

**Tipp24de**

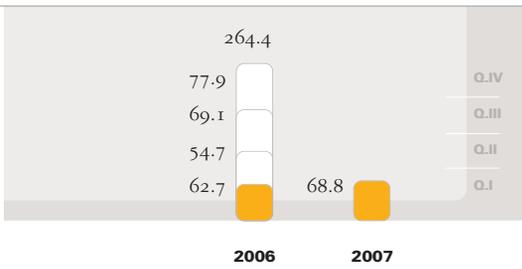
# ***FULL SPEED AHEAD***

***QUARTERLY REPORT 01.01.–31.03.2007***

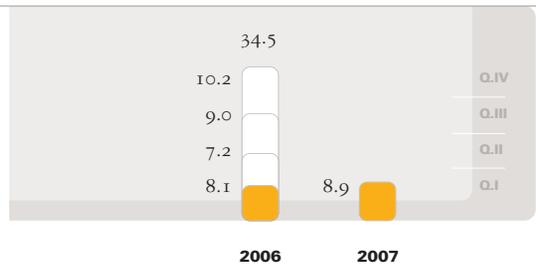
<b><i>BILLINGS Q.I</i></b>	<b><i>+10%</i></b>
<b><i>REVENUES Q.I</i></b>	<b><i>+9%</i></b>
<b><i>EBIT Q.I</i></b>	<b><i>+34%</i></b>
<b><i>REGISTERED CUSTOMERS Q.I</i></b>	<b><i>+69 thousand</i></b>

***Q1***

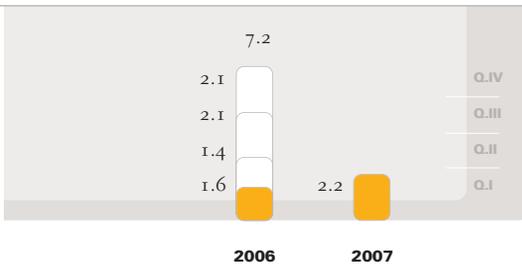
**BILLINGS** IN EUR M



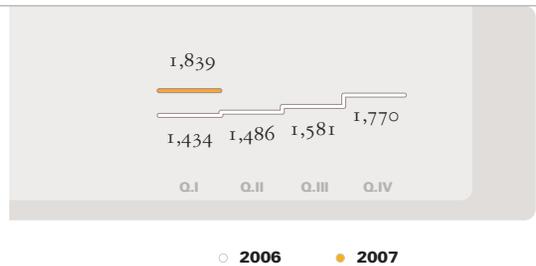
**REVENUES** IN EUR M



**EBIT** IN EUR M



**REGISTERED CUSTOMERS** IN THOUSAND



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*(Rounding differences in the management report due to presentation in EUR thousand)*

## **FOREWORD**

### **Ladies and gentlemen,**

The Tipp24 Group successfully continued its dynamic development in the first quarter of 2007, with strong growth in billings (+10%), revenues (+9%) and EBIT (+34%). We are particularly encouraged that we achieved this in a quarter without any major jackpots – in contrast to the same period last year, which included the draw for the second highest jackpot in the history of German lotteries. The development in the period under review also clearly illustrates the scalability of our business: the EBIT margin rose by almost 5% points to approx. 25%. As a result, we achieved the best quarterly EBIT in the company's history. Once again, our German activities accounted for the lion's share, although the EBIT contribution of our foreign business segment – EUR 72 thousand in the first quarter of 2007 – is becoming increasingly significant.

The relevant bodies continued their intensive political and legal discussion of Germany's gaming market. In our opinion, the decisions and orders of the administrative court of Halle, the European Court of Justice and the European Commission – presented in detail in our management report – represent major milestones in our favor. All the aforementioned institutions share our argumentation, which is also supported by numerous expert opinions with regard to constitutional law. Against this backdrop, we believe it is becoming increasingly unlikely that politicians will be able to restrict the growing market for the online brokerage of lotteries against both valid law and political common sense. It seems that this view is also shared by the capital market, which has pushed our share price up 41% since the beginning of the year.

Even if the ongoing discussions do not fully exclude the risk of at least medium-term disruption, up to and including the complete prohibition of our present business model in Germany, we regard Tipp24's situation as generally robust and our prospects as excellent. We have sufficient resources to successfully prevail even in the face of a significant negative regulatory development. At the same time, we see an opportunity for sustained growth in a dynamically expanding European online lottery market – confirmed once again by our success in the first quarter – and believe that Tipp24 is excellently positioned to benefit strongly from this development.

On the increasingly likely assumption that our core activities in Germany will remain legal, we aim to add around 300–400 thousand new customers and raise billings and revenue once again by around 30% in the current business year. Due to the scalability of our business model, we expect a similarly strong increase in our EBIT result.

With best regards,

**The Executive Board**

Q.1 2007

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

		Q.1 2007	Q.1 2006	CHANGE %
Billings	EUR THOUSAND	68,777	62,698	+9.7
Revenues	EUR THOUSAND	8,908	8,140	+9.4
Gross margin	%	13.0	13.0	-
EBIT	EUR THOUSAND	2,197	1,640	+34.0
EBIT margin	%	24.7	20.1	+4.6% POINTS
Net profit	EUR THOUSAND	1,637	2,210	-25.9
Acquisition costs per new customer	EUR	26.49	18.96	+39.7
Cash flow from operating activities	EUR THOUSAND	3,135	993	+215.7
Equity	EUR THOUSAND	58,873	55,396	+6.3
Registered customers (as of 31. March)	THOUSAND	1,839	1,434	+28.2
Employees (as of 31. March)		144	134	+7.5

## TIPP24 SHARE

SHARE PRICE UP 41%  
ON POSITIVE NEWS

### PERFORMANCE OF THE TIPP24 SHARE



**KEY FIGURES PER SHARE (XETRA)**

Highest price (29.03.07)	<b>EUR 18.71</b>
Lowest price (12.01.07)	<b>EUR 10.24</b>
Share price (01.01.07)	<b>EUR 12.93</b>
Share price (31.03.07)	<b>EUR 18.20</b>
Earnings per share (undiluted/diluted)	<b>EUR 0.19</b>
Market capitalization (01.01.07)	<b>EUR 114.7 million</b>
Market capitalization (31.03.07)	<b>EUR 161.5 million</b>

**SHAREHOLDER SERVICE**

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

The upbeat mood of the stock markets in the second half of 2006 carried over into the first quarter of 2007. The SDAX index, for example, opened the year at 5,567.36 and closed the reporting period at 6,064.16 – representing a healthy increase of 8.9%.

As a result of positive news concerning regulatory discussions, the Tipp24 share recovered from its low level and climbed from EUR 12.93 to EUR 18.20 (+40.8%) during the period under review.

As our share price failed to reflect the company's positive development in the early part of the year – due to the ongoing regulatory discussions – we decided to launch a share buy-back program for up to 5% of Tipp24's shares. The program will run from 19 February to 30 September 2007. As of 31 March 2007 we have bought back 219,235 Tipp24 shares in careful stock exchange trading for an amount of EUR 3,371 thousand.

In the first quarter of 2007 our investor relations activities focused primarily on discussions concerning the regulatory environment.

## INTERIM GROUP MANAGEMENT REPORT

# DYNAMIC COURSE CONTINUED IN BRIGHTENING ENVIRONMENT

### BUSINESS AND ECONOMIC CONDITIONS

#### SUCCESSFUL BUSINESS MODEL

Tipp24 AG markets state-licensed and guaranteed gaming products via electronic media, especially the Internet. Its portfolio comprises the products of the Deutsche Lotto- und Totoblock (DLTB), the class lotteries, the German TV lottery and value-added combined products. We also offer selected partners with high-reach websites the complete handling of their Internet lottery activities. We have also been active on the Spanish market since 2002 with Ventura24 S.L. and on the Italian market – with restrictions – since early 2005 with Puntogioco24 s.r.l., which both offer comparable product portfolios and business models.

#### DYNAMIC ECONOMIC DEVELOPMENT CONTINUES IN EUROPE

The economic upswing lost some of its momentum in the industrialized nations during the course of the past year; this was mainly a consequence of a more restrictive monetary policy. The slowdown was particularly pronounced in the United States. The economies of Japan and Europe, on the other hand, remained relatively buoyant considering the modest development of consumer prices and wages. The economic upswing was helped further by lower energy prices this year.

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

The intensive political and legal discussions concerning Germany's gaming market and the respective legislation continued to play a key role in the first quarter of the current fiscal year. The following significant legal decisions were made:

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

- On 8 March 2007 **the administrative court of Halle confirmed the suspension of the ban on Tipp24's operations in Saxony-Anhalt** as ordered by the state administration of Saxony-Anhalt. The judges also declared that they were considering referring the law to Germany's Constitutional Court.
- On 21 March 2007 the **EU Commission** informed the German government in a **letter of formal notice regarding infringement proceedings** that Sec. 284 of the German penal code – under which it is illegal to advertise, organize or operate public gaming without official permission – represented an infringement of the EU's free movement of services. The Commission had carefully investigated current legislation in Germany and listed a number of inconsistencies which constituted an infringement of EU law.
- On 22 March 2007 the **EU Commission informed the German government in a »detailed opinion«** as part of the notification process for the Draft State Treaty on Gaming (GIStV-E) of the German government, **that the GIStV-E represented an infringement of EU legislation in the following points:**
  - The explanations to the notified draft do not contain any data to support claims that there is an actual danger of gambling addiction on the Internet in Germany, which represents a threat to the fundamental interests of the German public. Furthermore, there was no presentation of an assessment of the consequences nor studies to prove such claims.
  - The GIStV-E does not meet requirements regarding appropriateness in achieving the declared goal, as it applies to lotteries and sports betting but not to games of chance which represent a much higher risk of addiction. Games with a far greater potential for addiction, such as gambling machines or horse-racing bets, are not covered by the ban.
  - Furthermore, the GIStV-E does not meet requirements regarding adequacy. There are less restrictive measures to combat gambling addiction and protect minors than a complete Internet ban. Moreover, the intended registration of customers on the Internet is particularly well suited to identifying and limiting potential gambling addiction.

### RESEARCH & DEVELOPMENT

In the first quarter of the current fiscal year, our development activities focused on the following new products and product modifications:

- Development of various game modules for Lotto, such as »Horoscope Tip« and »Shooter«,
- Further development of systems for verifying customer data.

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

- Further development of software systems to analyze gaming behavior of our customers,
- Ongoing adaptation of security systems to the latest standards,
- Ongoing development of software systems for expanded capacity.

All the above-mentioned projects were successfully completed by our in-house development departments in the first quarter of 2007. We did not acquire any external R&D know-how. The new product developments made a major contribution toward raising revenue.

At the end of the first quarter, 59 employees were involved with R&D activities on a full-time or part-time basis. R&D expenses amounted to EUR 867 thousand and resulted mainly from personnel costs.

## EARNINGS, FINANCIAL POSITION AND NET ASSETS

### HEALTHY EARNINGS WITHOUT AID OF JACKPOTS

The Tipp24 Group successfully continued its dynamic growth course of the past few years in the period under review. In comparison with the previous year, there was one **special effect** to consider: there were no major jackpots in Germany in the first quarter of 2007 (by chance). In the same quarter of the previous year, there was the second largest Lotto jackpot in German history (at the time) and the draw for the largest ever jackpot of the Euromillions lottery (relevant for our Spanish subsidiary).

### BEST QUARTERLY EBIT IN THE COMPANY'S HISTORY

In the first quarter of the current fiscal year, there was a year-on-year increase in **EBIT** of 34.0% to EUR 2,197 thousand – the company's highest ever quarterly EBIT – while the EBIT margin grew by 4.5% points to 24.7%. With an increase in revenues of 9.4% to EUR 8,908 thousand, other operating expenses fell by 3.0% to EUR 4,387 thousand, compared with the same period last year.

	Q.1 2007		Q.1 2006		CHANGE	
	EUR THOUSAND	%	EUR THOUSAND	%	EUR THOUSAND	%
Billings	68,777		62,698		6,079	9.7
Remitted stakes less commissions	59,869		54,558		-5,311	9.7
<b>Revenues</b>	<b>8,908</b>	<b>100.0</b>	<b>8,140</b>	<b>100.0</b>	<b>768</b>	<b>9.4</b>
Personnel expenses	-2,417	-27.1	-1,889	-23.2	-528	27.9
Other operating expenses	-4,387	-49.2	-4,523	-55.6	137	-3.0
Less other operating income	297	3.3	95	1.2	202	213.4
<b>Operating expenses</b>	<b>-6,507</b>	<b>-73.0</b>	<b>-6,318</b>	<b>-77.6</b>	<b>-189</b>	<b>3.0</b>
<b>EBITDA</b>	<b>2,402</b>	<b>27.0</b>	<b>1,822</b>	<b>22.4</b>	<b>579</b>	<b>31.8</b>
Amortization/depreciation	-204	-2.3	-182	-2.2	-22	12.0
<b>EBIT</b>	<b>2,197</b>	<b>24.7</b>	<b>1,640</b>	<b>20.1</b>	<b>558</b>	<b>34.0</b>
Financial result	535	6.0	-31	-0.4	566	-1,842.1
<b>Net profit before taxes</b>	<b>2,733</b>	<b>30.7</b>	<b>1,609</b>	<b>19.8</b>	<b>1,124</b>	<b>69.8</b>
Income taxes	-1,095	-12.3	601	7.4	-1,697	-282.1
<b>Net profit</b>	<b>1,637</b>	<b>18.4</b>	<b>2,210</b>	<b>27.2</b>	<b>-573</b>	<b>-25.9</b>
<b>Breakdown of other operating expenses</b>						
Marketing expenses	2,551	28.6	2,789	34.3	-238	-8.5
– Marketing expenses for own customers	1,819	20.4	2,142	26.3	-323	-15.1
– Business Service commissions	731	8.2	646	7.9	85	13.2
Direct operating costs	733	8.2	807	9.9	-74	-9.2
Other costs of operations	1,103	12.4	927	11.4	176	18.9
<b>Other operating expenses</b>	<b>4,387</b>	<b>49.2</b>	<b>4,523</b>	<b>55.6</b>	<b>-137</b>	<b>-3.0</b>

The development of EBIT continued to be influenced mainly by the company's »Germany« segment, which contributed EUR 2,125 thousand (96.7%) in the first quarter. The domestic EBIT margin grew by 4.7% points to 27.6%, as costs rose more slowly than revenues. The »Abroad« segment made a positive contribution in the first quarter of 2007 with an EBIT of EUR 72 thousand, compared with EUR 18 thousand in the previous year.

**Consolidated net profit** for the period fell by 25.9% to EUR 1.6 million (prior year: EUR 2.2 million) due to a one-off tax effect in the prior-year period.

**Earnings per share** (undiluted and diluted) fell from EUR 0.25 to EUR 0.19.

### REVENUES UP 9%

In the first quarter of the current fiscal year, there was a year-on-year increase in **registered customers** of 404 thousand to 1,839 thousand. Compared with the balance sheet date, new registered customers rose by just 69 thousand in the first quarter – partly as a result of the unfavorable jackpot situation. **Billings** reached EUR 68,777 thousand – representing a year-on-year increase of 9.7%.

The ratio of billings to revenues – **gross margin** – remained stable compared with the prior-year figure at 13.0%. The ratio was much higher in our »Abroad« segment, where the gross margin reached 23.9%, compared with 12.1% for the »Germany« segment (prior year: Abroad 26.3%; Germany 12.1%).

**Revenues** – consisting mainly of commissions and additional fees – rose by 9.4% to EUR 8,908 thousand in the period under review. Revenues were dominated by the contribution of our German operations, which accounted for 86.5% of total revenues. They were up 8.8% on the prior-year period to EUR 7,703 thousand. Billings in Germany grew correspondingly by 8.6% to EUR 63,737 thousand, while gross margin remained stable at 12.1%.

### DEVELOPMENT OF KEY INCOME STATEMENT POSITIONS

There was a year-on-year increase in **personnel expenses** of 27.9% to EUR 2,417 thousand in the first quarter of 2007 – due mainly to the recruitment of further staff in the Tipp24 Group, especially in the second and third quarters of 2006. Moreover, we made a final payment of almost EUR 50 thousand in the first quarter of 2007 as part of the settlement of court proceedings with a former general manager of our Spanish subsidiary. In general, the increase in personnel expenses was proportionately much higher than the rise in revenues and consequently the personnel expense ratio grew by 3.9% points to 27.1%. The main reason was the relatively low volume of billings generated during the period under review, due to the unfavorable jackpot situation. At the end of the first quarter, the number of employees amounted to 144 (134).

**Other operating expenses** experienced a year-on-year fall of 3.0% to EUR 4,387 thousand in the first quarter. The development in detail was as follows:

- **Marketing expenses** fell by 8.5% to EUR 2,551 thousand (28.6% of revenues; –5.6% points). They are divided into marketing expenses for our own customers and commissions paid to Business Service partners. Marketing expenses for our own customers were down 15.1% to EUR 1,819 thousand, compared to last year. Commissions to Business Service partners were up 13.2% to EUR 731 thousand, in line with the development of billings in this business field.
- **Direct operating expenses** fell by 9.2% to EUR 733 thousand and thus accounted for 1.1% of billings (prior year: 1.3%). In relation to revenues, this cost ratio fell by 1.7% points to 8.2%.

- **Other operating expenses** rose by 18.9% to EUR 1,103 thousand in the first quarter of the current fiscal year (prior year: EUR 927 thousand). This was mainly due to legal advice in connection with the current regulatory discussions.

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

In comparison with the previous year, **amortization/depreciation** on intangible assets and property, plant and equipment grew in the first quarter of 2007 by EUR 22 thousand (+12.0%) to EUR 204 thousand. This development is in line with the volume of investments made.

### **SOLID FINANCIAL POSITION**

Equity capital was reduced by EUR 1.8 million to EUR 58.8 million. In comparison with 31 December 2006, the equity ratio fell by 0.5% points, from 73.3% to 72.8%. The balance sheet total was also reduced by 2.4% to EUR 80.8 million. Other liabilities remained stable at EUR 18.8 million.

On 12 February 2007, Tipp24 announced the implementation of a share buyback program. Up to 5% of capital stock – or 443,615 shares – are to be bought during the program, which will last from 19 February to 30 September 2007. As of 31 March 2007, we have bought back 219,235 Tipp24 shares via the stock exchange for an amount of EUR 3,371 thousand. At the end of the quarter, the shares had a value of EUR 3,990 million, representing an increase in value of EUR 619 thousand over the purchase price.

The reduction in equity capital was largely a result of the share buyback program, netted with the quarterly result.

<b>Other liabilities</b> IN EUR THOUSAND	31 Mar. 2007	31 Dec. 2006
Liabilities for gaming operations	17,649	17,756
Liabilities for taxes	523	366
Liabilities relating to social security	83	90
Others	573	599
	<b>18,828</b>	<b>18,810</b>

### **Investment analysis**

In the period under review, we made total investments of EUR 194 thousand. The major share of this total was accounted for by the expansion of our infrastructure in Germany (software EUR 86 thousand, hardware EUR 60 thousand and EUR 30 thousand for furniture, fixtures and office equipment). Outside Germany, investments also focused on technical and office fittings for our subsidiaries (EUR 19 thousand).

The main investment projects in the first quarter were the expansion of our accounting system and the ongoing development of our live systems. We will continue to expand these systems in 2007 in line with growing capacity requirements and the ongoing development of security standards. We also plan to update our office systems.

Q.1 2007

*Liquidity analysis*

<b>Key cash flow positions</b> IN EUR THOUSAND	Q.1 2007	Q.1 2006
Cash flow from operating activities	3,135	993
Cash flow from investing activities	-194	-2,713
Cash flow from financing activities	-3,371	0
<b>= Net increase/decrease in cash and cash equivalents</b>	<b>-430</b>	<b>-1,720</b>
Cash and cash equivalents at beginning of the period	60,703	57,174
Non-cash income from securities	-70	0
Change in pledged cash and cash equivalents	61	-61
<b>= Cash and cash equivalents at end of the period</b>	<b>60,264</b>	<b>55,392</b>

At EUR 3,135 thousand, **cash flow from operating activities** was significantly higher in the first quarter of 2007 than in the previous year (EUR 993 thousand). In the period under review, the balance of changes in other assets and other liabilities – which mainly reflects the accounting of gaming operations (receivables from banks and credit card companies, receivables/payables from/to lottery organizers, payables to customers) – made a far more significant contribution to cash flow than in the same period last year. This change is within the usual statistical variation in the processing of gaming activities.

**Cash flow from investing activities** fell by EUR 2,519 thousand, compared with the previous year, to EUR 194 thousand. The decrease was mainly due to a financial investment made last year of EUR 2,500 thousand.

**Cash flow from financing activities** was burdened by the above mentioned share buyback program in the amount of EUR 3,371 thousand (prior year: EUR 0 thousand).

At EUR 2,871 thousand, **free cash flow** was well above the prior-year level.

**ASSET SITUATION**

The assets of Tipp24 mainly comprise current assets amounting to EUR 75,559 thousand (prior year: EUR 77,054 thousand as of the balance sheet date). In turn, these consist largely of cash, cash equivalents and securities (EUR 60,264 thousand), receivables from lottery organizers from winnings of brokered tickets (EUR 3,081 thousand), receivables from banks and credit card companies for customer payments (EUR 2,404 thousand) and security retainers (EUR 963 thousand). In the first quarter of 2007, we also held EUR 6,000 thousand in two short-term financial investments.

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

<b>Other assets and prepaid expenses</b> IN EUR THOUSAND	31 Mar. 2007	31 Dec. 2006
Receivables from gaming operations	6,448	7,407
Prepaid expenses	1,930	1,520
Other	295	637
	<b>8,674</b>	<b>9,564</b>

Moreover, Tipp24 has intangible assets – mainly software – amounting to EUR 392 thousand, property, plant and equipment – mainly hardware and office equipment – amounting to EUR 1,188 thousand, long-term financial assets totalling EUR 3,000 thousand and deferred tax assets amounting to EUR 620 thousand.

#### **ASSESSMENT OF THE ECONOMIC POSITION**

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

At the same time, the Executive Board sees the opportunity for sustained encouraging growth in the future. This was confirmed once again by our success in the first quarter of fiscal 2007. In comparison with other sectors, the online lottery market in Germany, as well as in Spain and Italy, is still underdeveloped. Providing there are no changes in the regulatory environment, annual growth of 27% or more is forecast for the coming years. Tipp24 is excellently positioned to benefit strongly from this development.

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

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

#### **SUBSEQUENT EVENTS**

There were no major events subsequent to the reporting period which had a significant effect on the business development of our Group.

#### **RISK REPORT**

In our annual report 2006, we described in detail all risks in connection with our business activities, as well as the management of these risks and systems to recognize such risks at an early stage. The risks can be divided mainly into market risks, legal risks resulting from the regulatory environment for the operations of Tipp24, business risks, risks from the processing of gaming operations, personnel risks and general business risks. In addition to this description of our risks, we would like to focus in particular on the following risks:

##### **LEGAL RISKS**

###### *Draft State Treaty on Gaming (GStV-E)*

In the follow-up to the verdict of the Federal Constitutional Court (Bundesverfassungsgericht – BVerfG) of 28 March 2006, there have been various judicial verdicts, official directives and political statements of intent at various levels (including the very highest) with regard to the regulation of the gaming sector, some of which are highly contradictory. The respective state authorities are mainly pursuing a policy of strictly defending the state's gaming monopoly while extending it to a marketing monopoly under the guise of effectively combating gambling addiction. In this connection, 15 state premiers (one voted

against) approved the current GlStV-E at the Minister President Conference of 13 December 2006 and resolved to immediately implement the necessary EU notification process and to sign and ratify the GlStV-E in early 2007. The GlStV-E contains a general prohibition of marketing for all gaming products, including lotteries, via the Internet. In addition, it includes a sweeping ban on advertising for all forms of gaming. The GlStV-E is to come into effect on 1 January 2008. It also contains a provision that ratification by just 13 of the 16 state parliaments is sufficient. A one-year grace period until the end of 2008 is planned for existing market players, like Tipp24, which nevertheless constitutes an actual barrier with regard to gaining new customers via the Internet.

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

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

In this connection, a notification process had to be initiated in December 2006 with the EU Commission for the draft of the GlStV-E. On 22 March 2007 the German government was informed in a »detailed opinion« that the notified GlStV-E represented an infringement of EU legislation in significant areas. The German government was called upon to review the criticized aspects of the notified GlStV-E by 23 April 2007 and to revise it correspondingly. Despite the infringements against current EU legislation as criticized by the EU Commission, Germany's state premiers signed the notified GlStV-E in its present form and have presented it for ratification by their respective state parliaments.

The possibility cannot be excluded that these verdicts, directives and political discussions may result in the issuing of laws, ordinances or other directives which together may have a significant adverse effect on the development of the lottery market and thus also on the future business development of Tipp24. In particular, should the GlStV-E in its current form and subsequent legislation based on the draft State Treaty come into force, this could result in the complete elimination of Tipp24's current business basis in Germany. However, the probability that in such a case Tipp24 would receive temporary legal protection for the continuation of its activities in Germany from the respective courts has grown considerably as a result of the »detailed opinion« issued by the EU Commission.

#### ***Lottery law in Saxony-Anhalt***

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

in Saxony-Anhalt for some time due to the aforementioned regulation. Contrary to our opinion, the state administration of Saxony-Anhalt believes that all gaming brokers require permission, irrespective of whether they charge additional fees.

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

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

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

### *Electronic betting in Italy*

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

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

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

**BUSINESS RISKS*****Termination of agreements between state lottery companies and Tipp24***

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

**FORECAST REPORT**

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

**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, especially of the Federal Constitutional Court and the Federal Cartel Authority, as well as supplementary regulations on a European level, may result in steps towards deregulation in the medium term with a direct or indirect impact on lotteries. As an internationally aligned company, Tipp24 may benefit more than average from such a development: our German customers, above all, would gain access to further highly attractive products and enable Tipp24 to enter new markets with its existing products. Deregulation would also probably result in a complete clarification of the legal situation in Italy and thus provide our Italian subsidiary Puntogioco24 with the opportunity to freely pursue its business interests.

Q.1 2007

## CONSOLIDATED INCOME STATEMENT ACC. TO IFRS

IN EUR	Q.1 2007	Q.1 2006
Billings	68,777,200.85	62,697,724.47
Remitted stakes less commissions	-59,868,950.04	-54,557,752.64
<b>Revenue</b>	<b>8,908,250.81</b>	<b>8,139,971.83</b>
Other operating income	296,769.58	94,691.89
<b>Total operating performance</b>	<b>9,205,020.39</b>	<b>8,234,663.72</b>
<b>Operating expenses</b>		
Personnel expenses	-2,416,827.07	-1,889,238.19
Amortization/depreciation on intangible assets and property, plant and equipment	-204,314.69	-182,378.57
Other operating expenses	-4,386,640.98	-4,523,323.50
<b>Result from operating activities</b>	<b>2,197,237.65</b>	<b>1,639,723.46</b>
Financial result	535,386.31	-30,731.96
<b>Result from ordinary activities</b>	<b>2,732,623.96</b>	<b>1,608,991.50</b>
Income taxes	-1,095,223.95	601,403.66
<b>Consolidated net profit</b>	<b>1,637,400.01</b>	<b>2,210,395.16</b>
Earnings per share (undiluted and diluted; in EUR/share)	0.19	0.25
Weighted average number of ordinary shares outstanding (undiluted and diluted)	8,808,252	8,872,319

Q.1 2007

## CONSOLIDATED BALANCE SHEET ACC. TO IFRS

<b>ASSETS</b> IN EUR	31 Mar. 2007	31 Dec. 2006
<b>Current assets</b>		
Cash, cash equivalents and securities	60,264,080.04	60,702,758.83
Pledged cash, cash equivalents and securities	0.00	61,387.20
Short-term financial assets	5,917,064.44	6,013,814.44
Trade receivables	3,890.64	18,170.27
Income tax refund claims	700,257.99	693,610.49
Other assets and prepaid expenses	8,673,697.28	9,564,270.87
<b>Total current assets</b>	<b>75,558,990.39</b>	<b>77,054,012.10</b>
<b>Non-current assets</b>		
Intangible assets	391,542.86	372,831.08
Other equipment, furniture and fixtures and leased assets	1,187,613.47	1,216,717.32
Financial assets	3,000,000.00	3,000,000.00
Deferred tax assets	620,313.77	1,150,826.72
<b>Total non-current assets</b>	<b>5,199,470.10</b>	<b>5,740,375.12</b>
	<b>80,758,460.49</b>	<b>82,794,387.22</b>

<b>EQUITY AND LIABILITIES</b> IN EUR	31 Mar. 2007	31 Dec. 2006
<b>Current liabilities</b>		
Trade payables	1,766,074.09	2,122,606.59
Other liabilities	18,828,043.20	18,810,222.09
Deferred income	253,602.92	379,478.02
Income tax liabilities	607,956.84	445,105.32
Provisions	427,044.02	371,045.17
<b>Total current liabilities</b>	<b>21,882,721.07</b>	<b>22,128,457.19</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	2,319.60	14,249.00
<b>Total non-current liabilities</b>	<b>2,319.60</b>	<b>14,249.00</b>
<b>Equity</b>		
Subscribed capital	8,872,319.00	8,872,319.00
Capital reserves	41,143,321.36	41,143,321.36
Other Reserves	-48,569.28	21,690.02
Retained earnings	12,277,320.66	10,614,350.65
Own shares	-3,370,971.92	0.00
<b>Total equity</b>	<b>58,873,419.82</b>	<b>60,651,681.03</b>
	<b>80,758,460.49</b>	<b>82,794,387.22</b>

Q.1 2007

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 1 MARCH

IN EUR	Q.1 2007	Q.1 2006
<b>Cash flow from operating activities</b>		
Result from operating activities	2,197,237.65	1,639,723.46
<i>Adjustments for:</i>		
Amortization/depreciation on non-current assets	204,314.69	182,516.91
Loss on the disposal of non-current assets	1.00	11,027.37
<i>Changes in:</i>		
Trade receivables	-19,199.16	143,486.71
Other assets	980,652.52	3,832,836.81
Trade payables	-362,365.11	301,936.06
Other liabilities	44,343.41	-4,837,228.77
Others	0.00	74,067.43
Provisions	55,998.85	-1,777.03
Deferred income	-125,875.10	0.00
Interest received and similar income	540,686.00	292,738.50
Fee for share loan	0.00	-323,085.93
Interest paid and similar expenses	-5,299.69	-384.53
Taxes paid	-375,406.21	-322,945.76
<b>Cash flow from operating activities</b>	<b>3,135,088.85</b>	<b>992,911.23</b>
<b>Cash flow from investing activities</b>		
Disbursements for financial investments	0.00	-2,500,000.00
Investments in intangible assets	-90,289.22	-63,579.62
Investments in property, plant and equipment	-103,634.40	-149,366.18
<b>Cash flow from investing activities</b>	<b>-193,923.62</b>	<b>-2,712,945.80</b>
<b>Cash flow from financing activities</b>		
Own shares	-3,370,971.92	0.00
<b>Cash flow from financing activities</b>	<b>-3,370,971.92</b>	<b>0.00</b>
<b>Change in cash, cash equivalents and securities</b>		
Change in cash, cash equivalents and securities	-429,806.69	-1,720,034.57
Cash, cash equivalents and securities at the beginning of the period	60,702,758.83	57,173,611.83
Non-cash income from securities	-70,259.30	0.00
Change in pledged cash and cash equivalents	61,387.20	-61,387.20
<b>Cash, cash equivalents and securities at the end of the period</b>	<b>60,264,080.04</b>	<b>55,392,190.06</b>
<b>Composition of cash, cash equivalents and securities at the end of the period</b>		
Cash on hand, bank balances and checks	9,570,084.82	48,132,317.16
Current investments	50,693,995.22	7,259,872.90
	<b>60,264,080.04</b>	<b>55,392,190.06</b>

Q.1 2007

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

IN EUR	SHARE CAPITAL	CAPITAL RESERVES	OTHER RESERVES	RETAINED EARNINGS	OWN SHARES	TOTAL EQUITY
<b>As at</b>						
<b>1 January 2006</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>0.00</b>	<b>3,169,516.45</b>	<b>0.00</b>	<b>53,185,156.81</b>
Unrealized income	0.00	0.00	21,690.02	0.00	0.00	21,690.02
Net profit for the period	0.00	0.00	0.00	7,444,834.20	0.00	7,444,834.20
<b>As at</b>						
<b>31 December 2006</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>21,690.02</b>	<b>10,614,350.65</b>	<b>0.00</b>	<b>60,651,681.03</b>
Own shares					-3,370,971.92	-3,370,971.92
Earned surplus				25,570.00	0.00	25,570.00
Unrealized income			-70,259.30		0.00	-70,259.30
Net profit for the period				1,637,400.01	0.00	1,637,400.01
<b>As at</b>						
<b>31 March 2007</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>-48,569.28</b>	<b>12,277,320.66</b>	<b>-3,370,971.92</b>	<b>58,873,419.82</b>

Q.1 2007

## SEGMENT REPORTING

### Q.1

IN EUR THOUSAND	GERMANY		ABROAD		CONSOLIDATION		CONSOLIDATED	
	01 JAN.– 31 MAR. 2007	01 JAN.– 31 MAR. 2006	01 JAN.– 31 MAR. 2007	01 JAN.– 31 MAR. 2006	01 JAN.– 31 MAR. 2007	01 JAN.– 31 MAR. 2006	01 JAN.– 31 MAR. 2007	01 JAN.– 31 MAR. 2006
Billings	63,737	58,670	5,040	4,028	0	0	68,777	62,698
Revenue	7,703	7,083	1,205	1,057	0	0	8,908	8,140
Depreciation/amortization	182	167	22	15	0	0	204	182
<b>EBIT</b>	<b>2,125</b>	<b>1,622</b>	<b>72</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>2,197</b>	<b>1,640</b>
Financial result							535	-31
Income taxes							-1,095	601
<b>Consolidated net profit</b>							<b>1,637</b>	<b>2,210</b>
Assets	80,174	70,346	3,617	3,273	-3,032	-3,542	80,758	70,077
Debts	18,730	12,244	3,401	2,653	-246	-216	21,885	14,681
Investments	175	2,652	19	61	0	0	194	2,713

The Group distinguishes between the segments »Germany« and »Abroad«. The »Abroad« segment comprises the Group's activities in Spain and Italy. In the context of segment reporting for the geographical segments, segment revenue relates to the geographical

location of the operating units (group subsidiaries) which generate that revenue. This more or less equates to the geographical location of the respective customers.

## ADDITIONAL NOTES

The interim financial statements of Tipp24 AG as at 31 March 2007 were prepared in accordance with the IFRS and IFRIC of the International Accounting Standards Board (IASB) as valid at the balance sheet date.

The period under review is from 1 January to 31 March 2007.

The same accounting policies and calculation methods were used for this interim report as for the consolidated financial statements as at 31 December 2006.

The basis of consolidation has not changed. It consists of the subsidiaries listed below, in which the Company holds/held the following interests:

	31 MAR. 2007 %	31 DEC. 2006 %	YEAR OF INITIAL CONSOLIDATION
Ventura24 S.L., Madrid/Spain	100	100	2001
GSG Lottery Systems GmbH, Hamburg	100	100	2001
Puntogioco24 s.r.l., Monza/Italy	100	100	2004

In accordance with IAS 27 and SIC 12.10, Schumann OHG, Hamburg, was included in the consolidated financial statements, even though Tipp24 AG does not hold an equity interest or voting rights in it.

### SHARE-BASED REMUNERATION

The stock option plan of Tipp24 AG is a share-based remuneration system with compensation via equity instruments, so that the fair value is calculated at the time of granting. As of fiscal year 2007, the Company values the stock option plan 2005 of Tipp24 AG

using financial valuation methods according to the Black-Scholes-Merton formula. A total amount of EUR 26 thousand for share-based remuneration was recognized in personnel expenses in the first quarter of 2007.

### FINANCIAL INSTRUMENTS

The following table shows the significance of key financial instruments for our assets and earnings positions.

Q.1 2007

IN EUR THOUSAND	BOOK VALUE		FAIR VALUE	
	MAR. 2007	DEC. 2006	31 MAR. 2007	31 DEC. 2006
<b>Financial assets</b>				
<b>Credit balances with credit institutes and cash</b>				
	<b>9,570</b>	<b>5,099</b>	<b>9,570</b>	<b>5,099</b>
<b>Other primary financial assets</b>				
Available-for-sale financial assets	54,606	59,593	54,606	59,593
Held-to-maturity financial assets	5,006	5,024	5,031	5,006
– short-term	2,006	2,024	2,031	2,006
– long-term	3,000	3,000	3,000	3,000
Other financial assets (short-term)	7,581	8,205	7,581	8,205
	<b>67,192</b>	<b>72,822</b>	<b>67,218</b>	<b>72,804</b>
<b>Financial liabilities</b>				
<b>Trade payables</b>	<b>1,766</b>	<b>2,123</b>	<b>1,766</b>	<b>2,123</b>
<b>Other liabilities</b>	<b>17,649</b>	<b>17,756</b>	<b>17,649</b>	<b>17,756</b>

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. The latter applies merely to a part of the potential yield, but not to the invested amounts.

#### **RELATED PARTIES**

The members of Tipp24 AG's Executive Board and Supervisory Board, as well as their immediate relatives, are regarded as related parties in accordance with IAS 27. The transactions and legal relationships of the companies included in the consolidated finan-

cial statements with these persons are detailed in the Annual Report 2006. In the period under review, there were no further business or legal relations with related parties.

**OTHER DISCLOSURES**

Dr. Hans Cornehl, Marc Peters und Jens Schumann were members of the Executive Board in the period under review.

The members of the Supervisory Board in the period under review were Klaus F. Jaenecke (Chairman), Dr. Hans Wilhelm Jenckel (Deputy Chairman) and Annet Aris.

The members of the Executive Board and Supervisory Board did not acquire or sell shares in Tipp24 AG in the first quarter of 2007 (Directors' Dealings). As of 31 March 2007 the members of the Executive Board held the following amounts of shares in Tipp24 AG:

DIRECTORS' DEALINGS	AS OF 31 DEC. 2006	CHANGE	AS OF 31 MAR. 2007
<i>Executive Board</i>			
Dr. Hans Cornehl	134,695	0	134,695
Marc Peters	903,520	0	903,520
Jens Schumann	903,518	0	903,518

*Hamburg, May 2007*

**The Executive Board**

Dr. Hans Cornehl    Marc Peters    Jens Schumann

## **FINANCIAL CALENDAR 2007**

**24 MAY**

**ANNUAL GENERAL MEETING**

**6 AUGUST**

**INTERIM REPORT 2<sup>ND</sup> QUARTER**

**5 NOVEMBER**

**INTERIM REPORT 3<sup>RD</sup> QUARTER**

**NOVEMBER**

**ANALYST CONFERENCE (FRANKFURT)**

### **EDITOR**

#### **Tipp24 AG**

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