well as changes in shareholdings since 1 January 2007. The member of the Executive Board Petra von Strombeck holds 8,000 stock options granted as part of the stock option programme on 13 February 2008.

Otherwise, none of the executive bodies hold subscription rights to shares of Tipp24 AG.

Shares	1 Jan. 2008	Change	31 Dec. 2008
Executive Board			
Dr. Hans Cornehl	134,695	694	135,389
Marcus Geiß	0	20,895	20,895
Petra von Strombeck	0	900	900
Jens Schumann	903,518	4653	908,171

28.4 Corporate Governance
Declaration of conformity with German Corporate Governance Code

In November 2008, 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:

	2008	2007	2008	2007
	Group		Tipp24 AG	
Executive Board	4	3	4	3
General Managers	3	3	0	0
Employees	185	154	108	96
Trainees	6	6	3	3
Temporary personnel	50	48	47	47
Total	**248**	**214**	**162**	**149**

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 2008:

in EUR thsd.	2008	2007
Auditing fees	66	61
Tax consulting	47	34
Other auditing and assessment services	57	52
thereof for international partner companies of the auditing company	34	35
Other services	66	50
Total	**236**	**197**

28.7 Consolidated group

The consolidated group comprises the subsidiaries listed below, for which the respective present and past shareholdings are also stated. Giochi24 was founded by Tipp24 AG in 2008. Formation costs of EUR 31 thousand were incurred. At the time of formation there was no difference between book value and fair value. The result of the abbreviated fiscal year for this company since its formation amounts to a total of EUR –59 thousand. Tipp24 Entertainment was also founded by Tipp24 AG in 2008. There were formation costs of EUR 78 thousand. At the time of formation, there was no difference between carrying value and fair value. The result of the abbreviated fiscal year for this company since its formation amounts to EUR –1.5 million.

in %	2008	2007	Initial consolidation
Ventura24 S.L., Madrid, Spain	100	100	2001
GSG Lottery Systems GmbH, Hamburg, Germany	100	100	2001
Puntogioco24 S.r.l., Monza, Italy	100	100	2004
MyLotto24 Ltd., London, UK	100	100	2007
Tipp24 Operating Services Ltd., London, UK	100	100	2007
Tipp24 Services Ltd., London, UK	100	100	2007
Tipp24 Entertainment GmbH, Hamburg, Germany	100	–	2008
Giochi24 S.r.l., Monza, Italy	100	–	2008

Schumann e. K., 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 , 20 February 2009

The Executive Board

Jens Schumann	**Dr. Hans Cornehl**	**Marcus Geiß**	**Petra von Strombeck**
(Chairman of the Executive Board)	(Deputy Chairman of the Executive Board)		

AUDIT OPINION

We have audited the consolidated financial statements prepared by the Tipp24 AG, Hamburg, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2008. 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, 20 February 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Klimmer	Hoyer
Wirtschaftsprüfer	Wirtschaftsprüfer

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Executive Board

Jens Schumann
(Chairman
of the Executive Board)

Dr. Hans Cornehl
(Deputy Chairman
of the Executive Board)

Marcus Geiß

Petra von Strombeck

REPORT OF THE SUPERVISORY BOARD

Advising and monitoring management

The Supervisory Board of Tipp24 AG regularly monitored and advised the Executive Board in accordance with statutory obligations during the period under review. We were directly involved in all decisions of significance for the Company. Moreover, the Executive Board regularly informed the Supervisory Board fully and promptly, in oral and written reports, about all material issues of business planning and strategic development, about the course of events, the Group's current situation, including possible risks and the risk management system. Moreover, the Executive Board provided the Supervisory Board with comprehensive reports about the course of business, including the development of revenue and profitability, as well as the Company's current situation and business policy. These reports were presented to all members of the Supervisory Board. Based on these reports concerning Tipp24 AG, the Supervisory Board was able to monitor and advise on all important business activities. The Chairman of the Supervisory Board also met regularly with the Executive Board to exchange information and provide advice.

A total of 7 Supervisory Board meetings were held in fiscal year 2008, which were attended by all members. Further resolutions concerning current topics were adopted by circular written consent.

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 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 on 10 August 2005 and was re-elected on 29 May 2008. Oliver Jaster is the Deputy Chairman. He has been a member of the Supervisory Board since 29 May 2008 and follows Dr. Hans-Wilhelm Jenckel. Hendrik Pressmar has been a member of the Supervisory Board since 19 December 2008 and follows Annet Aris, who was 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 26 November 2008, 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.

Auditing of the parent company and consolidated annual financial statements

The annual financial statements and management report for fiscal 2008 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 2 March 2009, 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 2 March 2009, 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 the fiscal year 2008.

Personnel

The Executive Board was expanded by two persons on 1 April 2008 with the appointment of Marcus Geiß and Petra von Strombeck.

Concluding statement

The Supervisory Board would like to thank the Executive Board and all employees of the Tipp24 Group for their hard work and outstanding commitment over the past fiscal year. Even in times of considerable regulatory uncertainty, the Tipp24 team has not lost its focus on serving customers and once again ensured that the Company was able to continue its growth and success story with its dedication and innovative strength.

Hamburg, 2 March 2009

Klaus F. Jaenecke
(Chairman of the Supervisory Board)

KEY CONSOLIDATED FIGURES OF TIPP24 AG

As of 20 February 2009

		2008	2007	2006
Customers				
Number of registered customers (at year-end)	Thsd.	2,526	2,344	1,770
Number of registered new customers	Thsd.	203	574	448
Customer activity rate		24.7%	28.7%	28.6%
Average billings/customer	EUR	566	588	598
Acquisition costs per new customer	EUR	46.44	20.11	18.81
Income statement	EUR thsd.			
Billings		335,947	346,776	264,235
Revenue		45,838	44,974	34,575
EBIT		8,897	8,949	7,244
EBT		10,720	11,192	8,365
Net profit		6,606	6,272	7,445
Balance sheet	EUR thsd.			
Cash, cash equivalents and securities (incl. pledged cash, cash equivalents and securities)		21,261	66,121	60,764
Other current assets		59,586	18,405	16,290
Total non-current assets		12,304	7,213	5,740
ASSETS		93,151	91,739	82,794
Current liabilities		35,623	35,774	22,128
Non-current liabilities		2,607	335	14
Equity		54,922	55,630	60,652
EQUITY AND LIABILITIES		93,151	91,739	82,794
Cash flow	EUR thsd.			
Cash flow from operating activities		9,651	17,886	8,360
Cash flow from investing activities		-47,049	-1,200	-4,769
Cash flow from financing activities		-7,386	-11,335	–
Personnel				
Number of employees (average no. of full-time staff without board members/managing directors/interns/apprentices)	No.	185	154	144
Personnel expenses	EUR thsd.	12,667	10,324	8,277
Expenses per employee	EUR thsd.	69	67	58
R&D expenses	EUR thsd.	3,374	3,051	2,767
R&D staff	No.	68	58	56
Share (from 2004)				
Average number of shares (undiluted)	No.	8,032,265	8,524,199	8,872,319
Earnings per share (undiluted)	EUR	0.82	0.74	0.84
Operating cash flow per share (undiluted)	EUR	1.20	2.10	0.94
Ratios	%			
Gross margin		13.6%	13.0%	13.1%
EBIT margin		19.4%	19.9%	21.0%
Net operating margin		14.4%	13.9%	21.5%
Return-on-equity (RoE)		12.0%	11.3%	12.3%

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

2005	2004	2003*	2002*	2001*	2000*	1999*
1,322	1,031	675	441	323	121	0
291	356	234	118	202	121	0
28.6%	30.9%	30.3%	31.4%	n/a	n/a	n/a
609	584	620	591	n/a	n/a	n/a
20.12	17.01	17.52	14.21	n/a	n/a	n/a
204,696	154,094	104,812	70,926	42,933	5,200	0
26,119	19,504	14,085	8,284	3,808	691	0
6,048	3,207	1,000	1,019	–3,170	–5,364	–682
6,490	3,324	1,070	1,055	–3,124	–5,695	–690
3,318	1,575	2,994	1,752	–3,289	–5,697	–690
57,174	13,202	8,251	4,217	2,100	3,878	269
7,666	3,092	3,940	2,440	1,558	809	143
7,296	2,602	3,845	2,104	1,371	1,366	220
72,135	18,896	16,036	8,761	5,029	6,053	633
18,854	10,955	9,872	5,797	3,897	1,659	1,068
96	124	99	150	70	46	0
53,185	7,817	6,065	2,814	1,062	4,349	–435
72,135	18,896	16,036	8,761	5,029	6,053	633
10,308	5,375	4,570	2,546	–1,321	–5,569	–412
–6,371	–600	–506	–399	–457	–1,304	–236
40,035	175	–30	–30	0	10,481	917
114	95	72	47	26	17	3
6,990	5,522	4,285	3,021	2,005	1,076	81
61	58	60	64	77	63	27
2,151	1,938	1,420	n/a	n/a	n/a	n/a
44	38	30	n/a	n/a	n/a	n/a
7,191,100	6,451,928	n/a	n/a	n/a	n/a	n/a
0.46	0.24	n/a	n/a	n/a	n/a	n/a
1.43	0.83	n/a	n/a	n/a	n/a	n/a
12.8%	12.7%	13.4%	11.4%	8.9%	13.3%	n/a
23.2%	16.4%	7.1%	12.6%	–83.2%	–776.3%	n/a
12.7%	8.1%	21.3%	21.6%	–86.4%	–824.5%	n/a
6.2%	20.1%	49.4%	62.3%	–309.7%	–131.0%	158.6%

FINANCIAL CALENDAR 2009

5 March 2009	Annual Press Conference
4 May 2009	Report First Quarter 2009
28 May 2009	Annual General Meeting
3 August 2009	Half-Year Report 2009
2 November 2009	Nine-Month Report 2009
in November 2009	Analyst Conference (Frankfurt)

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