

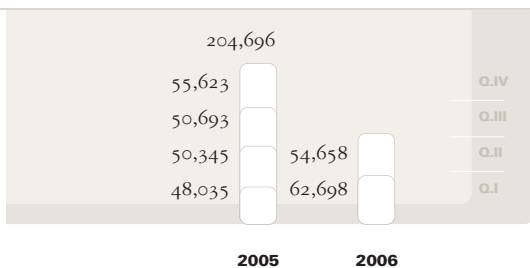
# ***GROWTH TREND UNBROKEN***

Half-year Report | 01.01.–30.06.2006

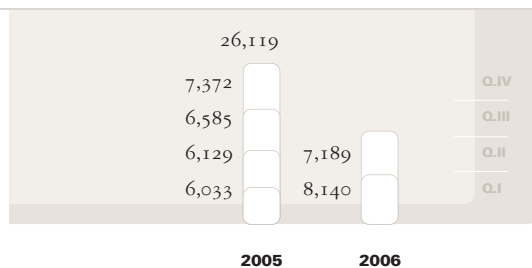
<b><i>BILLINGS Q.I-II</i></b>	<b><i>+ 19.3%</i></b>
<b><i>REVENUES Q.I-II</i></b>	<b><i>+ 26.0%</i></b>
<b><i>EBIT Q.I-II</i></b>	<b><i>+ 8.7%</i></b>
<b><i>REGISTERED CUSTOMERS Q.I-II</i></b>	<b><i>+ 164 thousand</i></b>

**Q1**

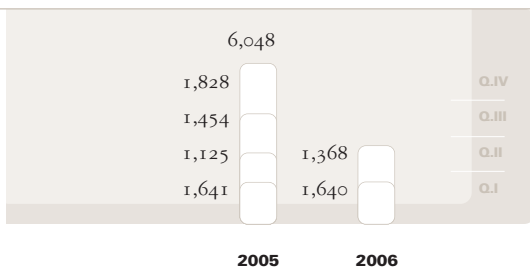
**BILLINGS** IN EUR THOUSAND



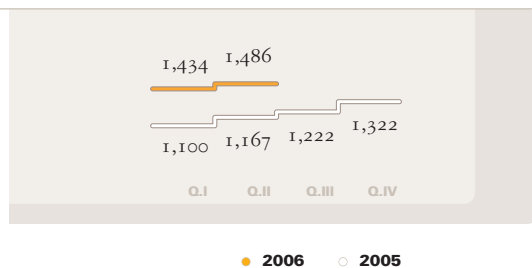
**REVENUES** IN EUR THOUSAND



**EBIT** IN EUR THOUSAND



**REGISTERED CUSTOMERS** IN THOUSAND



**CONTENTS**

## **FOREWORD**

**Ladies and gentlemen,** We are pleased to report that Tipp24 AG's positive development has remained unbroken: the Group's economic position remains encouragingly stable – billings (+ 19.3%) and revenues (+ 26.0%) once again reached double-digit growth and EBIT grew by 8.7% in the first half of 2006. The main reason for the slightly slower growth compared with the first quarter were the lack of major jackpots in the second quarter and the overall weakness of the German market in view of uncertain conditions.

In the first half of the year, our sector was dominated by intensive political and legal discussions about the German gaming market – especially with regard to the legality of sports betting. We assume that – apart from the short-term risks – the various recent verdicts in Germany and respective EU regulations may result in deregulation measures with attractive prospects in the medium term. As an internationally operating company, Tipp24 may benefit more than average from this development.

Our activities in Spain are making particularly strong progress and are largely responsible for an increase in the proportion of foreign revenues to 13.2% (6.8%). Ventura24 has therefore set a positive counter-signal to the recent blocking of our Italian website by the local authorities.

The implementation of our strategic growth targets is running according to plan: we are currently testing entry into the market for peer-to-peer skill games. In particular, we are examining the possibility of a corporate acquisition as compared to establishing our own business segment. At the same time, we are preparing market entry in at least one further European nation.

In view of the ongoing dynamic growth of the online lottery market – in addition to our own strong performance – we regard future business prospects as favorable and confirm our forecast for 2006: we expect revenue growth of 30–40% and an increase in EBIT of 50%. A prerequisite to achieving these targets is the draw of two further relevant jackpots and the Christmas lottery »ExtraLotto« in Germany. Against the backdrop of change in Germany's legal and political framework, the forecast bears greater uncertainties than in the previous quarter.

With best regards,

**The Executive Board**

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

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

		Q.I-II 2006	Q.I-II 2005	CHANGE %
Billings	EUR THOUSAND	117,355	98,380	+ 19.3
Revenues	EUR THOUSAND	15,329	12,162	+ 26.0
Gross margin	%	13.1	12.4	+ 0.7% POINTS
EBIT	EUR THOUSAND	3,007	2,766	+ 8.7
EBIT margin	%	19.6	22.7	- 3.1% POINTS
Net profit	EUR THOUSAND	4,208	1,476	+ 185.1
Acquisition costs per new customer	EUR	22.18	19.42	- 14.2
Cash flow from operating activities	EUR THOUSAND	2,260	4,174	- 45.9
Equity	EUR THOUSAND	57,393	9,296	+ 517.4
Registered customers (as of 30 June)	THOUSAND	1,486	1,167	+ 27.3
Employees (as of 30 June)		143	109	+ 31.2

## TIPP24 SHARE

## TIPP24 – ATTRACTIVE INVESTMENT

### PERFORMANCE OF THE TIPP24 SHARE



**KEY FIGURES PER SHARE (XETRA)**

Highest price (2 May 2006)	<b>EUR 27.84</b>
Lowest price (18 January 2006)	<b>EUR 18.41</b>
Share price (1 January 2006)	<b>EUR 20.30</b>
Share price (30 June 2006)	<b>EUR 20.14</b>
Earnings per share (undiluted)	<b>EUR 0.47</b>
Market capitalization (1 January 2006)	<b>EUR 180.11 million</b>
Market capitalization (30 June 2006)	<b>EUR 178.69 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 AG, Morgan Stanley Bank AG</b>
Coverage	<b>Deutsche Bank AG, Morgan Stanley Bank AG, Warburg/SES, Berenberg Bank, Sal Oppenheim, Citigroup</b>
Reuters	<b>TIMGn.DE</b>
Bloomberg	<b>TIM GR</b>

Following initial gains at the beginning of the second quarter of 2006, the share markets entered into a clear consolidation phase in early June: the SDax index fell from 5,471 to 4,461 points within a month. The Tipp24 share was unable to escape this trend and suffered significant losses. In addition to the generally negative market trend in the second quarter, recent court verdicts with regard to gambling have significantly dampened the sector.

In the second quarter we continued our intensive IR activities: in addition to numerous roadshows in Germany and abroad, we presented the Tipp24 Group and its growth opportunities at various conferences.

Although the Tipp24 share nearly reached the necessary market capitalization and liquidity criteria, the Working Committee for Equity Indices of the German Stock Exchange did not propose Tipp24 AG for inclusion in the SDax at its June meeting. We will continue to work toward achieving nomination to this interesting index in the near future.



## INTERIM GROUP MANAGEMENT REPORT

# UNBROKEN GROWTH TREND

### **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. Tipp24 AG also offers 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.

### **ECONOMY REMAINS STRONG FOR TIME BEING**

The first half of 2006 saw a continuation of the strong growth in the global economy. However, economic conditions have deteriorated noticeably over the past few months: firstly, the oil price has reached new record heights, and secondly, the monetary tailwind is becoming visibly weaker as central banks tighten their money supply. In the United States, manufacturing output has already slowed considerably, whereas all indicators in the Euro zone and Japan continue to signal further growth.

### **MARKET AND SECTOR: CONSIDERABLE POLITICAL AND LEGAL MOVEMENT**

The first half of 2006 was dominated by intensive political and legal discussions about the German gaming market and its respective legal conditions. These were based on various verdicts and political statements of intent at the highest level. The main stations will be described below. There are no direct effects on Tipp24's business activities at present. However, we do see new opportunities and new risks for our further business development, which will be discussed in detail in the corresponding sections of this report.

On 28 March 2006 the Federal Constitutional Court (Bundesverfassungsgericht – BVerfG) announced its long-awaited verdict on the legality of private sports betting in Germany. The essence was that the current sports betting monopoly was unconstitutional, but that it could continue to exist providing it ensured effective measures to combat addictive gambling in future. The state was instructed to either redesign its product ODDSET by late 2007 in such a way that it met requirements for combating gambling addiction (e.g. restricted access, information instead of advertising), or to open the market for private companies. It was also stated that the current legislation would remain valid until the end of 2007 and that therefore all private suppliers were operating illegally.

As a consequence, nearly all the federal states and their respective lottery companies decided to first take effective measures to combat addictive gambling and in particular to restrict advertising for sports betting. On 26 May 2006, ODDSET – Lotto's sports betting operation – announced that it would not be using perimeter advertising at the FIFA World Cup 2006, in order to meet the requirements of the BVerfG verdict of 28 March 2006. In addition, ODDSET's betting activities for the FIFA World Cup 2006 were greatly reduced.

On 30 May 2006, the Federal Cartel Authority (Bundeskartellamt) issued a warning to the regional lottery companies and the Deutsche Lotto- und Totoblock (DLTB) concerning various infringements of German and European antitrust law. The authority focused on three areas: (i) the demand of Deutsche Lotto- und Totoblock to the lottery companies not to accept bets from stationary commercial game brokers; (ii) agreements whereby lotteries were only allowed to operate in the federal state for which they held a license («Regional Principle») and (iii) the transmission of information by the lottery companies to the federal states concerning bets, fees received and the proportion due to the commercial game brokers. The Federal Cartel Authority also referred to European legislation, especially to the fact that the marketing of gaming products licensed in one European member state must also be allowed in all other member states – and thus in all German federal states.

On 21 June 2006 the Federal Administrative Court (Bundesverwaltungsgericht) in Leipzig confirmed a ban issued in 2002 which forbids a betting office from brokering sport bets with betting companies not allowed in Bavaria. A commercial license issued by a public authority of the former GDR before 3 October 1990 (GDR license) permitting sports betting does not justify the holder to operate or broker such bets in Bavaria. The verdict stressed that this was an

isolated case which was not universally valid. A statement as to whether the limitation of the GDR license is to be applied to all federal states is expected in the forthcoming written reasons of the Federal Administrative Court.

On 22 June 2006 the Federal Constitutional Court's verdict of 28 March 2006 and its decision on the sports betting monopoly was welcomed at the Minister President Conference in Berlin. The participants agreed that the state lottery monopoly should be maintained and further developed on the basis of the verdict. A working party was commissioned to develop a new State Treaty on Lotteries which would regulate sports betting within the framework of the state monopoly and in line with the Federal Constitutional Court's requirements. This draft treaty is to be presented at the Minister President Conference on 13 December 2006. The new State Treaty on Lotteries is to be limited to four years.

With a decision on 28 June 2006, the Higher Administrative Court of Münster decided in one of around 200 proceedings of provisional judicial relief that the brokerage and advertising of sports betting in North-Rhine Westphalia to private gaming operators may be prohibited with immediate effect.

On 3 July 2006 the German public broadcasters ARD and ZDF, the state media authorities and the private broadcasters (VPRT) met to discuss their handling of TV advertising for private sports betting. ARD and ZDF on the one hand and the state media authorities and VPRT on the other came to a differing evaluation of the legal situation and of the resulting risks. Whereas ARD and ZDF have since stopped broadcasting TV advertising for private sports betting, the state media authorities pointed out that any action taken against the private broadcasters would constitute a supervisory measure tantamount to an infringement of the respective operator's right to broadcast. This requires an unequivocal legal position – something which is lacking at present.

#### **RESEARCH & DEVELOPMENT**

In the first half of 2006, our development activities focused on the following new products and product modifications:

- New development of the »ARD-Fernschlotterie« product (TV lottery show) for the German market,
- New development of the Spanish standard lottery products »BonoLoto«, »La Quiniela« and »El Gordo«,
- Improved functionality of the Italian product »SuperEnalotto«,



- Modification of the »ODDSET« tickets for best-possible user-friendliness,
- Preparations for business expansion with WEB.DE,
- Electronic link with the state lottery companies of Bremen and Baden-Württemberg.

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

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

All the above-mentioned projects were completed by our in-house development departments. We did not acquire any external R&D know-how.

At the end of the first half-year, 54 employees were involved with R&D activities on a full-time or part-time basis. R&D expenses amounted to EUR 1.2 million and resulted mainly from personnel costs.

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

### **EARNINGS: CONTINUED GROWTH**

Tipp24 successfully continued its growth in the second quarter of 2006. In comparison with the previous year, there were two **special effects** to consider:

- The investment of liquid funds in tax-efficient, reverse convertible transactions resulted in a tax income according to IFRS. This is a one-off effect which, nevertheless, will have a considerable beneficial impact on the Group's average tax ratio for the year as a whole. This special tax effect is not contained in the Forecast Report of our annual financial statements for fiscal year 2005 nor in this quarterly report. It only refers to the expected development of our core operating business.
- The chance omission of high jackpots in the second quarter dampened the development of new customer figures and the activity rate of existing customers.

Apart from the above mentioned special effects, we did not observe any specific seasonal or economic influences in the second quarter.

Q.II 2006

	Q.I-II 2006		Q.I-II 2005		CHANGE	
	EUR THOUSAND	%	EUR THOUSAND	%	EUR THOUSAND	%
Billings	117,355		98,380		18,976	19.3
Remitted stakes less commissions	102,026		86,218		15,808	18.3
<b>Revenues</b>	<b>15,329</b>	<b>100.0</b>	<b>12,162</b>	<b>100.0</b>	<b>3,168</b>	<b>26.0</b>
Personnel expenses	- 3,875	25.3	- 3,210	26.4	- 665	20.7
Other operating expenses	- 8,301	54.2	- 5,964	49.0	- 2,337	39.2
Less other operating income	217	1.4	75	0.6	142	190.6
<b>Operating expenses</b>	<b>- 11,960</b>	<b>78.0</b>	<b>- 9,100</b>	<b>74.8</b>	<b>- 2,860</b>	<b>31.4</b>
<b>EBITDA</b>	<b>3,370</b>	<b>22.0</b>	<b>3,062</b>	<b>25.2</b>	<b>308</b>	<b>10.0</b>
Amortization/depreciation	- 362	2.4	- 296	2.4	- 66	22.2
<b>EBIT</b>	<b>3,007</b>	<b>19.6</b>	<b>2,766</b>	<b>22.7</b>	<b>242</b>	<b>8.7</b>
Financial result	211	1.4	111	0.9	100	89.7
<b>Net profit before taxes</b>	<b>3,218</b>	<b>21.0</b>	<b>2,877</b>	<b>23.7</b>	<b>341</b>	<b>11.9</b>
Income taxes	990	6.5	- 1,401	11.5	2,391	- 170.7
<b>Net profit</b>	<b>4,208</b>	<b>27.5</b>	<b>1,476</b>	<b>12.1</b>	<b>2,732</b>	<b>185.1</b>
<b>Breakdown of other operating expenses</b>						
Marketing expenses	5,056	33.0	3,327	27.3	1,729	52.0
Direct operating costs	1,376	9.0	1,383	11.4	- 7	- 0.5
Other costs of operations	1,869	12.2	1,254	10.3	615	49.1
<b>Other operating expenses</b>	<b>8,301</b>	<b>54.2</b>	<b>5,964</b>	<b>49.0</b>	<b>2,337</b>	<b>39.2</b>

### Development of earnings

In the first half of 2006 we succeeded in raising **EBIT** by 8.7%, compared with the same period last year, to EUR 3,007 thousand. The EBIT margin fell by 3.1% points to 19.6%. Although revenues grew by 26.0% to EUR 15,329 thousand, there was a year-on-year increase in operating expenses of 39.2% to EUR 8,301 thousand. This strong rise in costs was due mainly to marketing expenses, which accounted for 33% of revenues (prior year: 27.3%), as well as other operating expenses, which accounted for 12.2% of revenues (prior year: 10.3%). Further details are provided in the section »Development of key income statement positions«. The development of these items was influenced mainly by the company's »Germany« segment, which contributed EUR 3,092 thousand to EBIT in the first half-year. The domestic EBIT

margin fell by 4.5% points to 23.2%. The »Abroad« segment almost reached break-even in the first half of 2006 with an EBIT of EUR - 85 thousand, compared with EUR - 371 thousand in the previous year.

**Earnings after tax** grew by 185.1% over the same period last year to reach EUR 4,208 thousand. There was a corresponding increase in net operating margin after tax of 15.4% points to 27.5%. This strong increase, compared with EBIT, is due to tax income of EUR 1,614 thousand resulting from the investment of liquid funds in reverse convertible transactions in the first half-year. This is a one-off effect from the first quarter of 2006 which, as described above, will have a beneficial impact on the Group's tax ratio for the year as a whole.

**Earnings per share** (undiluted) grew in the first quarter from EUR 0.22 to EUR 0.47, compared with the same period last year. In order to guarantee comparability, the share figures for the periods before the capital increase from company funds of 24 August 2005 – during which two further shares were issued per share – have been adjusted by a factor of three pursuant to IAS 33. Due to the effect of the capital increase of 2,176,000 shares during the initial public offering, the increase in earnings per share (+ 113.6%) is less than the total increase in net profit (+ 185.1%).

#### *Development of revenues*

In the first half of the current fiscal year, there was a year-on-year increase in **registered customers** of 319 thousand to 1,486 thousand. Compared with the balance sheet date, we gained a total of 164 thousand registered customers in the first half of 2006. Due to the unfavorable jackpot situation in the second quarter, compared with the first, we only gained 52 thousand new customers in this period. As a consequence, our growth dynamics slowed somewhat when comparing the first half-years. Billings reached EUR 117,355 thousand – representing a year-on-year increase of 19.3%.

The ratio of billings to revenues – **gross margin** – increased by 0.7% points to 13.1%. This was due mainly to the larger proportion of billings in our »Abroad« segment, where the gross margin reached 26.5% and was thus considerably higher than the 12.1% gross margin of our »Germany« segment (prior year: Abroad 28.0%; Germany 11.9%).

We were thus able to achieve a more than proportional increase in **revenues** – consisting mainly of commissions and additional fees – of 26.0% to EUR 15,329 thousand.

Revenues were once again dominated by the contribution of our German operations, which accounted for 86.8% of total revenues in the first half of 2006. They were up 17.4% on the prior-year period to EUR 13,302 thousand. Billings in Germany grew by 15.0% to EUR 109,704 thousand, while gross margin was slightly up on the prior-year level at 12.1%. The contribution of our foreign operations grew from 6.8% in the first half of 2005 to 13.2% in the period under review.

#### *Development of orders*

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

*Development of key income statement positions*

There was a year-on-year increase in **personnel expenses** of 20.7% to EUR 3,875 thousand in the first half of 2006, due mainly to the recruitment of further staff. The increase in personnel expenses was proportionately less than the rise in revenues and consequently the personnel expense ratio fell further to 25.3% (26.4%). At the end of the first half-year, the number of employees amounted to 143 (109). There were an average of 139 employees (106) in the first half of 2006.

**Other operating expenses** saw year-on-year growth of 39.2% to EUR 8,301 thousand in the first six months. The development in detail was as follows:

- **Marketing expenses** rose by 52.0% to EUR 5,056 thousand (33.0% of revenues). They are divided into marketing expenses for our own customers and commissions paid to Business Service partners. Marketing expenses for our own customers grew by 37.9% to EUR 3,636 thousand, compared to last year. We used the favorable jackpot situation in the first quarter of 2006 to strengthen our customer canvassing activities. In the second quarter we strongly reduced marketing expenses for our own customers, due to the unfavorable jackpot situation. Commissions to Business Service partners were up 105.5% to EUR 1,420 thousand, compared with the same period last year. This increase resulted from the expansion of activities with WEB.DE (since May 2006) and the acquisition of the new Business Service partners T-Online (since September 2005) and RTLtipp.de (since May 2005).

- **Direct operating expenses** grew by 0.5% – and thus much more slowly than billings – to EUR 1,376 thousand and accounted for 1.2% of total billings (prior year: 1.4%). Due to improved conditions for payment transactions and more efficient protection against payment defaults, we continued to achieve economies of scale.
- The year-on-year increase in **other costs of operations** of 49.1% to EUR 1,869 thousand (EUR 1,254 thousand) in the first half-year resulted from an increase in the proportion of fixed costs due to IPO-related expenses. Moreover, the increase in headcount led to an increase in office costs and further costs were incurred by test and analysis projects in connection with the expansion of our business activities.

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

In comparison with the previous year, **amortization/depreciation** on intangible assets and property, plant and equipment grew in the first half of 2006 by EUR 66 thousand (22.2%) to EUR 362 thousand.

**FINANCIAL POSITION**

Due to the positive result earned so far in the present fiscal year, equity rose by EUR 4.2 million to EUR 57.4 million. Compared with the balance sheet of 31 December, 2005, there was a corresponding increase in the equity ratio of 5.4% points, from 73.7% to 79.2%.

Other liabilities fell by 25.2% to EUR 12,857 thousand, due mainly to a decrease in liabilities for gaming operations. Due to the public holidays around New Year and the year-end lotteries in Germany and Spain, liabilities to customers for winnings not yet remitted and to lottery companies for tickets not yet paid are always relatively higher as of 31 December. These amounts are settled in the first few days of the new year.

<b>Other liabilities</b> IN EUR	<b>30 June 2006</b>	<b>31 Dec. 2005</b>
Liabilities for gaming operations	12,105,283.22	15,342,259.91
Liabilities for taxes	317,435.31	391,633.62
Liabilities relating to social security	50,407.68	164,119.17
Others	383,385.73	1,296,550.46
	<b>12,856,511.94</b>	<b>17,194,563.16</b>

**Investment analysis**

In the half-year under review, we made total investments of EUR 2,924 thousand. The major share of this total was a short-term financial investment with capital guarantee and fixed and variable interest components, in which we invested EUR 2,500 thousand in the first quarter of 2006. The remaining amount was devoted mainly to developing our German operations (software EUR 93 thousand, hardware EUR 109 thousand and EUR 55 thousand for furniture, fixtures and office equipment). Outside Germany, investments focused on technical and office fittings for our subsidiaries (EUR 167 thousand).

The main investment projects in the first six months were the expansion of our live systems, the further growth-related increase in office space and the launch or further development of mobile sales channels.

We will continue to expand our live systems in 2006 in line with growing capacity needs and the continuing development of security standards. We also plan to regularly update our office systems.

*Liquidity analysis*

<b>Key cash flow positions</b> IN EUR THOUSAND	Q.I-II 2006	Q.I-II 2005
Cash flow from operating activities	2,260	4,174
Cash flow from investing activities	- 2,924	- 500
Cash flow from financing activities	0	0
<b>= Net increase/decrease in cash and cash equivalents</b>	<b>- 664</b>	<b>3,674</b>
+ Cash and cash equivalents at beginning of the period	57,174	12,892
- Change in pledged cash and cash equivalents	- 61	157
<b>= Cash and cash equivalents at end of the period</b>	<b>56,449</b>	<b>16,723</b>

At EUR 2,260 thousand, **cash flow from operating activities** was EUR 1,913 thousand lower than in the previous year.

In the first half of 2006 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) – did not make a significant contribution to cash flow.

In the first half of 2005, however, the balance of these positions contributed around EUR + 2 million to cash flow. The difference resulted mainly from a major winning which was settled by the lottery organizer in late 2005, but not remitted to the customer until early 2006.

**Cash flow from investing activities** grew by EUR 2,424 thousand, compared with the previous year, to EUR 2,924 thousand. The increase was due to the financial investment, described above, of EUR 2,500 thousand in the first quarter of 2006.

The cash flow from our IPO in October 2005 was the main reason for the strong year-on-year increase in cash and cash equivalents. The company's cash and cash equivalents consist mainly of bank balances (EUR 28,987 thousand) and money market fund units bearing a capital guarantee and a six-monthly interest guarantee (EUR 27,462 thousand). There are no other currency, interest or exchange rate risks.



**ASSET SITUATION**

The assets of Tipp24 mainly comprise current assets amounting to EUR 63,809 thousand (EUR 64,840 thousand as of 31 December 2005). In turn, these consist largely of cash, cash equivalents and securities (EUR 56,449 thousand), short-term financial assets (EUR 2,500 thousand) and other assets (EUR 3,672 thousand). The change in other assets compared with 31 December 2005 results mainly from changes in receivables from gaming operations, similar to changes in liabilities for gaming operations, and is in line with usual operating fluctuations for this item.

Tipp24 also has intangible assets – mainly software – amounting to EUR 434 thousand, property, plant and equipment – mainly hardware and office equipment – amounting to EUR 1,211 thousand and held-to-maturity financial assets totaling EUR 5,000 thousand. The remaining deferred tax assets amounted to EUR 2,053 thousand at the end of the quarter.

**Other assets and prepaid expenses** IN EUR

	30 June 2006	31 Dec. 2005
Receivables from gaming operations	2,926,158.00	6,763,245.63
Prepaid expenses	345,045.80	113,700.38
Other	400,622.22	326,114.34
	<b>3,671,826.02</b>	<b>7,203,060.35</b>

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

We continue to regard the economic position of the Tipp24 Group as very stable with excellent development prospects. This was confirmed once again by our success in the first half of 2006. Tipp24 is excellently positioned to benefit strongly from the ongoing growth of those online lottery markets in which we operate. The changing political and legal conditions in Germany may lead to significant additional prospects for our business. Due to the low volume of our relatively young business in Italy, the current significant limitation of activities has only had a minor negative influence on the Group's expected revenue development so far.

The IPO of Tipp24 AG has greatly enhanced our scope to grasp growth opportunities – for example through acquisitions. We plan to implement the first steps in this direction in the near future.

### **SUBSEQUENT EVENTS**

As of 4 July 2006, the website of our Italian subsidiary ([www.puntogioco24.it](http://www.puntogioco24.it)) can no longer be accessed via Italian internet providers 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 for the time being. We are currently examining the possibilities open to us and have initially applied for an injunction to lift the blocking of the website.

As expected, on 14 July 2006 criminal proceedings were instituted 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. An initial judicial hearing is expected to take place in Rome in November 2006.

## **RISK REPORT**

In our Annual Report 2005, 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 operating risks, market risks and risks resulting from the regulatory environment for the operations of Tipp24. In addition to this description of our risks, we would like to focus in particular on the following risks from the regulatory environment:

### **VERDICTS AND POLITICAL DISCUSSIONS CONCERNING THE GAMING MARKET**

In the follow-up to the verdict of the Federal Constitutional Court (Bundesverfassungsgericht – BVerfG) of 28 March 2006, the respective state authorities are currently mainly pursuing the possibilities of effectively combating gambling addiction. Any further permanent restriction of advertising for the state-run sports betting product ODDSET – especially while at the same time tolerating the advertising activities of private sports betting suppliers – might negatively impact the ODDSET billings of Tipp24. Should – in addition to the BVerfG's demands – not only advertising for sports betting but also for other lottery products be restricted or even abandoned, this might have a significant adverse effect on the development of the lottery market and thus also on the future business development of Tipp24.

### **POLITICAL AND LEGAL UNCERTAINTIES IN THE FOLLOW-UP TO THE BUNDESVERFASSUNGSGERICHT VERDICT**

In the follow-up to the Bundesverfassungsgericht verdict there have been various judicial verdicts, official directives and political statements of intent – as already described in the section »Market and Sector« – at various levels (including the very highest) with regard to sports betting, some of which are highly contradictory. In this connection, the handling of the lotteries was also variously discussed. In particular, it is expected that a new State Treaty on Lotteries will be concluded by the end of the year. 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.

Furthermore, the warning of the Federal Cartel Authority (Bundeskartellamt) to the regional lottery companies and the Deutsche Lotto- und Totoblock (DLTB) with regard to a lifting of the »Regional Principle« and a possible expansion of online activity of individual lottery companies to the whole Federal Republic could lead to increased competition and thus have an adverse effect on the future business development of Tipp24 in Germany.

### **LOTTERY LAW IN SAXONY-ANHALT**

In early February 2006, the state lottery of Saxony-Anhalt informed us that, in their opinion, Tipp24 was contravening the lottery laws of the state of Saxony-Anhalt. We received a letter with the same content from the respective authorities of Saxony-Anhalt in late March 2006. 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 since mid-2005 due to the afore mentioned regulation.

Furthermore, Tipp24 believes that the legality of the lottery law of Saxony-Anhalt is at least questionable. This law 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. An extensive report published in early April 2006 by Klaus Lüderssen, Professor for Criminal Law at the University of Frankfurt/Main, supports Tipp24's interpretation of the law.

Irrespective of the actual legal validity of Saxony-Anhalt's lottery law, Tipp24 may be forbidden to broker lottery products without additional fees, at least until the matter is finally settled. Tipp24 would then have to temporarily cease sales to customers in Saxony-Anhalt. In 2005, less than 1.5% of billings were generated by customers in Saxony-Anhalt. Moreover, in this connection Tipp24 might be exposed to administrative and possibly criminal law sanctions.

### **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.

### **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 as 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.

### **FORECAST REPORT**

In general, Tipp24 plans to continue its growth strategy of the past few years in future. In addition to further growth in our core market of Germany, we also aim to extend our product portfolio with the addition of a further product category, e.g. peer-to-peer skill games for money. In this connection, we are examining the possibility of a company acquisition in this field. At the same time, we are preparing market entry in at least one further European market. Initial revenue and earnings effects from these projects are expected in the 4th quarter of 2006 and 2007.

Against this backdrop, we aim to raise billings and revenues by 30–40% p.a. in each of the next two years. In the current fiscal year, we plan to increase EBIT by around 50% net profit after tax by more than 70%. These figures do not take account of special tax items.

Both these figures are also expected to continue growing strongly in the following year. Growth is to be generated mainly by attracting around 300–400 thousand new customers per year, while maintaining the current activity rate and billings per customer rate.

Despite the chance omission of relevant jackpots in the second quarter, we believe the above mentioned forecasts can be achieved under the following conditions: there should be at least two relevantly high jackpots in Germany during the current fiscal year and the highly profitable German Christmas lottery »ExtraLotto« of last year should be held again.

However, due to the above mentioned developments of the legal framework – obstruction of business activities in Italy and the significant political and legal developments in Germany – the forecasts bear considerably greater uncertainty than in the first quarter.

#### **OPPORTUNITIES**

We judge the implications of the above mentioned changes in the legal framework in Germany as neutral to positive for our business development in the medium term. Any possible restriction of ticket sales for the ODDSET product through betting offices may benefit online brokerage in the medium term. The various recent verdicts, especially that of the BVerfG, and the respective EU regulations might result in deregulation measures in the medium term, which could also directly or indirectly affect the lottery business. As an internationally operating company, Tipp24 may benefit more than average from this development. In particular, it would allow our German customers access to further highly attractive foreign 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 carry out its activities without restrictions.



Q.II 2006

## CONSOLIDATED INCOME STATEMENT ACC. TO IFRS

IN EUR	Q.II 2006	Q.II 2005	Q.I-II 2006	Q.I-II 2005
Billings	54,657,609.52	50,344,751.66	117,355,333.99	98,379,606.66
Remitted stakes less commissions	47,468,265.52	44,215,925.69	102,026,018.16	86,217,883.69
<b>Revenue</b>	<b>7,189,344.00</b>	<b>6,128,825.97</b>	<b>15,329,315.83</b>	<b>12,161,722.97</b>
Other operating income	121,819.70	25,025.21	216,511.59	74,509.80
<b>Total operating performance</b>	<b>7,311,163.70</b>	<b>6,153,851.18</b>	<b>15,545,827.42</b>	<b>12,236,232.77</b>
<b>Operating expenses</b>				
Personnel expenses	- 1,985,807.76	- 1,710,623.40	- 3,875,045.95	- 3,209,746.31
Amortization/depreciation on intangible assets and property, plant and equipment	- 179,885.41	- 136,273.04	- 362,263.98	- 296,354.89
Other operating expenses	- 3,777,695.11	- 3,182,070.04	- 8,301,018.61	- 5,964,277.31
<b>Result from operating activities</b>	<b>1,367,775.42</b>	<b>1,124,884.70</b>	<b>3,007,498.88</b>	<b>2,765,854.26</b>
Financial result	241,409.51	61,634.59	210,677.55	111,032.99
<b>Result from ordinary activities</b>	<b>1,609,184.93</b>	<b>1,186,519.29</b>	<b>3,218,176.43</b>	<b>2,876,887.25</b>
Income taxes	388,749.81	- 598,162.91	990,153.47	- 1,400,655.87
<b>Consolidated net profit</b>	<b>1,997,934.74</b>	<b>588,356.38</b>	<b>4,208,329.90</b>	<b>1,476,231.38</b>
Earnings per share (undiluted and diluted; in EUR/share)	0.23	0.09	0.47	0.22
Weighted average number of ordinary shares outstanding (undiluted and diluted; in units)	8,872,319	6,696,273	8,872,319	6,696,273

Q.II 2006

## CONSOLIDATED BALANCE SHEET ACC. TO IFRS

<b>ASSETS</b> IN EUR	30 June 2006	31 Dec. 2005
<b>Current assets</b>		
Cash, cash equivalents and securities	56,448,980.99	57,173,611.83
Pledged cash, cash equivalents and securities	61,387.20	0.00
Short-term financial assets	2,500,000.00	0.00
Trade receivables	72,621.87	165,779.86
Income tax refund claims	1,054,066.65	297,257.71
Other assets and prepaid expenses	3,671,826.02	7,203,060.35
<b>Total current assets</b>	<b>63,808,882.73</b>	<b>64,839,709.75</b>
<b>Non-current assets</b>		
Intangible assets	434,020.96	446,313.32
Other equipment, furniture and fixtures and leased assets	1,211,256.52	1,175,456.16
Financial assets	5,000,000.00	5,000,000.00
Deferred tax assets	2,053,054.48	673,766.93
<b>Total non-current assets</b>	<b>8,698,331.96</b>	<b>7,295,536.41</b>
	<b>72,507,214.69</b>	<b>72,135,246.16</b>
<b>EQUITY AND LIABILITIES</b> IN EUR	30 June 2006	31 Dec. 2005
<b>Current liabilities</b>		
Trade payables	1,501,486.48	1,240,712.71
Current finance lease liabilities	0.00	37,475.65
Other liabilities	12,856,511.94	17,194,563.16
Deferred income	207,275.70	180,961.67
Income tax liabilities	250,517.04	0.00
Provisions	266,655.00	200,282.19
<b>Total current liabilities</b>	<b>15,082,446.16</b>	<b>18,853,995.38</b>
<b>Non-current liabilities</b>		
Non-current finance lease liabilities	0.00	47,893.25
Deferred tax liabilities	31,281.82	48,200.72
<b>Total non-current liabilities</b>	<b>31,281.82</b>	<b>96,093.97</b>
<b>Equity</b>		
Subscribed capital	8,872,319.00	8,872,319.00
Capital reserves	41,143,321.36	41,143,321.36
Retained earnings	7,377,846.35	3,169,516.45
<b>Total equity</b>	<b>57,393,486.71</b>	<b>53,185,156.81</b>
	<b>72,507,214.69</b>	<b>72,135,246.16</b>

Q.II 2006

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 30 JUNE

IN EUR	Q.I-II 2006	Q.I-II 2005
<b>Cash flow from operating activities</b>		
Result from operating activities	3,007,498.88	2,765,854.26
<i>Adjustments for:</i>		
Amortization/depreciation on non-current assets	362,402.32	296,354.89
Loss on the disposal of non-current assets	37,805.57	85,132.07
<i>Changes in:</i>		
Trade receivables	93,157.99	- 38,664.33
Other assets	3,531,234.33	152,283.00
Trade payables	260,773.77	- 968,530.78
Other liabilities	- 4,338,051.22	1,989,288.68
Provisions	- 18,996.09	- 10,971.79
Deferred income	26,314.03	- 21,953.66
Interest received	9,930,862.25	116,987.85
Interest paid	- 9,720,184.70	- 6,040.46
Taxes paid	- 912,344.88	- 185,894.22
<b>Cash flow from operating activities</b>	<b>2,260,472.25</b>	<b>4,173,845.51</b>
<b>Cash flow from investing activities</b>		
Disbursements for financial investments	- 2,500,000.00	0.00
Investments in intangible assets	- 102,836.08	- 95,966.39
Investments in property, plant and equipment	- 320,879.81	- 403,618.11
<b>Cash flow from investing activities</b>	<b>- 2,923,715.89</b>	<b>- 499,584.50</b>
<b>Cash flow from financing activities</b>	<b>0.00</b>	<b>0.00</b>
<b>Change in cash, cash equivalents and securities</b>		
Change in cash, cash equivalents and securities	- 663,243.64	3,674,261.01
Cash, cash equivalents and securities at the beginning of the period	57,173,611.83	12,891,965.57
Change in pledged cash and cash equivalents	- 61,387.20	156,880.00
<b>Cash, cash equivalents and securities at the end of the period</b>	<b>56,448,980.99</b>	<b>16,723,106.58</b>
<b>Composition of cash and cash equivalents at the end of the period</b>		
Cash on hand, bank balances and checks	28,987,334.13	15,341,488.28
Current investments	27,523,034.06	1,534,738.30
Pledged cash and cash equivalents	- 61,387.20	- 153,120.00
	<b>56,448,980.99</b>	<b>16,723,106.58</b>

Q.II 2006

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

IN EUR	SHARE CAPITAL	CAPITAL RESERVES	ACCUMULATED PROFIT/LOSS	TOTAL EQUITY
<b>As at 1 January 2005</b>	<b>2,232,091.00</b>	<b>5,732,781.01</b>	<b>- 148,008.82</b>	<b>7,816,863.19</b>
Net profit as of 30 June 2005	0.00	0.00	1,476,231.38	1,476,231.38
<b>As at 30 June 2005</b>	<b>2,232,091.00</b>	<b>5,732,781.01</b>	<b>1,328,222.56</b>	<b>9,293,094.57</b>
Capital reduction from redemption of shares	- 4,417.00	0.00	0.00	- 4,417.00
Capital increase from cash contribution	4,417.00	0.00	0.00	4,417.00
Capital increase from company funds	4,464,182.00	- 4,464,182.00	0.00	0.00
Capital increase from cash contribution of IPO	2,160,000.00	42,120,000.00	0.00	44,280,000.00
Capital increase from discounted employee shares	16,046.00	275,991.20	0.00	292,037.20
IPO expenses	0.00	- 4,228,897.71	0.00	- 4,228,897.71
Tax effect on costs of capital increase from IPO	0.00	1,707,628.86	0.00	1,707,628.86
Net profit 1 July to 31 December 2005	0.00	0.00	1,841,293.89	1,841,293.89
<b>As at 1 January 2006</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>3,169,516.45</b>	<b>53,185,156.81</b>
Net profit for the period	0.00	0.00	4,208,329.90	4,208,329.90
<b>As at 30 June 2006</b>	<b>8,872,319.00</b>	<b>41,143,321.36</b>	<b>7,377,846.35</b>	<b>57,393,486.71</b>

Q.II 2006

## SEGMENT REPORTING

### Q.II

IN EUR THOUSAND	GERMANY		ABROAD		CONSOLIDATION		CONSOLIDATED	
	I APRIL—30 JUNE 2006	I APRIL—30 JUNE 2005	I APRIL—30 JUNE 2006	I APRIL—30 JUNE 2005	I APRIL—30 JUNE 2006	I APRIL—30 JUNE 2005	I APRIL—30 JUNE 2006	I APRIL—30 JUNE 2005
Billings	51,034	48,876	3,623	1,469	0	0	54,658	50,345
Revenue	6,220	5,701	970	428	0	0	7,189	6,129
Depreciation/amortization	161	126	19	10	0	0	180	136
<b>EBIT</b>	<b>1,470</b>	<b>1,293</b>	<b>- 103</b>	<b>- 169</b>	<b>0</b>	<b>0</b>	<b>1,368</b>	<b>1,125</b>
Financial result							241	62
Income taxes							389	- 598
<b>Consolidated net profit</b>							<b>1,998</b>	<b>588</b>
Assets	2,480	- 2,002	55	502	- 104	- 744	2,430	- 2,244
Debts	362	- 3,574	75	- 243	- 4	96	433	- 3,721
Investments	105	57	106	- 3	0	0	211	54

### Q.I-II

IN EUR THOUSAND	GERMANY		ABROAD		CONSOLIDATION		CONSOLIDATED	
	I JAN.—30 JUNE 2006	I JAN.—30 JUNE 2005	I JAN.—30 JUNE 2006	I JAN.—30 JUNE 2005	I JAN.—30 JUNE 2006	I JAN.—30 JUNE 2005	I JAN.—30 JUNE 2006	I JAN.—30 JUNE 2005
Billings	109,704	95,423	7,651	2,957	0	0	117,355	98,380
Revenue	13,302	11,335	2,027	827	0	0	15,329	12,162
Depreciation/amortization	329	275	34	21	0	0	362	296
<b>EBIT</b>	<b>3,092</b>	<b>3,137</b>	<b>- 85</b>	<b>- 371</b>	<b>0</b>	<b>0</b>	<b>3,007</b>	<b>2,766</b>
Financial result							211	111
Income taxes							990	- 1,401
<b>Consolidated net profit</b>							<b>4,208</b>	<b>1,476</b>
Assets	72,826	22,636	3,328	1,103	- 3,646	- 2,083	72,507	21,656
Debts	12,605	10,377	2,728	1,990	- 220	- 6	15,114	12,360
Investments	2,757	417	167	14	0	0	2,924	431

## ADDITIONAL NOTES

### GENERAL

The half-year financial statements of Tipp24 AG as at 30 June 2006 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 2006 to 30 June 2006.

The same accounting policies and calculation methods were used for this interim report as for the consolidated financial statements as at 31 December 2005.

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

	30 JUNE 2006 %	31 DEC. 2005 %	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 although Tipp24 AG does not hold any an equity interest or voting rights in it.

### 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 2005. There were no transactions or legal relationships with related parties.



**OTHER DISCLOSURES**

In addition to the above mentioned special items, we did not observe any specific seasonal or cyclical influences on our business in the first half-year.

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 Jaenecke (Chairman), Dr. Hans-Wilhelm Jenckel (Deputy Chairman) and Annet Aris.

On 12 April 2006, the Supervisory Board member Dr. Hans-Wilhelm Jenckel sold all his 17,517 shares at a price of EUR 24.50. Apart from this, the members of the Executive Board and Supervisory Board did not acquire or sell shares in Tipp24 AG in the first half of 2006 (Directors' Dealings). Consequently, no member of the Supervisory Board holds shares in Tipp24 AG any more. As of 30 June 2006 the members of the Executive Board held the following amounts of shares in Tipp24 AG:

DIRECTORS' DEALINGS	AS OF 1 JANUARY 2006	CHANGE	AS OF 30 JUNE 2006
<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
<i>Natural person in close relationship to Executive Board</i>			
Dr. Stephanie Cornehl	53,576	0	53,576
<i>Supervisory Board</i>			
Dr. Hans-Wilhelm Jenckel	17,517	- 17,517	0

*Hamburg, August 2006*

**The Executive Board**

Dr. Hans Cornehl    Marc Peters    Jens Schumann

## **FINANCIAL CALENDAR 2006**

6 NOVEMBER 2006

INTERIM REPORT 3<sup>RD</sup> QUARTER 2006

### **EDITOR**

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