

REVENUE  
**+37%**

# WELL PLACED FOR FUTURE GROWTH

ANNUAL REPORT 2011

EBIT  
**+59%**

PROFIT  
**+86%**

REVENUE  
**+37%**

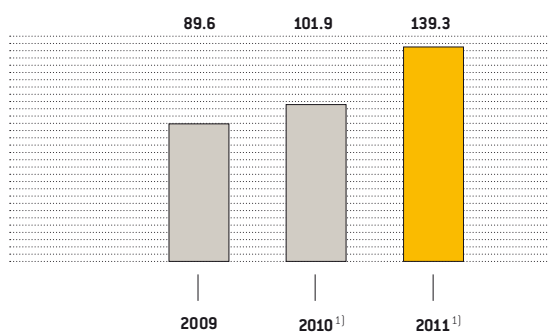
» **WE ARE IDEALLY PLACED** TO  
TAP THE POTENTIAL IN OUR MARKETS:  
IN GERMANY, WE ARE RELAUNCHING  
OUR ACTIVITIES WITH LOTTO24.DE  
AND WILL CONTINUE TO EXPAND OUR  
INTERNATIONAL BUSINESS.

PROFIT  
**+86%**

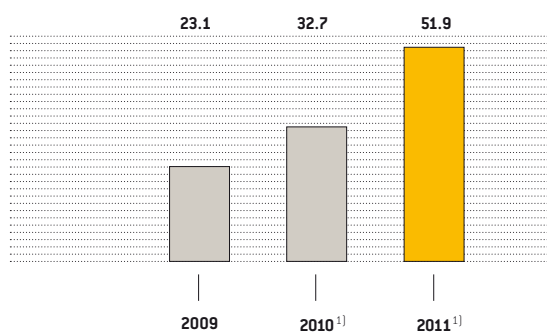
EBIT  
**+59%**

(Rounding differences possible due to presentation in EUR thousand)

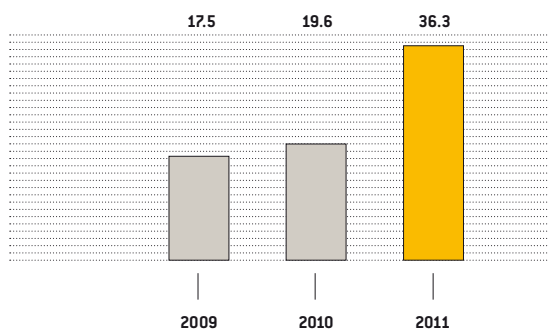
#### REVENUES in EUR million



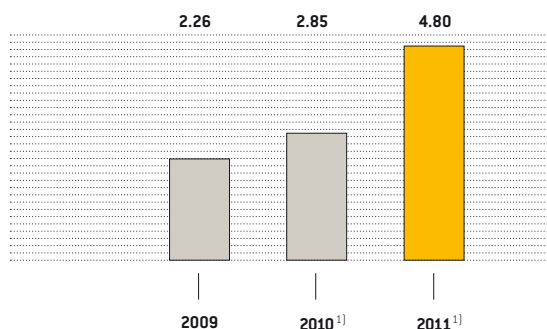
#### EBIT in EUR million



#### NET PROFIT in EUR million



#### EARNINGS PER SHARE in EUR



<sup>1)</sup> from continued operations

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**LADIES AND GENTLEMEN,**

We are delighted to be able to inform you that Tipp24 SE once again posted its best-ever result in 2011 – for the twelfth consecutive year since its foundation. There was disproportionately strong EBIT growth of 59% to almost EUR 52 million, while revenue also leapt by 37% to reach a record EUR 139 million – whereby Tipp24 benefited from more favourable payout statistics compared to the previous year as well as from the settlement in the second quarter of a legal dispute regarding an insurance payment to MyLotto24 Limited.

As in the previous years, these excellent figures were largely attributable to the Group's Abroad segment which accounted for revenue of EUR 141.5 million and an EBIT result of almost EUR 60 million. The German segment contributed just EUR 0.6 million to revenue, while its EBIT result amounted to EUR -8.8 million.

**LIGHT ON THE REGULATORY HORIZON**

On 8 September 2010, the European Court of Justice (ECJ) proclaimed that significant regulations of the German State Treaty on Games of Chance (GlüStV) contravened EU law and were inapplicable with immediate effect. This verdict gave rise to numerous legal proceedings with varying outcomes, so that the legal situation still remains generally unclear.

In view of the failure of the preceding version, 15 of Germany's federal states presented a new Draft State Treaty (ÄndGlüStV 2012) in late 2011, which includes a provision to once again allow online lottery brokerage. Moreover, the state of Schleswig-Holstein decided against an Internet ban and the need for permits – in the case of lottery brokerage – in its new gaming legislation which came into effect on 1 January 2012. After considerable legal examination, we believe that taken together these two developments mean that both the Internet ban and the need for permits have already lost their applicability for the entire territory of Germany as of 1 January 2012 – also in view of the jurisdiction of the German Federal Administrative Court and Federal Supreme Court.

Following Schleswig-Holstein's pioneering role in re-opening the market for online brokerage, the other German states must now demonstrate that they can grant private brokers of state-run lotteries equally non-discriminatory market access in line with EU law.

**LOTTO24: GERMAN MARKET RELAUNCH**

In view of what we regard as highly promising regulatory prospects, Tipp24 has decided to re-launch its activities in Germany in 2012. We do this from a position of strength, as Tipp24 dominated the German online lottery market until the introduction of the last GlüStV in early 2009. Within the framework of the Schleswig-Holstein gaming laws, lottery players can conveniently submit their tickets online and round the clock via the [www.lotto24.de](http://www.lotto24.de) website as of February 2012! We are convinced that we can successfully utilize the considerable opportunities which this market offers and – following the resumption of operations in Schleswig-Holstein – we believe that we can establish a strong and distinctive brand with [lotto24.de](http://lotto24.de).

### TIPP24: GERMAN OPERATIONS TO BE SPUN OFF

We intend to create the best possible conditions for the future development of business in Germany. In particular, we need to ensure that the resumption of business is not burdened by legal and political wrangling – especially with regard to the activities of the UK-based minority shareholdings. In order to achieve this target, we plan to divide the company into separate legal entities. The German lottery brokerage business launched in February 2012 is to be spun off from the Tipp24 Group and transferred to a company also listed in the Prime Standard segment of the Frankfurt Stock Exchange: Lotto24 AG. This will prevent any negative synergies between the two former segments and allow us to fully exploit the available market potential.

After spinning off its German operations, Tipp24 will realign its own business strategy. We will continue to focus on the further expansion of our international lottery business. In addition to the existing growth activities of our minority shareholdings in Spain and the UK, we plan to establish a new business field in the medium term which will offer Internet services for international lottery organizers. Initial talks with potential clients have strengthened our view that this promises to be an attractive market segment for us. Moreover, we plan to drive our expansion through both organic growth and acquisitions.

### DIVIDEND IN KIND FOR 2012

As shareholders of Tipp24 SE, you are to receive a stake in the future independent company, Lotto24 AG. The Executive Board and Supervisory Board will therefore propose to the Annual General Meeting of Tipp24 SE to distribute shares in the future Lotto24 AG to all shareholders in the form of a dividend in kind. After approval from the Annual General Meeting, our shareholders will therefore hold shares in two companies, each acting independently on their respective markets: Tipp24 SE and Lotto24 AG.

### OUTLOOK

Against a backdrop of frequent change in its operating environment, Tipp24 has succeeded in generating sustainable growth in both revenue and earnings. The encouraging development of the past years has given us a solid platform on which to reach our core strategic targets: the restructured re-establishment of our activities in Germany via Lotto24 AG and the growth of our international business, especially as a service provider for lottery companies.

2012 will therefore be a year of sweeping change and the economic potential ahead is still difficult to forecast. In the current fiscal year, we expect to reach an EBIT result of at least EUR 35 million on consolidated revenue of at least EUR 130 million. This forecast includes consideration of uncertainties regarding negative statistical fluctuations amounting to EUR 10 million. In view of the planned spin-off, no expenses have been taken into account for the re-establishment of German operations.



**Dr. Hans Cornehl**  
Chairman of the  
Executive Board



**Marcus Geiss**  
Member of the  
Executive Board



**Petra von Strombeck**  
Member of the  
Executive Board



## GRASPING OPPORTUNITIES

– IN 2012 WE WILL ESTABLISH A STRONG DISTINCTIVE BRAND IN GERMANY AGAIN: LOTTO24.DE. IN ADDITION, WE WILL DRIVE THE DEVELOPMENT OF OUR INTERNATIONAL LOTTERY BUSINESS – IN THE MEDIUM TERM, WE AIM TO ESTABLISH A NEW DIVISION OFFERING INTERNET SERVICES FOR INTERNATIONAL LOTTERY COMPANIES.

### DR. HANS CORNEHL

Dr. Hans Cornehl has a doctorate in chemistry and has been a member of the Executive Board of Tipp24 SE since June 2002 and Chairman of the Executive Board since July 2011. Before joining Tipp24, Dr. Cornehl was Senior Investment Manager at the venture capital company Earlybird, where he specialised in investments in the media and telecommunications sector. He had previously gained management experience as a turn-around manager at a hospital. Dr. Cornehl started his career as an adviser for start-up, high-tech and spin-off companies at McKinsey & Company. Dr. Cornehl studied chemistry at the Technical University of Munich and gained his doctorate at the Technical University of Berlin.

**MARCUS GEISS**

Marcus Geiss holds a degree in business IT and a master's degree in private equity and has been a member of the Executive Board of Tipp24 SE since July 2011 after already holding this position from March 2008 to March 2009. He joined the Group in September 2003 as General Manager of Puntogioco24 S.r.l., a wholly-owned Tipp24 subsidiary which launched operations in Italy in 2005. In early 2006 he was also made Managing Director International Business. Prior to joining Tipp24, Marcus Geiss was Managing Director of Advertico AG in Cologne for two years. After completing his studies in Cologne and Milan, he began his career in 1998 as a Senior Consultant for Mummert + Partner Consulting AG.

**PETRA VON STROMBECK**

Petra von Strombeck studied business administration and has been a member of the Executive Board of Tipp24 SE since July 2011. She already held this position from March 2008 to March 2009 after being appointed Marketing Director of Tipp24 in November 2007. Before joining Tipp24, Petra von Strombeck was Managing Director of a French subsidiary of Tchibo from 2004 onwards. From 1999 to 2004 she was responsible for Tchibo's online sales as head of e-commerce. Prior to this, she was responsible for advertising at Premiere Medien for three years. From 1993 to 1996 she worked for Danone as a product manager. Petra von Strombeck graduated in international business administration from the EAP in Paris, Oxford and Berlin.

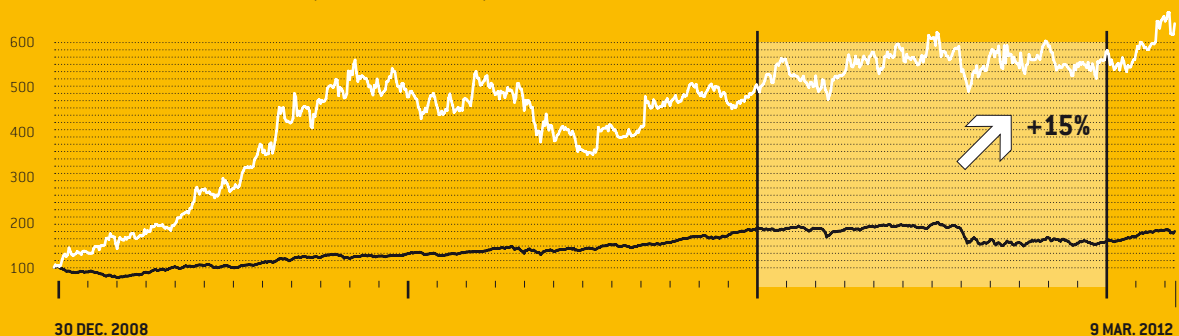


## SHARE & CORPORATE GOVERNANCE

# SHARE REACHED NEW YEAR-HIGH OF EUR 35.50

IN A TURBULENT YEAR INFLUENCED BY NUMEROUS EXTERNAL FACTORS,  
THE TIPP24 SHARE **GREW BY AROUND 15%** IN 2011.

PERFORMANCE OF THE TIPP24 SHARE (Index 30 Dec. 2008=100)



EUR 5.71

2,800.73

— Tipp24

— SDAX

EUR 36.60

5,051.30

## SHARE

The world's stock markets were heavily influenced by a large number of external factors throughout 2011. In the first half of the year in particular, the company's strong performance and encouraging macroeconomic reports were largely overshadowed by political events. At the beginning of the year, the so-called »Arab spring« already caused considerable market turbulence. Before the capital markets had fully recovered, the devastating earthquake in Japan and subsequent disaster at the nuclear power plant in Fukushima triggered a further dramatic slide in share prices. However, the strongest influence on market sentiment was doubtless the further escalation of Europe's sovereign debt crisis. The Greek state's impending financial collapse had already unsettled investors in 2010; during the course of 2011, the crisis spread to other European nations. Even such prominent Euro zone members as Italy or Spain came under pressure, resulting in changes of government. In addition, other core Euro zone countries such as France were exposed at times to rising risk premiums.

Against this backdrop, the leading German share index (DAX) fell by almost 16% to 5,898.35 points, while the mid-cap index SDAX suffered a similar loss of around 15%. Throughout 2011, the Tipp24 share traded within a range of EUR 26.98 and EUR 35.50 – its new all-time-high in July 2011 – and closed the year with growth of around 15% to EUR 33.00.

## ANNUAL GENERAL MEETING

The Annual General Meeting of Tipp24 SE was held at the Curiohaus in Hamburg on 29 June 2011. A total of 67.54% of voting capital was represented at the meeting and all resolutions proposed by management were adopted with large majorities.

The following resolutions were of particular importance:

- Authorization to acquire and use treasury shares
- Creation of new Authorized Capital
- Authorization to set up a new stock option plan
- Expansion of the Supervisory Board and election of Supervisory Board members

## DIVIDEND

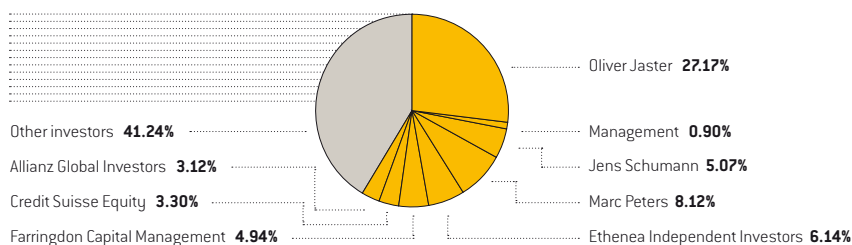
There was a further improvement in consolidated earnings in fiscal 2011 compared to the previous year. The ability of Tipp24 SE to make dividend payments, however, is still heavily restricted. Due to the transfer of control in respect of the Group's UK companies, Tipp24 SE must bear considerable running costs – mainly for administration and legal advice – but receives very few revenue streams itself from its own activities. At the same time, the profits of the fully consolidated associated companies in the Abroad segment are currently being carried forward and not distributed to Tipp24 SE. Prior to the release of capital reserves, there was once again no balance sheet profit for fiscal year 2011.

In view of the current political and regulatory developments, there has been a strong improvement in this prospect – even though no favourable clarification has been achieved yet. In this connection, Tipp24 intends to spin off its planned German lottery brokerage business from the Tipp24 Group and transfer it to a company also listed on the Frankfurt stock exchange. The shareholders of Tipp24 SE are to receive a share in this independent company: the future Lotto24 AG. The Executive Board and Supervisory Board will therefore propose to the Annual General Meeting of Tipp24 SE to distribute shares in the future Lotto24 AG to all shareholders in the form of a dividend in kind.

## IR ACTIVITIES

In the period under review, we once again pursued our investor relations targets – to maintain an open and ongoing exchange of information with the capital market – by participating in numerous roadshows and capital market conferences in various financial centres of Europe. Our investor relations work once again focused on explanations of the current regulatory discussions and the Group's structure.

## SHAREHOLDER STRUCTURE



## KEY SHARE FIGURES

Day of initial listing	12.10.2005
Year-opening price	EUR 28.85
Market capitalization (Year-opening)	EUR 230 million
Year-end price	EUR 33.00
Market capitalization (Year-end)	EUR 264 million
Highest price (07.07.2011)	EUR 35.50
Lowest price (16.03.2011)	EUR 26.98
Number of shares (31.12.2011)	7,985,088
Average daily trading (until 31.12.2011)	22,358 shares
Earnings per share <sup>1)</sup>	EUR 4.80

<sup>1)</sup> from continued operations

## SHAREHOLDER SERVICE

WKN	784714
ISIN	DE0007847147
Ticker symbol	TIM.DE
Stock exchange	Frankfurter Wertpapierbörse
Market segment	Official Market, Prime Standard
Designated sponsor	Close Brothers Seydler
Coverage	Berenberg Bank, Deutsche Bank, Hauck & Aufhäuser, Macquarie Securities, M. M. Warburg
Reuters	TIMGn.DE
Bloomberg	TIM GR

## CORPORATE GOVERNANCE

### SUSTAINABLE VALUE GROWTH

Good corporate governance is a central aspect of our corporate policy which extends to every area of the company: we regard it as a management and control system based on responsible and long-term value growth. In addition to organisational and business policy principles, it comprises the internal and external mechanisms for controlling and monitoring the company – especially the efficient cooperation between Executive Board and Supervisory Board, the transparent communication of company activities and the respect of shareholder interests.

Good corporate governance promotes the trust of national and international investors, financial markets, business associates, employees and the general public in the management and monitoring of a company. Tipp24 has always attached great importance to these principles. Tipp24 generally follows the recommendations of the German Corporate Governance Code (GCGC) in its current version of 26 May 2010 ([www.corporate-governance-code.de](http://www.corporate-governance-code.de)). The exceptions are listed and explained in the currently valid version of our Declaration of Conformity, which is shown below and is also permanently available to shareholders on our website at [www.tipp24-se.de](http://www.tipp24-se.de). Declarations of Conformity which are no longer valid are kept there for a period of five years each. We would like to highlight certain topic areas of our Corporate Governance policy in the following:

### CLOSE COOPERATION BETWEEN EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and Supervisory Board of Tipp24 SE work closely together. The Executive Board reports regularly and comprehensively to the Supervisory Board about all relevant questions of corporate planning and strategic development, as well as about the course of business and Tipp24's current position, including an assessment of the risk situation. All deviations in the development of business from targets and budgets, as well as Tipp24's strategic alignment and future development, are immediately reported to the Supervisory Board. The rules of procedure of the Executive Board include provisions regarding the necessary approval of the Supervisory Board for significant business transactions. In the period January to March 2011, the company Board Consultants International conducted an extensive board review. The review focused on advising the Supervisory Board on ways to optimise its performance.

### DIRECTORS' DEALINGS ACC. TO § 15a WPHG

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

Name/company of the reporting party	Status	Type of transaction	Date and location	Number of shares	Share price in EUR	Volume in EUR
Marcus Geiss	Member of the Executive Board	Share purchase	09.08.2011, Xetra	4,000	28.10	112,400.00

## REMUNERATION REPORT

### Remuneration of the Supervisory Board

The Annual General Meeting of Tipp24 SE on 29 June 2011 adopted a remuneration system for the Supervisory Board which consists of a fixed payment, further benefits and the reimbursement of expenses. The remuneration regulations were adopted for the fiscal year 2011 and the following years, unless a different resolution is adopted for the future by a subsequent Annual General Meeting. This remuneration is based on the responsibility and scope of activities. Moreover, the Company bears the cost of premium for suitable insurance coverage regarding legal liability from Supervisory Board activities (D&O insurance).

The members of the Supervisory Board receive for every full financial year a fixed annual remuneration of EUR 40 thousand. For their activities in one or several committees of the Supervisory Board, members of the Supervisory Board receive an additional annual remuneration of EUR 13.5 thousand. The above remuneration is increased to two-and-a-half times the amount for the Chairman of the Supervisory Board or the chairman of one or more committees and to one-and-a-half times the amount for the respective deputy chairman.

in EUR thousand	Year	Fixed remuneration	Variable remuneration	Total
Andreas de Maizière (Chairman) <sup>1)</sup>	2011	67	0	67
	2010	–	–	–
Klaus F. Jaenecke (Chairman) <sup>2)</sup>	2011	17	18	35
	2010	34	35	69
Oliver Jaster	2011	37	11	48
	2010	21	21	42
Dr. Helmut Becker <sup>1)</sup>	2011	20	0	20
	2010	–	–	–
Prof. Willi Berchtold (Deputy Chairman) <sup>1)</sup>	2011	47	0	47
	2010	–	–	–
Hendrik Pressmar	2011	27	7	34
	2010	14	14	28
Jens Schumann <sup>1)</sup>	2011	27	0	27
	2010	–	–	–
<b>Total</b>	2011	<b>242</b>	<b>35</b>	<b>277</b>
	2010	<b>69</b>	<b>70</b>	<b>139</b>

<sup>1)</sup> since 29 June 2011

<sup>2)</sup> until 29 June 2011

### Remuneration of the Executive Board

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

The Executive Board remuneration consists of a fixed basic annual salary of EUR 350 thousand and a variable component.

Moreover, the Supervisory Board may resolve to grant the Executive Board an additional voluntary bonus for special services to the company and in the case of corresponding economic success of the company. One third of the variable component is based on individual strategic targets, such as company growth, and two thirds on the size of the consolidated EBT margin based on the average of the past year and the two preceding years. On achievement of the targets, the variable component amounts to 100% of the fixed component. If targets are exceeded, the variable component can rise to a maximum of 200% of the fixed amount. The amount and structure of the remuneration package is continually monitored by the Supervisory Board and is agreed and updated with each member of the Executive Board.

in EUR thousand	Year	Fixed remuneration	Variable remuneration	Total
Dr. Hans Cornehl	2011	350	666	1,016
	2010	350	632	982
Marcus Geiss	2011	175	309	484
	2010	–	–	–
Petra von Strombeck	2011	175	309	484
	2010	–	–	–
<b>Total</b>	2011	<b>700</b>	<b>1,284</b>	<b>1,984</b>
	2010	<b>350</b>	<b>632</b>	<b>982</b>

### Benefits on termination of the Executive Board mandate

If a member of the Executive Board agrees to be reappointed on the basis of the contractual conditions offered, the Executive Board member shall receive maximum compensation of half an annual gross salary if the company is then culpable in failing to reappoint said member. If an appointment to the Executive Board is effectively revoked, the Executive Board member has the right to claim compensation amounting to the remaining gross salaries, but limited to two annual gross salaries. Should another

enterprise gain control of the company and the appointment of an Executive Board member is revoked within one year, this Executive Board member has the right to claim compensation amounting to the remaining gross salaries, but limited to three annual gross salaries.

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

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

»Tipp24 SE complies with the 26 May 2010 version of the conduct recommendations made by the Governmental Commission of the German Corporate Governance Code for corporate management and monitoring as published by the German Ministry of Justice in the official part of the electronic Federal Gazette and will continue to comply with them with the following exceptions:

**3.8 – D&O insurance deductible**

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

**5.3.1, 5.3.2 and 5.3.3 – Formation of committees, setting up of an audit committee and a nomination committee**

Until the end of July 2011, the Supervisory Board of Tipp24 SE comprised only three persons and for this reason formed no committees, and in particular no audit committee and no nomination committee. As the Supervisory Board has now been expanded to six members, it intends to form such committees in the near future.

**5.4.1 – Specification of objectives for the composition of the Supervisory Board**

With regard to its own composition and that of the Executive Board, the Supervisory Board already placed particular emphasis in the past on such aspects as internationality, female representation and independence. In view of the particular challenges facing the Supervisory Board in the current regulatory environment of Tipp24 SE, however, the Supervisory Board has refrained from formally stating objectives for its composition for the time being.

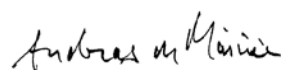
#### 5.4.6 – Performance-oriented remuneration of Supervisory Board members

The Company's Articles of Association as amended on 29 June 2011 do not provide for any performance-based remuneration elements for members of the Supervisory Board. This is intended to strengthen the Supervisory Board's independence. As a general rule, the scope of the workload and liability risk of the members of the Supervisory Board does not develop in parallel with the Company's business success or its financial position. On the contrary, especially in difficult times during which variable compensation may decrease, the Supervisory Board members will be called upon to exercise their supervisory and advisory functions in a particularly intensive manner. For this reason, the adopted change to a purely fixed remuneration of the Supervisory Board members is supported from various quarters in the current corporate governance discussion and corresponds to international best practice in this field.

Since submitting its last Declaration of Conformity in September 2010, Tipp24 SE has complied with all recommendations of the German Corporate Governance Code in the version dated 26 May 2010, with the exception of recommendations made under sections 3.8, 4.2.1, 4.2.4, 5.3.1, 5.3.2, 5.3.3, 5.4.1 and 5.4.6. With regard to the deviation from the recommendations of sections 4.2.1 and 4.2.4, please refer to the explanations published in the Declaration of Conformity of September 2010.«

Hamburg, August 2011

For the Supervisory Board



Andreas de Maizière

For the Executive Board



Dr. Hans Cornehl



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## GROUP MANAGEMENT REPORT

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# FURTHER RECORD YEAR

TIPP24 SE POSTED ITS **BEST-EVER RESULT** FOR THE TWELFTH CONSECUTIVE YEAR IN 2011:

THERE WAS DISPROPORTIONATELY STRONG EBIT GROWTH OF 59% TO NEARLY EUR 52 MILLION, WHILE REVENUE ALSO LEAPT BY 37% TO REACH A RECORD EUR 139 MILLION – WHEREBY TIPP24 BENEFITED FROM MORE FAVOURABLE PAYOUT STATISTICS COMPARED TO THE PREVIOUS YEAR AS WELL AS FROM THE SETTLEMENT IN THE SECOND QUARTER OF A LEGAL DISPUTE REGARDING AN INSURANCE PAYMENT TO MYLOTTO24 LIMITED.

IN 2012, WE PLAN TO DIVIDE THE COMPANY INTO DIFFERENT LEGAL ENTITIES: THE GERMAN LOTTERY BROKERAGE BUSINESS WE RESUMED IN FEBRUARY WILL BE SPUN OFF FROM THE TIPP24 GROUP AND TRANSFERRED TO A COMPANY ALSO LISTED ON THE STOCK EXCHANGE – LOTTO24 AG.

## BUSINESS & ECONOMIC CONDITIONS

### BUSINESS MODEL

For over twelve years, Tipp24 has been operating privately in a European lottery market which is still dominated by state operators. Tipp24's activities are divided strictly between its Germany and Abroad segments.

#### End-user business in Germany

In fiscal year 2011, our business in Germany included activities in the field of class lotteries and skill-based games. The processing of class lottery tickets was governed by a cooperation agreement with Schumann e. K., whose sole shareholder is the former Executive Board member and current Supervisory Board member Jens Schumann. It conducts its operations on the basis of a sales agreement with the management of the North German State Lottery (Norddeutsche Klassenlotterie – NKL) and by way of appointment by the management of the South German State Lottery (Süddeutsche Klassenlotterie – SKL). The business volume generated by customers in Germany primarily comprises the stake money remitted to the gaming operators. Our revenues consist of commissions received for submitting lottery tickets to the lottery companies.

The Skill-Based Games division is operated via the website [www.tipp24games.de](http://www.tipp24games.de). Tipp24 Entertainment GmbH develops the games offered and operates the platform. In the case of games offered via the company's own platform, revenues are recognized at the time of game participation and result primarily from withholding a defined share of the stakes received from players. For games on social networks, revenue is recognized by the purchase of the required game currency in the amount of the forwarded stakes.

#### End-user business abroad

The entire non-German business of Tipp24 – i.e. its activities in Spain, Italy and the UK – is pooled with the fully consolidated UK-based minority holding MyLotto24 Limited. This company organises English secondary lotteries based on various European lotteries. In addition, Tipp24 Services Limited acts as broker for various lotteries and other games in the UK and organises skill-based games on the website operated by Tipp24 Entertainment GmbH.

In Spain, Ventura24 S.L. currently offers the national 6 out of 49 lottery (La Primitiva) and related lottery teams, the Christmas lottery (Sorteo de Navidad), the European lottery Euromillones and other Spanish lotteries. In Italy, a legally binding operating and brokerage licence acquired by Giochi24 S.r.l. entitles it to offer the national 6 from 90 lottery (SuperEnalotto), as well as scratch cards and skill-based games via the website [www.giochi24.it](http://www.giochi24.it). Revenue in **Spain** results mainly from additional fees, and in **Italy** mainly from commissions paid by lottery organisers for tickets transmitted.

With regard to the organising of games in the **UK**, revenue results from stakes received less vouchers granted, and winnings to be distributed. Licence and operator fees payable in the UK are disclosed as a cost position within »Other operating expenses«. In our UK brokerage business, revenue is generated by commissions received from game organisers, as well as additional fees charged to players. Winnings are subject to considerable statistical fluctuations compared to the expected value based on the playing systems of the reference games. In order to improve comprehension of the earnings position, the effect on revenue of any deviation between expected and actual payouts is also stated.

#### Business model adapted to GlüStV

Following the implementation of the second stage of the German State Treaty on Games of Chance (GlüStV), which completely prohibited the brokering of state-run lotteries via the Internet as of 1 January 2009, Tipp24 SE discontinued its lottery brokerage activities in Germany. Its alignment was therefore brought in line with the regulatory environment – although Tipp24 continues to fight in the courts for the resumption of its business in Germany. In the course of this realignment, Tipp24 SE transferred assets that it no longer required to MyLotto24 Limited and its subsidiaries, which had been active in the UK since 2007. This concerned both the brokerage of state-run German lottery products, as well as the subsidiaries Ventura24 S.L. in Spain and Giochi24 S.r.l. in Italy. In addition, Tipp24 SE transferred control over its UK subsidiaries in accordance with company law in the second quarter of 2009 to reflect the autonomy and individual responsibility of these companies in their respective business fields. Specifically, 60% of the voting shares in both MyLotto24 Limited and Tipp24 Services Limited were sold to a Swiss foundation set up by

Tipp24 SE in the form of preference shares stripped of their main economic rights. These shares have a guaranteed limited right to dividends of up to a total of GBP 30 thousand p.a.. The inclusion of this affiliated company and its respective subsidiaries in the consolidated financial statements is based on an economic view of their situation, whereby the significant opportunities and risks are still borne by Tipp24 SE. In the following, Tipp24 SE and the consolidated group will be referred to simply as »Tipp24«.

## SIGNIFICANT ECONOMIC AND LEGAL FACTORS AFFECTING BUSINESS

### Legal market situation in Germany still unclear

Despite the clear ruling of the European Court of Justice (ECJ), a number of German public authorities have passed various orders and prohibitions which affected both Tipp24 itself as well as other market participants. Several courts confirmed these decrees in summary and principal proceedings in application of the GlüStV (which in our view contravenes EU law). All in all, these decrees and decisions in contravention of the ECJ rulings of 2010 have so far resulted in a very uncertain situation.

Other administrative courts have applied the rulings of the ECJ – in what we believe are clearly reasoned decisions – and declared that not only the gaming monopoly itself but also the resulting key restrictions of the GlüStV are inapplicable.

The German Federal Administrative Court (Bundesverwaltungsgericht – BVerwG) and further lower-instance courts, such as the referring Administrative Courts of Cologne, Stuttgart and Giessen, and recently the Higher Administrative Court of North Rhine-Westphalia and the Administrative Court of Bavaria, have determined an incoherency in gaming regulations and practice in Germany. This has once again confirmed existing doubts about the legality and effectiveness of the GlüStV.

The same is also indicated by a decision of the Federal Supreme Court (Bundesgerichtshof – BGH) on 18 November 2010, which for legal reasons could only deal with legislation before the GlüStV was introduced. Despite this restriction, the BGH cites in its verdict the ECJ's ruling on »Carmen Media«, which only relates to the GlüStV, as proof of its incompatibility with higher-ranking legislation and refers to the advertising practice of Germany's state-run lottery companies, which is still not exclusively focused on measures aimed at combating addiction.

In proceedings dealing with sports betting and casino gambling, however, the BVerwG and BGH confirmed the applicability of a general Internet ban. The BVerwG explained that the Internet ban is generally in line with EU law and, as a result of incoherencies, still applies. In its verdict on 28 September 2011, the BGH concurred with this view. Although neither of the proceedings dealt with lotteries, they did assume a valid Internet ban for all games of chance based on the GlüStV.

In the more specific field of lottery brokerage, there are growing doubts among Germany's administrative courts about the proportionality of restrictions (Internet ban) and their alignment with the aim of combating gambling addiction – beyond the general doubts regarding the coherency of German gaming legislation. In proceedings brought by Tipp24, various administrative courts established that Germany's gaming regulations were disproportional due to considerable doubts regarding the existence of any lottery addiction. The Administrative Court (Verwaltungsgericht – VG) Halle conducted an extensive survey among guardianship courts and addiction clinics to settle the existence of such a lottery addiction. It found that lottery addiction played a very minor role, if any. Consequently, VG Halle, as well as VG Chemnitz and VG Berlin, ruled that there was a disproportion between the aim and the means, and that the current obligation of brokers to seek

permission, the Internet ban and the so-called territoriality/regionalism of German Lotto (i.e. the restriction of Lotto marketing to individual federal states) as regulated by the GlüStV contravened EU law. The verdict of VG Halle which unreservedly confirms the legitimacy of online lottery brokerage has been legally binding since 28 June 2011.

In parallel proceedings, however, other administrative courts regarded especially the Internet ban and permit requirement as still applicable for the field of lottery brokerage. In a further verdict of 12 September 2011, VG Halle upheld its view on online brokerage – also regarding the BVerwG's verdict of 1 June 2011 – that the online brokerage of lotteries does not require permission due to the primacy of application. Following the BVerwG's verdict, VG Berlin does not believe that its opinion on the inapplicability of the permission requirement and the Internet ban for lottery brokerage has been deemed invalid or obsolete. This was recently made clear by the court in a resolution dated 14 September 2011. Contrasting views are held by other courts, such as the Administrative Court of Potsdam.

#### Implementation of EU law primacy still inconsistent

In September 2010, the European Court of Justice (ECJ) proclaimed:

- that the assumption of various German courts that significant regulations of the GlüStV contravened EU law and were inapplicable was justified as the regulations of Germany's gaming monopoly represented an unjustifiable restriction of the basic European freedoms of private suppliers.
- that such an infringement of basic freedoms, as was the case under the old legislation, meant that the national law was immediately inapplicable, without any transition period for courts and authorities.

We believe that – especially in the field of lotteries – this also affects the obligation of brokers to seek permission from the federal states, the prohibition of online gaming and the restriction and prohibition of advertising. The ECJ's instructions regarding interpretation are generally binding. Several lower national administration courts have since declared that the obligation to

seek permission is not applicable – in application of the ECJ ruling. Nevertheless, for the GlüStV's short remaining term of validity, Germany's Federal Administrative Court and Federal Supreme Court have generally confirmed the blanket Internet ban and need for permission in sports betting proceedings – despite reservations regarding the compliance of Germany's gaming monopoly with EU law – without any indication that they regarded the legal position of lottery brokerage any differently, despite the lack of high court verdicts.

These recent verdicts are likely to be overturned though by future legislation following the amendment of the GlüStV in 2012 – which will once again allow the online brokerage of lotteries – and will thus not be of any lasting significance. With its new »Schleswig-Holstein Gaming Law«, which came into effect on 1 January 2012, the north German state decided against an Internet ban and the need for permits – in the case of lottery brokerage. The view confirmed by numerous expert opinions and legal studies is that with regard to EU law, the new Schleswig-Holstein legislation makes both the Internet ban and the permit requirement of the other federal states incoherent and inapplicable in their current form.

This would mean that in respect of the jurisdiction of the German Federal Administrative Court and Federal Supreme Court, the Internet ban and permit requirement may also have lost its applicability for the entire territory of Germany as of 1 January 2012. At present, there is no jurisdiction to support this highly contested theory.

German legislators are called upon to observe the requirements concerning restrictions of basic freedoms under EU law – as recently referred to by the European Commission – in their revision of the GlüStV in order to avoid any continuation of the current legal chaos.

### Varying legal market situation abroad

The markets of our Abroad segment present a varied picture with regard to the development of the prevailing legal conditions. Whereas the regulatory environment in the UK is stable and in line with market requirements, significant legal changes to the regulation of sports betting and poker – also on the Internet – were recently introduced in Spain. Regulations concerning the online brokerage of lotteries are not currently planned or expected. In Italy, the protracted dispute with the Italian anti-trust authorities regarding the online brokerage of the state-licensed lottery SuperEnalotto ended without success.

### Large jackpots boost gaming volume

Tipp24 regularly experiences a strong increase in gaming activity when the prospect of large winnings (jackpots) is particularly high. These jackpots result in part from the gaming system: they comprise stakes bet by players who did not meet the conditions for winning prizes and which are then paid out to the winners on top of regular prizes in a subsequent draw. In addition, jackpots are also offered unsystematically and in addition to the regular winnings profile for certain draws.

### Low dependency on economic cycle

The gaming behaviour of customers in all markets of Tipp24's consolidated companies has been largely unaffected by macro-economic fluctuations since the launch of gaming operations in 2000. Gaming behaviour is neither particularly strong during periods of economic growth nor particularly weak in times of recession, nor has any inverse correlation been observed.

## CORPORATE MANAGEMENT

The business fields of our two segments, Germany and Abroad, are managed separately.

### Germany segment

In our former core market of Germany, we aim to resume the brokerage of state-licensed lotteries and return to our former growth rates for customer figures and billings.

The Skill-Based Games business model was unable to match the profitability of our core business over the long term. We have therefore decided to discontinue activities in this division in an orderly process. The respective value adjustments to assets and provisions for the processing of business represent a total burden on earnings in fiscal year 2011 of EUR 746 thousand. No further significant negative effects are expected any more in 2012 from this division.

### Abroad segment

In the business fields of our Abroad segment, value is mainly created by gaining new customers and intensifying existing business relations. The focus here is on the field of lotteries. Revenue growth and EBIT margin are the most important key performance indicators of this segment.

Against the backdrop of an adverse legal environment in Italy for the brokerage of SuperEnalotto, and in view of the failure of bingo games to provide a sustainable future perspective, we are currently considering whether to continue our Italian business. The corresponding adjustments to assets and restructuring costs resulted in a burden on consolidated EBIT of EUR 214 thousand. No further significant negative effects are expected any more in 2012 from this division.

### Positive development of key earnings ratios

Due to the special item from the settlement of a legal dispute and statistical effects in the payment of winnings in its bookmaking business, Tipp24 raised its EBIT margin by 5.2 %-points to 37.3% during the period under review. At 26.1%, net operating margin was above the prior-year level (19.2%).

In the period under review, return-on-equity rose to 28.1% (prior year: 21.0%).

### STRATEGY

Strategy is determined independently in the respective business segments. In our Germany segment, we are focusing on our original core business: against the backdrop of impending new legislation in those federal states in which state gaming laws still apply on the basis of the expired State Treaty on Games of Chance, we intend to resume our former brokerage of state-run lotteries in Germany as soon as possible. In this connection, we also plan to resume and develop our provision of Internet services for lottery operators.

A solid legal basis was already introduced in Schleswig-Holstein on 1 January 2012: the state's liberal gaming legislation only includes a duty to give notice of commercial online lottery brokerage. The prerequisite is merely that the lottery event is permitted and that the draws are not held more than once a day. There is no need to seek official permission for brokerage and advertising is permitted without any significant restrictions. Tipp24 Deutschland GmbH resumed its brokerage business here on February 20, 2012. On the whole, the political and legal requirements for such a successful implementation of our plans continue to make good progress.

We believe that nationwide brokerage activity is possible after Schleswig-Holstein, already on the basis of the Schleswig-Holstein gaming legislation. In particular, we believe that with the introduction of the new gaming legislation in Schleswig-Holstein – at the latest – the Internet ban and permission requirement in the other federal states violate EU law and are no longer applicable. This view has been confirmed by legal opinions issued by independent university professors. Nevertheless, it is likely

that the states will continue to assume that the Internet ban and permission requirement are still effective in the other federal states. They intend to make online lottery marketing possible again by passing a new modified GlüStV in summer 2012, which will revise certain aspects of the old legislation. The draft version of such an agreement has been signed, but still requires the approval of Germany's state parliaments before being adopted. It will allow states to issue permits for online lottery brokerage as an exception – also to private brokers. However, the permit criteria are quite uncertain and there is no legal entitlement.

The legal uncertainties which generally still prevail and especially the not unlikely scenario that Tipp24 may at least temporarily be required to apply for permits from the different regulatory authorities of the various federal states in order to act as a broker in Germany, without having any claim to such permits, may present a genuine dilemma for Tipp24. The activity of the UK minority investments could present the authorities with the opportunity to exercise their discretionary power and reject Tipp24's permit application. It cannot be ruled out that such permit applications may be rejected solely due to the company's financial interest in the UK minority holdings – even though several courts have confirmed that the transfer of control is effective and that Tipp24 SE cannot be made responsible for the decisions or behaviour business of its minority holdings. Although we are convinced that the legal situation clearly fails to meet the requirements of EU law and such permits can therefore be claimed and ultimately enforced in court, this would still lead to considerable delays in the resumption of business. At the same time, the conditions under which Tipp24 could buy back shares and regain control over the UK minority investments are not fulfilled at present. In this connection, Tipp24 intends to spin off its planned German lottery brokerage business from the Tipp24 Group and transfer it to a company also listed on the Frankfurt stock exchange. The shareholders of Tipp24 SE are to receive a share in this independent company: the future Lotto24 AG. The Executive Board and Supervisory Board will therefore propose to the Annual General Meeting of Tipp24 SE to distribute shares in the future Lotto24 AG to all shareholders in the form of a dividend in kind.

In our Abroad segment, we aim to strengthen our business by achieving growth in Spain and the UK, as well as by entering further European nations. At the same time, we intend to continually improve the quality and scope of our product range. In addition, a new international business is to be established offering internet services for lottery companies.

In the medium term, we plan to achieve additional growth in new and existing European markets with the aid of a European product portfolio following a possible deregulation of the European lottery markets.

Changing regulatory conditions in Europe may result in the increased privatisation of currently state-owned market participants and thus lead to a possible consolidation. Tipp24 aims to benefit from these expected market changes and grasp the resulting attractive opportunities for non-organic growth. This can be financed by using liquid funds of well over EUR 100 million.

## MANAGEMENT & CONTROL

### Management: Executive Board and General Managers

Dr. Hans Cornehl is Chairman of the Executive Board of Tipp24 SE and has been a member of the Executive Board since 2002. From 1 October 2009 to 30 June 2011, he led the company as the sole member of the Executive Board. He is responsible for Strategy, Corporate Development, Investor Relations, Communication, HR and Finance.

Petra von Strombeck, who already served on Tipp24's Executive Board from 1 April 2008 to 31 March 2009, has been responsible for Sales, Marketing and Brand Management since 1 July 2011.

Marcus Geiss was previously responsible for the Corporate Development and New Markets divisions. He will leave the company prematurely on 30 April 2012 by mutual agreement and on the best of terms.

The affiliated companies outside Germany are led by experienced General Managers, who act independently.

### Performance-based Executive Board remuneration

The Executive Board remuneration consists of a fixed basic annual salary of EUR 350 thousand and a variable component. Moreover, the Supervisory Board may resolve to grant the Executive Board an additional voluntary bonus for special services to the company and in the case of corresponding economic success of the company. One third of the variable component is based on individual strategic targets, such as company growth, and two thirds on the size of the consolidated EBT margin based on the average of the past year and the two preceding years. On achievement of the targets, the variable component amounts to 100% of the fixed component. If targets are exceeded, the variable component can rise to a maximum of 200% of the fixed amount. The size and structure of remuneration is continually monitored by the Supervisory Board and is agreed and updated with each member of the Executive Board.

### Benefits on termination of the Executive Board mandate

If a member of the Executive Board agrees to be reappointed on the basis of the contractual conditions offered, the Executive Board member shall receive maximum compensation of half an annual gross salary if the company is then culpable in failing to reappoint said member. If an appointment to the Executive Board is effectively revoked, the Executive Board member has the right to claim compensation amounting to the remaining gross salaries, but limited to two annual gross salaries. Should another enterprise gain control of the company and the appointment of an Executive Board member is revoked within one year, this Executive Board member has the right to claim compensation amounting to the remaining gross salaries, but limited to three annual gross salaries.

### Control: expansion of Supervisory Board

At the Annual General Meeting 2011, it was decided to expand the Supervisory Board from three to six persons and thus expand the expertise available. In addition to Oliver Jaster and Hendrik Pressmar, who remain on the Supervisory Board, Jens Schumann, Andreas de Maizière, Prof. Willi Berchtold and Dr. Helmut Becker were all elected to the Supervisory Board. As already announced in February 2011, the previous Chairman of the Supervisory Board, Klaus F. Jaenecke, retired from the Supervisory Board on completion of the Annual General Meeting.

### Remuneration of Supervisory Board members

In addition to the reimbursement of their expenses, the members of the Supervisory Board receive for every full financial year a fixed annual remuneration of EUR 40 thousand. For their activities in one or several committees of the Supervisory Board, members of the Supervisory Board receive an additional annual remuneration of EUR 13.5 thousand.

The above remuneration is increased to two-and-a-half times the amount for the Chairman of the Supervisory Board or the chairman of one or more committees and to one-and-a-half times the amount for the respective deputy chairman.

### Performance-based remuneration of second management tier

In addition to their fixed basic salary, the **divisional heads of the Germany segment** also receive a variable remuneration component. Depending on their respective position, this amounts to 15–33% of fixed salary and is based both on the achievement of the Group's economic growth targets (revenues, EBIT) as well as on the individual achievement of internal targets, such as the successful and punctual implementation of projects.

The **General Managers of the Abroad segment** receive a fixed salary, as well as a variable compensation component equivalent to 20–100% of their fixed salary. This variable component is based mainly on the achievement of specific targets relating to the key performance indicators of their respective business, such as revenue growth and EBIT margin.

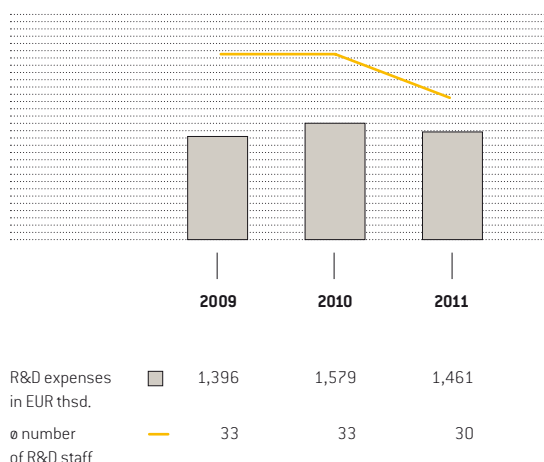
## RESEARCH & DEVELOPMENT

In the period under review, our domestic R&D activities focused on expanding the product range of our Skill-Based Games division.

In the Abroad segment, the new gaming software was expanded and improved following its launch in January 2011. These development efforts are managed directly abroad and operated partly in cooperation with external companies. In addition, our companies in the various countries made a number of improvements to products, capacities and security systems – with the aid of external R&D know-how for certain projects.

In 2011, an average of 9 employees were involved with R&D activities on a full-time or part-time basis in Germany, and 21 in the Abroad segment. R&D expenses amounted to around EUR 525 thousand (prior year: EUR 636 thousand) in the Germany segment and EUR 936 thousand (prior year: EUR 943 thousand) in the Abroad segment.

### R&D EXPENSES/R&D STAFF





## OVERVIEW OF BUSINESS DEVELOPMENT

### GENERAL ECONOMIC CONDITIONS

#### Slower growth for global economy

The global economic recovery faltered in 2011. World GDP rose by just 3.8%, after expanding by 5.1% in 2010. Around the world, confidence was shattered by factors such as the Euro zone's unresolved sovereign debt crisis, concerns about financial sector stability, sluggish international trade, an initially strong rise in energy and commodity prices, and disruption to production following the natural disaster in Japan. Due to the lack of compelling proposals for a solution to the current sovereign debt problem, companies and consumers are becoming increasingly pessimistic about their future prospects.

Although economic research institutes still regard global recession as unlikely – despite the gloomy outlook – capacity utilization in the developed nations is expected to fall in at least the first quarters of 2012. There was even a noticeable cooling of the previously booming emerging economies in 2011 – due to the crises in the Euro zone, the USA and Japan, the pace of growth in exports slowed considerably.

#### Euro zone lagging behind

Despite a deterioration of the European sovereign debt situation and a crisis in confidence, the Euro zone economies increased GDP by 1.5% in 2011, but fell well short of global economic growth. In addition to the fast-growing economies of the Baltic nations (Estonia +8.0%, Latvia +6.4%, Lithuania +6.0%), it was mainly the smaller nations such as Sweden (+4.2%), Poland (+4.0%) and Austria (+3.2%) which enjoyed strong growth. The major economies, however, such as Germany (+2.9%), France (+1.6%), the UK (+0.8%), Spain (+0.7%) and Italy (+0.5%), achieved only moderate to weak growth. Portugal (-1.5%) and Greece (-6.2%) are still in the grips of recession.

Consumer prices in the Euro zone rose by 2.6% – mainly as a result of strong increases in energy costs at the beginning of the year – while the total EU unemployment rate remained unchanged at 10.1%. It should be noted, however, that countries with rising employment levels, such as Germany, Austria and Finland, were able to compensate for sharp deteriorating figures from Greece and Spain.

### CONCLUDING ASSESSMENT OF BUSINESS DEVELOPMENT

The Executive Board regards the consolidated development of business in the past year as encouraging. The Abroad segment once again achieved year-on-year revenue growth. Only a small contribution to revenues was made by the Germany segment. Despite the provisions of the ECJ verdict of September 2010, almost all of Germany's federal states continued to apply the GlüStV regulations during 2011, thus making online lottery brokerage impossible.

Changes in the regulatory conditions for lotteries can currently be observed in various EU member states and beyond. In the medium term, this may lead to a liberalisation and privatisation of the lottery market with considerable growth opportunities for Tipp24.

## EARNINGS, FINANCIAL POSITION AND NET ASSETS

### EARNINGS

Two special items are to be considered when comparing figures with those of the previous year:

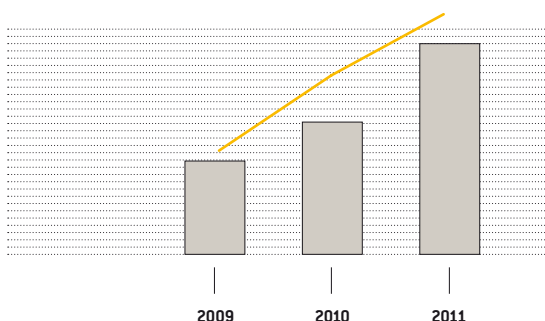
- In fiscal year 2012, total payouts for secondary lotteries were EUR 8.2 million below the expected payout value (prior year: EUR 15.4 million above the expected value) with

a positive impact on revenues (prior year: negative) of the same amount. This benefited EBIT by an amount of EUR 1.8 million (prior year: EUR -15.8 million).

- On 24 June 2011, MyLotto24 Limited ended a dispute regarding an insurance payment by mutual agreement. The major share of the year-on-year change in other operating income of EUR 10.9 million resulted from this settlement.

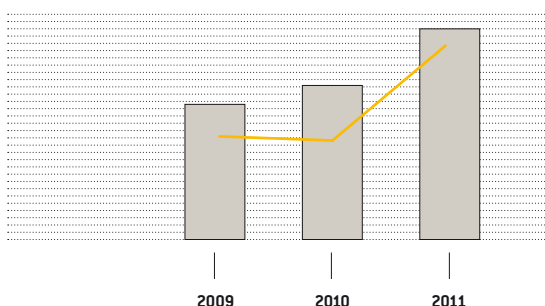
	1 Jan.–31 Dec. 2011		1 Jan.–31 Dec. 2010		Change %
	in EUR thousand	%	in EUR thousand	%	
<b>Revenues</b>	<b>139,316</b>	<b>100.0</b>	<b>101,882</b>	<b>100.0</b>	<b>36.7</b>
Personnel expenses	-12,026	-8.6	-10,110	-9.9	19.0
Other operating expenses	-85,121	-61.1	-61,846	-60.7	37.6
Other operating income	15,913	11.4	4,968	4.9	220.3
<b>Operating expenses</b>	<b>-81,234</b>	<b>-58.3</b>	<b>-66,988</b>	<b>-65.8</b>	<b>21.3</b>
<b>EBITDA</b>	<b>58,082</b>	<b>41.7</b>	<b>34,894</b>	<b>34.2</b>	<b>66.5</b>
Amortization and depreciation	-6,177	-4.4	-2,212	-2.2	179.2
<b>EBIT</b>	<b>51,905</b>	<b>37.3</b>	<b>32,681</b>	<b>32.1</b>	<b>58.8</b>
Financial result	865	0.6	486	0.5	78.0
<b>Earnings before taxes</b>	<b>52,770</b>	<b>37.9</b>	<b>33,167</b>	<b>32.6</b>	<b>59.1</b>
Income taxes	-14,455	-10.4	-11,193	-11.0	29.1
<b>Profit from continued operations</b>	<b>38,315</b>	<b>27.5</b>	<b>21,974</b>	<b>21.6</b>	<b>74.4</b>
Profit after tax from discontinued operations	-1,976	-1.4	-2,423	-2.4	-18.4
<b>Profit</b>	<b>36,339</b>	<b>26.1</b>	<b>19,551</b>	<b>19.2</b>	<b>85.9</b>
<b>Breakdown of other operating expenses</b>					
Marketing expenses	-7,813	-5.6	-9,826	-9.6	-20.5
Direct operating expenses	-48,817	-35.0	-33,816	-33.2	44.4
Other expenses of operations	-28,491	-20.5	-18,204	-17.9	56.5
<b>Other operating expenses</b>	<b>-85,121</b>	<b>-61.1</b>	<b>-61,846</b>	<b>-60.7</b>	<b>37.6</b>

## EBIT/EBIT MARGIN



EBIT in EUR thsd.	■	23,052	32,681	51,905
EBIT margin in %	—	25.7	32.1	37.3

## REVENUES/NET OPERATING MARGIN



Revenues in EUR million	■	89.6	101.9	139.3
Net operating margin in %	—	19.5	19.2	26.1

## EBIT

**Consolidated EBIT** amounted to EUR 51,905 thousand in 2011 (prior year: EUR 32,681 thousand), whereby the **EBIT margin** grew by 5.2 %-points from 32.1% to 37.3%. Adjusted for statistic deviation from the expected level of payouts, EBIT amounted to EUR 50,132 thousand (prior year: EUR 48,488 thousand) while the EBIT margin reached 38.2% (prior year: 41.3%).

Against the backdrop of significant regulatory restrictions imposed on lottery activities, the **Germany segment** posted an EBIT result of EUR -8,779 thousand (prior year: EUR -6,385 thousand) in the period under review, while the **Abroad segment** achieved an EBIT result of EUR 59,974 thousand (prior year: EUR 40,202 thousand).

The financial result amounted to EUR 865 thousand (prior year: EUR 486 thousand).

**Consolidated net profit** increased by 85.9% to EUR 36,339 thousand (prior year: EUR 19,551 thousand), while the **net operating margin** after tax reached 26.1% (prior year: 19.2%).

Compared to the previous year, the **consolidated tax rate** fell by 6.4 %-points to 27.4%. The tax rate fell as Tipp24 SE could form deferred tax liabilities to the full extent on tax loss carryforwards. This especially due to the disclosure of hidden reserves in the course of providing Tipp24 Deutschland GmbH with assets necessary for the execution of its operations. **Return on equity** rose correspondingly from 21.0% to 28.1%.

**Earnings per share from continued operations** (undiluted and diluted) increased from EUR 2.85 to EUR 4.80.

## Revenues

In its fiscal year 2011, Tipp24 raised total consolidated revenues by 36.7% from EUR 101,882 thousand to EUR 139,316 thousand, whereby the **Germany segment** accounted for EUR 572 thousand (prior year: EUR 637 thousand) and the **Abroad segment** for EUR 141,457 thousand (prior year: EUR 103,733 thousand).

Adjusted for chance effects, consolidated revenues would have risen by 11.8% from EUR 117,277 thousand to EUR 131,071 thousand. In the period ending 31 December 2011, the actual payout ratio varied by -3.7 %-points (prior year: 7.8 %-points) from the expected value.

For the organization of secondary lotteries, reference is made to the organization of lottery gaming systems with a fixed ratio of payouts to stakes. This proportion is known as the payout ratio. In the lottery gaming systems organized by the operators of those reference games of relevance to Tipp24, there is a fixed underlying payout ratio of 50% in the gaming system for ongoing lottery draws. This also corresponds to the expected payout ratio for the organization of secondary lotteries.

There may be deviations from this expected value during the actual draws of secondary lotteries. Such deviations are chance effects and represent statistical fluctuations of the ratio of payouts to stakes. A payout ratio above the expected value results in revenues below the expected revenue figure, while a lower payout ratio increases actual revenues in comparison to the expected figure.

In order to aid comprehension of the annual financial statements and earnings position, the effect of deviations between the expected and actual payouts is therefore stated.

#### Development of key income statement positions

In the period under review, **personnel expenses** exceeded the prior-year figure by 19.0% and amounted to EUR 12,026 thousand (prior year: EUR 10,110 thousand). The personnel expense ratio fell by 1.3 %-points to 8.6%. This item also includes expenses for expected benefits of EUR 1,750 thousand in connection with the premature departure of Marcus Geiss from the Executive Board of Tipp24 SE.

**Other operating expenses** increased by 37.6% to EUR 85,121 thousand (prior year: EUR 61,846 thousand). The development in detail was as follows:

- **Marketing expenses** fell by 20.5% to EUR 7,813 thousand (prior year: EUR 9,826 thousand). The decline is predominantly due to reduced marketing activities for operations in Italy.

- **Direct operating expenses** rose by 44.4% to EUR 48,817 thousand (prior year: EUR 33,816 thousand). This item is strongly influenced by licence and operator fees as well as costs in connection with hedging transactions of MyLotto24 Limited. Hedging costs amounted to EUR 21,067 thousand in the period under review (prior year: EUR 15,334 thousand). This year-on-year increase was largely due to the increase in business volume and the corresponding hedging of risks involved with high jackpots. In addition, the increased revenues of the Abroad segment meant that more licence and operator fees had to be paid to the UK finance authorities.
- **Other operating expenses** increased by 56.5% to EUR 28,491 thousand (prior year: EUR 18,204 thousand) – a rise which resulted mainly from increased outsourcing and consultancy expenses.

Due to the payout of the above mentioned insurance amount, **other operating income** rose to EUR 15,913 thousand (prior year: EUR 4,968 thousand).

The scheduled amortization of software put into operation in January 2011 led to a rise in **depreciation** of tangible and intangible assets of EUR 3,965 thousand to EUR 6,177 thousand.

## FINANCIAL POSITION

### Principles and objectives of capital management

Tipp24 operates a decentralized capital management system. Whereas the Executive Board of Tipp24 SE takes all major decisions concerning the financial structure of the Germany segment, capital management activities of the Abroad segment are handled by MyLotto24 Limited – with the exception of Tipp24 Services Limited which operates its own capital management system.

The principles and objectives of financial management are as follows (the risks to which Tipp24 is exposed are described in the current risk report):

- **Cash and cash equivalents** are invested in a variety of short-term securities offering as much liquidity and as little volatility as possible, while ensuring broad risk diversification. The overriding objective of our investment strategy is to preserve capital – even at the expense of expected returns.
- **Equity** above that required to ensure the Company's stable financial position is to be used for investments and other fi-

nance in line with our growth strategy. In the medium term, it is possible that Tipp24 may also leverage its financial position by means of interest-bearing debt. In future, liquid equity capital not required for the Company's strategic objectives is to be used once more to pay dividends to our shareholders and buy back shares from the market. However, this optimization of equity is only prudent and possible when MyLotto24 Limited can distribute profits to Tipp24 SE again.

### Financial analysis

The **financial situation** of Tipp24 is dominated by short-term other liabilities and equity.

<b>Other liabilities</b> in EUR thousand	31 Dec. 2011	31 Dec. 2010
Liabilities from gaming operations	17,605	15,571
Tax liabilities	3,008	909
Liabilities from open invoices	416	714
Liabilities from social security	136	118
Others	679	224
	<b>21,844</b>	<b>17,536</b>

**Short-term other liabilities** mainly consist of advance payments, payouts to customers not yet made as of the balance sheet date, licence and operator fees owed to gaming licensors (liabilities from gaming operations) and tax liabilities. In 2011, short-term other liabilities rose by 24.5% to EUR 21,844 thousand (prior year: EUR 17,536 thousand).

As of the end of the reporting period 2011, there were only **long-term liabilities** of EUR 904 thousand in the form of deferred tax liabilities (prior year: EUR 181 thousand). Tipp24 has not taken out any long-term interest-bearing debt.

**Equity** consists of accumulated profits, less loss carryforwards, from capital contributions in the Company's early phase (1999 and 2000), from the additional equity generated by our IPO, and the proceeds from the sale of treasury shares. On 31 December 2011, the equity capital of Tipp24 amounted to EUR 129,291 thousand (prior year: EUR 92,921 thousand), corresponding to an equity ratio of 74.7% (prior year: 71.5%).

### Minor significance of off-balance-sheet financial instruments for the financial position

Off-balance-sheet financial instruments do not play a significant role in financing Tipp24. A bank guarantee facility in the amount of EUR 207 thousand has been taken out to secure future obligations under rental agreements for office space. Furthermore, Tipp24 had off-balance-sheet future obligations from operating lease agreements for offices, company cars and technical equipment in the amount of EUR 1,200 thousand (prior year: EUR 1,348 thousand).

### Investment analysis

Investing activities during 2011 resulted in net cash flow of EUR -24,157 thousand (prior year: EUR -48,446 thousand). Proceeds and disbursements from financial investments resulted in EUR -16,967 thousand (prior year: EUR -36,431 thousand). Net cash flow from investments in our operating business totalled EUR -7,189 thousand (prior year: EUR -12,015 thousand), focusing mainly on improvements to the new gaming software, as well as the ongoing expansion and continual updating of live systems. Systems are continually expanded and updated in line with growing capacity requirements, as well as changing security standards and technologies.

### Liquidity analysis

Key cash flow positions in EUR thousand	2011	2010
Cash flow from operating activities	44,323	14,081
Cash flow from investing activities	-24,157	-48,446
of which financial investments	-16,967	-36,431
of which operating investments	-7,189	-12,015
Cash flow from financing activities	0	8,950
<b>Change in cash and pledged cash</b>	<b>20,166</b>	<b>-25,415</b>
Changes due to consolidation	0	11
Cash at the beginning of the period (without pledged cash)	42,673	69,111
Change in pledged cash	527	-1,033
<b>Cash at the end of the period</b>	<b>63,366</b>	<b>42,673</b>
Short-term financial assets	65,433	48,226
<b>Available funds</b>	<b>128,799</b>	<b>90,899</b>

(Rounding differences possible due to presentation in EUR thousand)

At EUR 44,323 thousand, **cash flow from operating activities** in 2011 exceeded the prior-year level (EUR 14,081 thousand), mainly as a result of the increase in consolidated net profit and a rise in liabilities from gaming operations and gaming duties in the period under review.

As explained in the investment analysis section above, **cash flow from investing activities** rose year on year by EUR 24,289 thousand to EUR -24,157 thousand.

**Cash flow from financing activities** amounted to EUR 0 (prior year: EUR 8,950). Tipp24 has available funds in the form of cash and short-term financial assets of EUR 128,799 thousand (prior year: EUR 90,899 thousand). This ensures that our operator of

secondary lotteries, MyLotto24 Limited, always has sufficient short-term liquidity for the swift payment of high jackpot winnings.

<b>Other assets</b> in EUR thousand	31 Dec. 2011	31 Dec. 2010
Receivables from gaming operations	2,701	3,546
Prepaid expenses	2,616	1,247
Receivables from tax authorities for sales tax	597	1,160
Others	760	2,011
	<b>6,674</b>	<b>7,964</b>

(Rounding differences possible due to presentation in EUR thousand)

## ASSET SITUATION

### Sound asset structure

Tipp24's asset profile is dominated by current assets of EUR 136,828 thousand (31 December 2010: EUR 100,569 thousand). These consist largely of cash (EUR 64,123 thousand), short-term financial assets (EUR 65,433 thousand) and other assets and prepaid expenses (EUR 6,674 thousand). Moreover, Tipp24 has intangible assets (mainly software) amounting to EUR 22,755 thousand, financial assets of EUR 4,351 thousand, property, plant and equipment (mainly hardware and office equipment) amounting to EUR 2,692 thousand and deferred tax assets amounting to EUR 5,788 thousand.

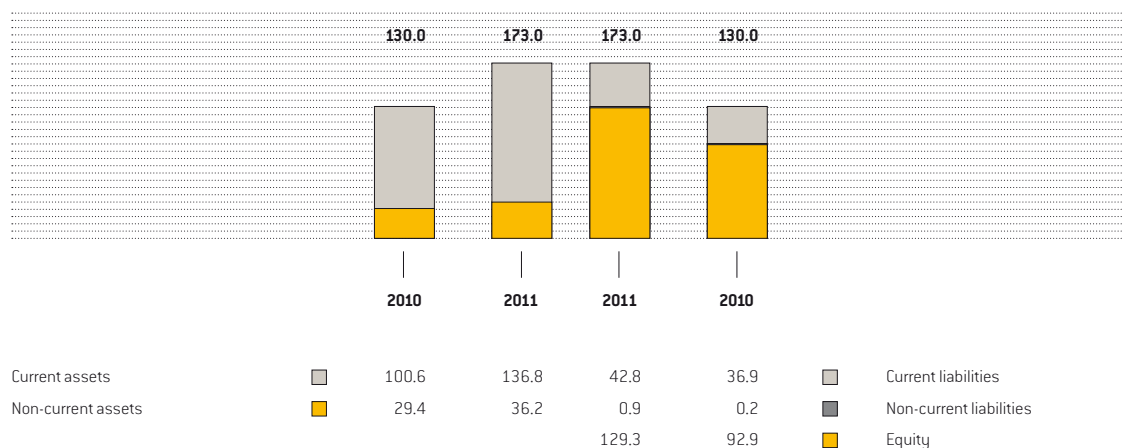
The development of assets mainly reflects the development of cash flow from operating activities.

### Assets not recognized

On 23 September 2009, MyLotto24 Limited recorded a jackpot win of EUR 31.7 million which reduced revenue by the same amount and was insured for an amount of EUR 21.7 million. As the insurance case developed into litigation in early 2010, the entire amount of the receivable due from the insurance company was classified as a contingent receivable and not carried in the balance sheet.

This contingent receivable no longer exists. In June 2011, a legal dispute of MyLotto24 Limited was settled by mutual agreement. As a consequence, the forecast for earnings before interest and taxes (EBIT) could be raised from EUR 30 million to EUR 40 million.

As in the past, Tipp24 also does not recognize self-produced assets, such as customers, brands and gaming software, in its financial statements. The considerable costs incurred for the internal development of new gaming software – especially personnel expenses – were not capitalized as they do not meet all criteria prescribed by IAS 38.57.

**BALANCE SHEET STRUCTURE** in EUR million**Significance of off-balance-sheet financial instruments for the asset situation**

Tipp24 has future obligations of EUR 30,009 thousand from agreements containing obligations from services, cooperation, insurance, maintenance and licence agreements. There are also obligations from an operating lease with a present value of EUR 1,200 thousand.

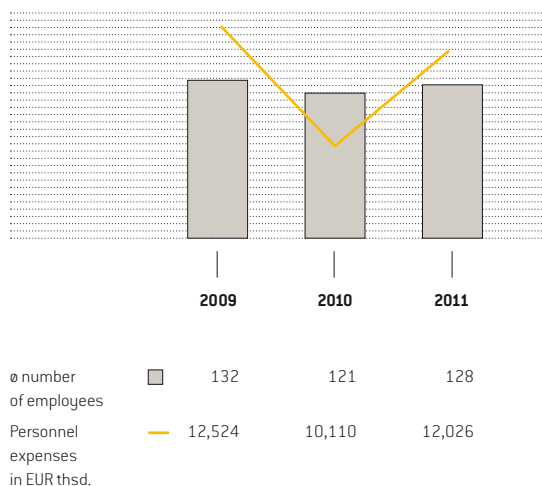
**Employees**

In addition to the three members of the Executive Board and the General Managers of the consolidated companies, Tipp24 had an average of 128 full-time employees (year-end: 128) and one trainee in 2011. The average age was 35. There were also an average of 30 student helpers in 2011, generally working a 20-hour week.

As in Germany, the regular working week of the Abroad segment comprises 40 hours. There are no applicable works agreements or collective wage agreements in place in the Germany segment and a works council has not been set up. In the Abroad segment, there are tariff agreements according to the particular location.

In the period under review, Tipp24 invested EUR 139 thousand (prior year: EUR 135 thousand) in external training activities. In addition, all employees take part in regular training measures within their respective departments.

Based on current information, Tipp24 regularly ensures compliance with all industrial health and safety standards required by law. There was one industrial accident in 2011.

**NUMBER OF EMPLOYEES/PERSONNEL EXPENSES**



## OVERALL STATEMENT ON ECONOMIC POSITION

### Management's assessment of the economic position

For the third consecutive year following the implementation of the second stage of the GlüStV, Tipp24 was prevented from pursuing its traditional business of brokering state-run lotteries in Germany during 2011. At the same time, business activities in the Abroad segment continued to make steady progress. Against this backdrop, we continue to regard Tipp24's situation as generally robust: Tipp24 has sufficient resources to successfully prevail even in the face of significant negative regulatory conditions. Above all, however, in view of what we regard as the obvious incompatibility of current gaming legislation in Germany with EU and anti-trust law, especially with regard to ongoing constitutional reservations, we believe that it is unlikely that such legislation can prevail in the long term. This belief has been confirmed by the ECJ with regard to its incompatibility with EU law.

At the same time, the Executive Board sees the opportunity for sustained encouraging growth in the medium term. In comparison with other sectors, the online lottery market in Germany and abroad is still underdeveloped – there is therefore a strong probability that the sector will enjoy significant growth in the coming years. Tipp24 is excellently positioned to benefit strongly from such growth. Furthermore, we see attractive additional potential in new product categories and in the course of ongoing deregulation of European lottery markets. Tipp24 has extensive financial liquidity, mainly from equity capital. This provides considerable scope to grasp future growth opportunities – for example by means of acquisitions.

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

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

## DISCLOSURES AND EXPLANATIONS PURSUANT TO TAKEOVERS

The following disclosures are in compliance with § 315 German Commercial Code (HGB):

- As of 31 December 2011, the Company's subscribed capital amounts to EUR 7,985,088.00 divided into 7,985,088 no-par value registered shares. The shares are fully paid. Each share entitles the owner to one vote and is decisive for the respective share of profit.
- The following direct or indirect holdings in the Company's share capital, in excess of 10% of total voting rights, were reported to the Company pursuant to § 21 WpHG during the period under review or at an earlier point and did not change during the period under review:

Name, location	Shareholding	Reporting date
Othello Drei Beteiligungs GmbH & Co. KG, Hamburg	27.17% (directly)	25 August 2010
Othello Drei Beteiligungs-Management GmbH, Hamburg	27.17% (attributable)	25 August 2010
Günther Holding GmbH, Hamburg	27.17% (attributable)	25 August 2010
Günther GmbH, Bamberg	27.17% (attributable)	28 April 2008
Oliver Jaster, Germany	27.17% (attributable)	10 August 2011

- The following statutory regulations and provisions of the Company's Articles apply for the appointment and dismissal of Executive Board members as well as for any amendments to the Company's Articles:

The members of the Executive Board of Tipp24 SE are appointed by the Supervisory Board for a period of no more than five years (§ 9 (1), § 39 (2) and § 46 SE-Regulation, § 84, 85 of the German Stock Corporation Act (AktG), § 6 (2) of the Articles). Members may be re-appointed for further periods of no more than five years. Members of the Executive Board are appointed with a simple majority of the votes cast by the Supervisory Board. In the event of a tie, the Chair-

man has two votes in a second vote on the same matter if a tie also results (§ 13 (6) of the Articles). If a necessary member of the Executive Board is missing, the court may appoint a member in urgent cases and on application of a person involved in accordance with § 85 AktG. The Executive Board consists of one or more persons pursuant to § 6 (1) of the Company's Articles. Otherwise, the Supervisory Board determines the number of members of the Executive Board and appoints a Chairman of the Executive Board pursuant to § 84 (2) AktG.

Resolutions concerning changes of the Company's Articles must be adopted by the Annual General Meeting. Pursuant to § 21 (1) sentence 2 of the Articles, and unless otherwise prescribed by law, amendments to the Articles require a majority of two thirds of votes cast or, providing half the share capital is represented, a simple majority of the votes cast. The Articles make use of the option available under § 51 sentence 1 SE-Implementation Act, which in turn is based on § 59 (1) and (2) SE- Regulation. A larger majority, for example, is required to change the purpose of the Company and to relocate its head office to another member state (§ 51 sentence 2 SE-Implementation Act). The Supervisory Board is authorized to resolve amendments to the Articles of Association that only concern the formal wording (§ 179 (1) sentence 2 AktG and § 16 of the Articles). The last amendments to the Articles of Tipp24 SE were adopted by the Annual General Meeting of 29 June 2011; § 4 (2) of the Articles regarding the creation of new Authorized Capital was revised. At the same time, § 9 (1) of the Articles regarding a change in the number of Supervisory Board members was also revised.

- The Executive Board has the following authorizations to issue shares and to purchase or use treasury shares:  
There is Authorized Capital at present amounting to EUR 1,597,017 which authorizes the Executive Board to issue shares.

Pursuant to § 4 (4) of the Articles, there is a Contingent Capital of EUR 150,000, whereby the contingent capital increase is only implemented to the extent that the holders of stock options issued under the 2005 stock option plan exercise their option rights and the Company does not grant treasury shares or make a cash payment in order to satisfy the stock options. In the period of authorization, a total of 18,000 stock options were issued under the 2005 stock option plan, of which 4,000 were serviced from the Company's stock of treasury shares and 2,000 were redeemed via cash settlement, a further 2,000 can no longer be exercised due to expiry of the option term and thus 10,000 exercisable stock options still exist. At the Annual General Meeting of 29 June 2011 the Executive Board was also authorized to acquire treasury shares up to a pro rata proportion of almost 10% of share capital, corresponding to 798,508 shares. This authorization shall also enable the Company to offer such treasury shares as consideration for the acquisition of enterprises or interests therein without having to seek recourse to the stock exchange.

- Tipp24 SE has concluded the following compensation agreement with Executive Board members:  
(i) If a member of the Executive Board agrees to be re-appointed on the basis of the contractual conditions offered, the Executive Board member shall receive maximum compensation of half an annual gross salary if the company is then culpable in failing to reappoint said member. (ii) If an appointment to the Executive Board is effectively revoked, the Executive Board member has the right to claim compensation amounting to the remaining gross salaries, but limited to two annual gross salaries. (iii) Should another enterprise gain control of the company and the appointment of an Executive Board member is revoked within one year, this Executive Board member has the right to claim compensation amounting to the remaining gross salaries, but limited to three annual gross salaries.

## SUBSEQUENT EVENTS

On 20 February 2012, Tipp24 launched restricted brokerage operations for the state lottery of Schleswig-Holstein [»Landeslotteriegesellschaft Schleswig-Holstein«] under the www.lotto24.de brand and now seeks to resume full brokerage operations in Germany as soon as possible.

## FEATURES OF THE ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

We regard internal control and risk management as a comprehensive system based on the definitions of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e. V.), Düsseldorf, with regard to an accounting-related internal control system and risk management system. These define an internal control system as the principles, procedures and measures introduced by the management of a company, which are geared towards the organizational implementation of management decisions

- to ensure the effectiveness and efficiency of business activities (including the protection of assets, including the prevention and disclosure of asset impairment)
- to ensure the correctness and reliability of internal and external accounting and
- to ensure compliance with the legal provisions relevant to the Company.

The risk management system includes all organizational regulations and measures for risk detection and the handling of risks involved with business activity.

The following structures and processes have been implemented by Tipp24 with regard to the accounting and consolidated accounting processes:

The Group's Executive Board bears full responsibility for the internal control and risk management system with regard to the accounting and consolidated accounting processes.

All companies included in the consolidated financial statements are also included in a firmly defined management and reporting organization. In contrast hereto, the companies of the UK subgroup are only included via a firmly defined reporting organization which regularly provides the Group's Executive Board with information about the following measures: definition of risk areas which may lead to developments endangering future survival; risk recognition and risk analysis; risk communication; allocation of responsibilities and tasks; the establishment of a monitoring system; documentation of the measures taken. Moreover, the reporting organization requires that significant risks are to be reported immediately to the Group's Executive Board on occurrence.

The principles, structure and process organization, and procedures of the accounting-related internal control and risk management system are documented in guidelines and organizational directives which are regularly adapted to current external and internal developments. The guidelines and organizational directives in the respective segments are fully compatible with each other.

In the organizational structure of Tipp24, certain accounting-related processes in Germany and abroad – in particular payroll accounting – are outsourced.

Regarding the accounting and consolidated accounting processes, we consider those elements of the internal control and risk management system to be significant which can have a material effect on the Group's accounting and the overall statement of the consolidated financial statements including the Group management report. In particular, these include the following:

- the identification of significant risk fields and control areas of relevance to the Group-wide accounting process;
- controls to monitor the consolidated accounting process and its results at the level of the Group Executive Board and at the level of the companies included in the consolidated financial statements;

- preventative control measures in the finance and accounting system of the Group and of the companies included in the consolidated financial statements and in the operative, performance-oriented company processes that generate significant information for the preparation of the consolidated financial statements including the Group management report, including a separation of functions and of pre-defined approval processes in relevant areas;
- measures that safeguard proper IT-based processing of matters and data relevant to Group accounting;
- reporting information of the foreign companies which enable the German parent company to prepare consolidated financial statements including the Group management report.

Tipp24 has also implemented a risk management system for the consolidated accounting process that contains measures to identify and assess significant risks and corresponding risk-mitigating measures to ensure the correctness of the consolidated financial statements.

The tasks of the internal audit system to monitor the internal control and risk management system related to consolidated accounting are not undertaken by a staff department (Internal Audit), but by the Controlling and Accounting departments. Moreover, the Supervisory Board commissioned the external auditors to conduct additional audits.

The Executive Board and Supervisory Board also continually seek possibilities to develop the processes of the risk management system.

## REPORT ON EXPECTED DEVELOPMENTS AND ASSOCIATED MATERIAL OPPORTUNITIES AND RISKS

### RISK MANAGEMENT

The operating responsibility for risk management is anchored within the two business segments. In addition to the risk situation of Tipp24 SE, the Executive Board of Tipp24 SE assesses the risk position of the associated companies in the Abroad segment on the basis of risk reports provided as part of regular reporting duties, as well as special reports about the occurrence or change of particular risks, and the audit reports of the respective external auditors. Risk management as a whole and the implementation of a early risk warning system mainly follow the same guidelines in the individual segments. These guidelines are based on the scale of business and the respective size of the segments.

In summary, Tipp24 is exposed to the typical sector and market risks associated with the economic activities of an internationally operating company in the Internet sector. In addition, there are market-typical regulatory risks in individual lottery markets from possible changes in the respective legal and political situation. Finally, there are specific risks associated with the organization of secondary lotteries. These concern the statistical variations regarding the size of payouts as well as the increased risk of manipulation compared to the pure brokerage of lottery products.

Should one or more of these risks occur, it may materially impact Tipp24's business and have significant adverse effects on its net assets, financial position and results of operations.

The management teams of the respective segments take these risks very seriously and considers them in its operating and strategic decision processes: the development of the relevant risks is constantly monitored, whereby both current and future potential dangers are considered with the focus on early recognition, evaluation, prevention and control of risks.

The systems put in place enable Tipp24 to quickly recognize the relevant risks in its segments and overall, as well as to evaluate such risks and take measures as quickly as possible.

Tipp24's risk management can be described as follows:

**Operating risks** are monitored by regularly reviewing financial and other key ratios. The monitoring frequency, designated controlling responsibility and determined rules of procedure for defined deviations from target values are stipulated for each ratio. In the case of technology risks, pre-defined emergency procedures are implemented. Furthermore, the development of security standards is continually monitored and corresponding adjustments are regularly made to security systems.

**Legislation changes** in those markets in which Tipp24 operates are also regularly evaluated, with the help of legal advisors where necessary. In this way, unusual events can be swiftly recognized and suitable measures initiated.

The **statistical risks** of organising secondary lotteries are monitored by the statistical assessment of the gaming systems offered and the corresponding expected stakes. Under consideration of the available hedging instruments, such as jackpot insurance policies, it is ensured that sufficient liquidity to pay out jackpots in the respective gaming systems is always ensured.

The **risk management system** is firmly anchored in the respective segments at management level and continually monitored and updated. The Executive Board is regularly informed about the risk evaluation results. We are convinced that the early warning and risk management systems which Tipp24 has implemented are well suited to quickly recognizing and dealing with dangers for Tipp24 resulting from possible risks. The early risk recognition system has been formally documented. It is regularly monitored and adapted where necessary.

## PRESENTATION OF INDIVIDUAL RISKS

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

### Market and sector risks

#### *General market risks*

Business is dependent on the development of the markets in which Tipp24 operates. In particular, a negative development of the lottery markets, due for example to a decline in advertising, a reduction in the product portfolio of game operators or a statistically unusually long period without relevant jackpots may all negatively impact growth. The entry of further competitors into the lottery markets, especially online, may also restrict further growth. Finally, there is a possibility that use of the Internet itself may decline. This would also have a significant detrimental effect on Tipp24's business activities. We believe, however, that this is unlikely to happen.

#### *Risks from economic development*

The gaming behaviour of customers in those markets of Tipp24's consolidated companies has so far been largely unaffected by macroeconomic fluctuations experienced since the launch of gaming operations in 2000. Nevertheless, a possible, exceptionally strong economic downturn triggered by the global financial crisis may adversely affect the gaming behaviour of our customers in certain or all countries in which Tipp24 operates, and thus also impact the earnings, financial position and net assets of Tipp24.

#### *Financing and currency risks*

As Tipp24 conducts a significant proportion of its business in Euro, there is no significant currency risk for its core activities. However, the UK companies are exposed to a currency risk regarding the British Pound and the profit margins of these companies may be affected by currency fluctuations. Foreign associated companies are economically autonomous within their respective markets. This is underlined by the fact that they have local general managers who are also responsible for controlling the respective financing and currency risks.

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

Tipp24 is dependent on the use of automated processes for handling gaming agreements, whose efficiency and reliability is in turn dependent on the functionality and stability of the underlying technical infrastructure. The functional ability of the servers and the related hardware and software infrastructure – in particular specially created gaming software – is of considerable significance for the business of Tipp24, as well as for the reputation and attractiveness of its services for customers. The risk of a failure of all relevant components for gaming operations (e.g. database servers, application servers, web servers, firewalls, routers) is countered by either using redundant systems or entering into maintenance contracts with correspondingly short reaction times.

### *Tax risks*

In the course of a tax inspection, there is currently a dispute with the relevant tax authority regarding the validity of tax assessments for various items in the inspection period (fiscal years 2005 to 2007 inclusive). Although we have grounds to believe that all the items queried by the tax authority were correctly assessed in accordance with the relevant regulations, the possibility cannot be excluded that the relevant authority may come to a different conclusion and successfully uphold this view in any respective legal proceedings. As a result, there is a total tax risk of up to EUR 4.3 million, which might have a correspondingly negative effect on the earnings, financial position and net assets of Tipp24.

### *Risks from payment transactions*

National or international payment transaction restrictions may be introduced in connection with the further regulation of gaming markets. Moreover, the number of available payment service providers for the gaming market is restricted. As a consequence, there is a risk that such providers may leave this market segment and no suitable replacement may be available for Tipp24, even at a higher cost. Whereas cost increases for payment transactions would have a negative effect on the profitability of individual or even all Tipp24 companies, payment transaction restrictions or a lack of available payment service providers might have a significant adverse effect on the business activities of Tipp24.

### *Risks from cash and financial investments*

Tipp24 has cash in Germany and abroad totalling EUR 64,123 thousand, which is held in accounts with various major European banks. Theoretical default risks resulting from the current financial market development are limited by thorough and continuous analysis of the relevant credit institutes. Nevertheless, certain financial institutes where Tipp24 holds balances may default. Should the global financial crisis also deepen further and should – against all expectations – neither the national bank support systems nor the support packages provided by the leading industrialized states fail to avert the collapse of individual banks, this may result in the breakdown of various or possibly all credit institutes as well as all national support systems. Such scenarios may lead to the partial or complete loss of our cash deposits.

Short-term financial assets of EUR 65,433 thousand are invested widely and comprise mainly investments with high credit ratings. The collapse of individual issuers of such securities may lead to the partial or complete loss of these financial assets. The financial assets and cash deposits currently held also bear a significant interest risk. A reduction in interest rates may mean that no income can be generated from cash deposits and financial assets.

### *Personnel risks*

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

### *General business risks*

At the beginning of the fiscal year 2009, the Company's business fields were reorganized. As a result, the ongoing development in line with this growth of appropriate internal organizational and risk monitoring structures that allow early recognition of undesirable developments and risks – particularly in the IT area – was and remains a constant challenge. Further expansion of business in new markets and new product areas is planned for the years ahead. The challenge will continue to be to identify existing and new risks, and to assess them correctly in a timely manner, as well as to further develop the existing organizational and risk monitoring system appropriately and promptly. If gaps or defects in the existing organizational and risk monitoring system become evident in ongoing practice, or it is not possible to create appropriate structures and systems promptly in connection with the further development of Tipp24, this could lead to an impaired ability to recognize and manage risks, trends and undesirable developments in a timely manner.

### *Legal risks resulting from the regulatory development in Germany*

As a result of the extensive Internet prohibition and other restrictions of the GlüStV in Germany, Tipp24 was once again prevented from pursuing its traditional business of brokering state-run lotteries in Germany during fiscal year 2011. In spite of the ECJ ruling of 8 September 2010, that of the BVerwG on 24 November 2010 and those of various other administrative courts which confirm our own assessment of the situation, there is still a risk that this restrictive legal framework may be upheld throughout Germany also in the medium term. Within the framework of its remit, the ECJ has examined the restrictions of the GlüStV with regard to its compliance with EU law and in response to inquiries brought by several German courts has confirmed reservations regarding the compliance of Germany's gaming laws with EU law. In application of the principles determined by the ECJ, the BVerwG also referred to the contradictory nature of the German gaming monopoly in November 2010.

It is equally unlikely that the expiry of the GlüStV on 31 December 2011 and the new liberal gaming legislation in Schleswig-Holstein introduced on 1 January 2012 will allow access to Germany's huge market potential in the short term. Following the expiry of the GlüStV, it continues to apply in fifteen federal states in the form of state legislation. It is still unclear whether nationwide brokerage is possible solely on the basis of the Schleswig-Holstein legislation. Since 1 January 2012, there is obviously a clear contradiction in Germany's currently valid gaming regulations. In our opinion, such a serious contradiction directly results in the inapplicability of the ongoing restrictions for reasons of incoherence. It is unclear, however, to what extent Tipp24 can quickly relaunch nationwide operations on the basis of such an inapplicability of state gaming legislation under EU law.

In addition to the liberal gaming regulations of Schleswig-Holstein, the First State Treaty to Revise the State Treaty on Games of Chance in Germany (Erster Staatsvertrag zur Änderung des Staatsvertrages zum Glücksspielwesen in Deutschland – ÄndGlüStV) of the remaining 15 states is expected to come into force on 1 July 2012. However, the ÄndGlüStV continues many of the illegal restrictions of the old GlüStV criticised by the ECJ and the Commission. It is not expected that the ÄndGlüStV will clarify the ongoing uncertainties in the short term.

Tipp24 SE has clearly won some of the court cases it has brought in certain federal states since 2008. Only one verdict is enforceable as yet, however, while the other proceedings are still in progress in lower- and upper-level courts. Numerous authorities had forbidden Tipp24 SE from brokering games of chance to customers in Germany. Several verdicts have since been repealed, however. There is currently one prohibition order for North Rhine-Westphalia, which forbids the brokerage of games of chance, and one for the federal state of Saxony-Anhalt, which forbids the brokerage and advertising of games of chance not permitted in Saxony-Anhalt. The action for annulment of the prohibition order for North Rhine-Westphalia was rejected in a lower-court verdict in November 2011, whereby an appeal process was permitted. The order is thus still enforceable in North Rhine-Westphalia and must therefore be observed. Tipp24 SE has appealed against the verdict. The prohibition order for Saxony-Anhalt has been repealed in a lower-court verdict, but is not yet legally binding as the state has lodged an appeal. For the time being, both prohibi-

ition orders are still enforceable and would lead to coercive payments. Tipp24 SE observes these regulations, whereby it should be noted that Tipp24 SE has never brokered foreign games, as alleged by the authorities.

If the current discrimination against commercial online brokerage in particular continues, this could significantly delay the planned resumption of business in Germany.

In 2011, there was a favourable development in proceedings regarding Tipp24 SE's responsibility for offerings of its minority investments as well as in the resulting risks: two administrative courts rejected any responsibility of the German company. In advance, some courts attempted to interpret verdicts originally concerning German lottery brokerage in the past in such a way that these also concerned the brokerage of secondary lotteries by investment companies. A prohibition order for Tipp24 SE expressly forbidding Tipp24 SE's operations for 12 federal states »via« the UK companies was legally repealed as the UK companies conduct their business independently and Tipp24 SE neither controls such activities nor is responsible for them. A coercive payment with comparable grounds passed by the state of North Rhine-Westphalia was voluntarily repealed again by the authorities after a verdict of VG Düsseldorf. We therefore do not expect any further coercive payments against Tipp24 SE due to the UK business, which the German authorities regard as illegal on the basis of German gaming legislation. In view of the legal opinions and verdicts of the federal states, however, it cannot be completely excluded that certain authorities will issue further prohibition orders against Tipp24 SE, or impose coercive payments and regulatory fines which may be upheld in court. Moreover, German authorities are attempting to directly forbid or prevent the UK companies from operating their own business model, even though the UK companies operate on the basis of concessions issued by the UK Gambling Commission and, according to the ECJ ruling on the interpretation of EU law, German legislation is to be regarded as incoherent and inapplicable as even the German organization monopoly is inapplicable and there are considerable doubts about the applicability of the permit requirement and Internet ban (see above). Even if the legal basis for such action outside Germany is difficult to comprehend and its effect questionable, it cannot be excluded that such measures would hinder or prevent the business activities of the UK companies.

In their capacity as market participants, certain state lottery companies also believe that the UK companies contravene the GlüStV and are thus anticompetitive. Even if we assume that the UK companies are acting legally on the basis of valid concessions explicitly allowing the activity performed, it cannot be ruled out that they will fail to assert their rights in German courts. We cannot exclude the possibility that the above mentioned risks may lead to a significant restriction in the business activities of the UK companies.

In view of the doubts expressed by the supreme court, there is a not insignificant probability that the national courts will increasingly come to the conclusion that the German monopoly regulations are incoherent and thus disproportional. A coherent implementation of restrictions intended to prevent gambling addiction would not ignore what the ECJ and BVerwG believe to be the most dangerous games (commercial gaming machines), whose operation is currently allowed and even facilitated for private persons – irrespective of which legislator is responsible, federal or state. Moreover, the ECJ – and recently also the Higher Administrative Court of North Rhine-Westphalia – believe that the current advertising methods of state-run lotteries contradict the aim of preventing gambling addiction and are instead aimed at gaining new customers. Such incoherencies justified the decision that the European freedom of private persons to provide services was restricted in a disproportional manner. German authorities and courts are currently adopting the view that the monopoly regulations may be ineffective, but that the need to seek permission and the Internet ban are still effective. Based on numerous legal analyses and court verdicts to the contrary, we regard this view as incorrect – above all for the field of lottery brokerage.

In summary, however, it cannot be excluded that the ongoing legal uncertainties arising from regulatory developments in Germany will lead to temporary or sustained restrictions for the existing or future business fields of Tipp24. This may have a significant negative impact on the earnings, financial position and net assets of Tipp24.



## Bookmaking risks of MyLotto24 Limited

### *Statistical risks of winnings payouts*

MyLotto24 Limited bears the bookmaking risks for secondary lotteries based on various European lotteries. The payout ratios are based on those offered by the organisers of the primary lotteries. Due to statistical fluctuation, these ratios may be greater than the payout ratios determined by the gaming systems of the primary lotteries – for example, around 50% in the case of the German Lotto. They may even be temporarily greater than the stakes received by MyLotto24 Limited – as was the case in September 2009. Insofar as they are not covered by the existing effective hedging arrangements, such statistical payout fluctuations may have a significant negative effect on the earnings, financial position and net assets of MyLotto24 Limited, which through consolidation would also represent a burden for Tipp24 as a whole. In 2011, MyLotto24 Limited structured a catastrophe bond (CAT bond) via an Insurance-Linked-Security (ILS) vehicle to partially transfers its jackpot payment risks to the capital market. MyLotto24 Limited informs Tipp24 SE immediately about individual payouts of at least EUR 5 million. Tipp24 SE currently has a communication guideline which requires the publication of such notifications. It is generally assumed that this announcement to the capital market is included in the company's ad hoc disclosure obligations. However, such notifications are checked in advance on a case-by-case basis.

### *Risks from the assertion of claims from hedging transactions*

It cannot be fully excluded that insurers fail to fulfil their payment obligations in future and that such claims have to be enforced in court. Such refusals to pay only have a direct impact on the earnings, financial position and net assets of MyLotto24 Limited, and thus on Tipp24 by means of consolidation, if the corresponding claim has been recognized at all in the balance sheet – for example as a result of an initial payment pledge.

## Manipulation risks

There is a risk that the participation in a secondary lottery organized by MyLotto24 Limited may be manipulated. In particular, participation may be subsequently simulated in knowledge of the winning numbers. This would have a correspondingly negative impact on the earnings, financial position and net assets of MyLotto24 Limited, which through consolidation would also represent a burden for Tipp24 as a whole. MyLotto24 Limited has established extensive security systems in order to counter this risk. All game numbers of the participating customers are stored redundantly on special manipulation-protected systems with an unalterable time indicator prior to the time of the draw. The calculation of winnings payouts is also handled redundantly by the secure systems. There are regular checks of winnings claims for every single game number. All processes and results concerning winnings are constantly monitored and audited by reputable independent auditors. Against this backdrop, the risk of manipulation is regarded as low.

## CONCLUDING STATEMENT CONCERNING THE GROUP'S RISK SITUATION

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

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

Even in the case of further unfavourable regulatory developments, we do not believe our existence is endangered. Tipp24 has the necessary abilities and skills, as well as the personnel resources and sufficient financial means, to successfully shift the main focus of its strategy to the development of foreign markets and the diversification of its product portfolio, as well as further business alternatives still to be examined with regard to continuing its business on a long-term and profitable basis.

## FORECAST AND OPPORTUNITY REPORT

In general, Tipp24 SE plans to clarify the legal and political conditions for its business model in Germany by utilising all available appeal possibilities and continuing its political lobbying. On 20 February 2012, we launched restricted brokerage operations for the state lottery of Schleswig-Holstein (>Landeslotteriegesellschaft Schleswig-Holstein<) under the www.lotto24.de brand and now seek to resume full brokerage operations in Germany as soon as possible. In view of the current political and regulatory developments, there has been a strong improvement in this prospect – even though no favourable clarification has been achieved yet. In this connection, Tipp24 intends to spin off its planned German lottery brokerage business from the Tipp24 Group and transfer it to a company also listed on the Frankfurt stock exchange. The shareholders of Tipp24 SE are to receive a share in this independent company: the future Lotto24 AG. The Executive Board and Supervisory Board will therefore propose to the Annual General Meeting of Tipp24 SE to distribute shares in the future Lotto24 AG to all shareholders in the form of a dividend in kind.

According to the executive boards of our minority shareholdings, the growth strategy in Europe is also to be continued. In particular, we regard the provision of technology and marketing services for international lottery operators enabling them to successfully market their products online, as a new and promising business field in the medium term.

### Expected earnings position

For its fiscal year 2012, Tipp24 SE expects consolidated EBIT of at least EUR 35 million and revenue of at least EUR 130 million. This forecast includes consideration of uncertainties regarding negative statistical fluctuations amounting to EUR 10 million. In view of the planned spin-off, no expenses have been taken into account for the re-establishment of German operations.

Should the current legal and economic conditions remain stable beyond 2012 into 2013, the forecast for 2012 can also be applied in the same way to 2013. Against the backdrop of a very unsettled regulatory environment, however, this forecast is still subject to significant uncertainties.

### Expected financial position

We aim to reduce our equity ratio in the coming years with the following measures: expansion of business and thus of debt from gaming operations, partial exchange of equity for interest-bearing debt, distribution of dividends, and share buyback programmes. However, Tipp24 SE still bears considerable running costs – mainly for administration and legal advice – but has very few revenue streams itself from its own activities. At the same time, the profits of associated companies in the Abroad segment are currently being carried forward and not distributed to Tipp24 SE. As a consequence, Tipp24 SE will only be in a position to distribute dividends when the legal situation in Germany has been settled in our favour.

We expect capital expenditure to be well below the prior-year value in 2012. Investments are planned mainly in the Abroad segment and will focus on steadily improving the performance of the system components used, updating standard software, and replacing outdated hardware. We are planning total investments of around EUR 3–5 million in both 2012 and 2013.

**Significant 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. The ECJ verdict announced on 8 September 2010, as well as verdicts of Germany's anti-trust authorities and subsequent court instances for EU anti-trust legislation, various temporary verdicts at German administrative and civil courts, the introduction of liberal gaming legislation in Schleswig-Holstein, and official pronouncements on a European level may also result in steps towards deregulation in the medium term with a direct or indirect impact on lotteries. With its international alignment, Tipp24 may benefit more than average from such a development: above all, it would not only allow the company to resume operations on the German market but also enable further internationalization – thus significantly increasing access to our product portfolio and enabling Tipp24 to enter new European markets with its existing products.

CONSOLIDATED FINANCIAL STATEMENTS

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

		2011	2010
in EUR thousand	Notes		
Revenues	5	139,316	101,882
Other operating income	6	15,913	4,968
<b>Total operating performance</b>		<b>155,229</b>	<b>106,850</b>
Personnel expenses	7	-12,026	-10,110
Amortization/depreciation on intangible assets and property, plant and equipment	16, 17	-6,177	-2,212
Other operating expenses	8	-85,121	-61,846
Marketing expenses		-7,813	-9,826
Direct costs of operations		-48,817	-33,816
Other costs of operations		-28,491	-18,204
<b>Result from operating activities (EBIT)</b>		<b>51,905</b>	<b>32,681</b>
Revenues from financial activities	9	1,129	634
Expenses from financial activities	9	-264	-148
<b>Financial result</b>	9	<b>865</b>	<b>486</b>
<b>Result from ordinary activities</b>		<b>52,770</b>	<b>33,167</b>
Income taxes	10	-14,455	-11,193
<b>Profit from continued operations</b>		<b>38,315</b>	<b>21,974</b>
Profit after tax from discontinued operations	11	-1,976	-2,423
<b>Consolidated net profit <sup>1)</sup></b>		<b>36,339</b>	<b>19,551</b>
Earnings per share (undiluted and diluted, in EUR/share)		4.55	2.53
Earnings per share from continued operations (undiluted and diluted, in EUR/share)		4.80	2.85
Weighted average of ordinary shares outstanding (undiluted and diluted, in shares)		7,985,088	7,715,614

<sup>1)</sup> The consolidated net profit is attributable to the owners of Tipp24 SE, Hamburg, Germany.

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

		2011	2010
in EUR thousand	Notes		
<b>Net profit for the period</b>		<b>36,339</b>	<b>19,551</b>
<b>Other result</b>			
Unrealized gains/losses from revaluation of financial assets held for sale	27	14	8
<b>Other result after tax</b>		<b>14</b>	<b>8</b>
<b>Total net profit after tax</b>		<b>36,353</b>	<b>19,559</b>

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

		31 Dec. 2011	31 Dec. 2010
<b>ASSETS</b> in EUR thousand	Notes		
Cash and pledged cash	12	64,123	43,957
Short-term financial assets	12	65,433	48,226
Trade receivables	13	12	27
Income tax refund claims	14	586	396
Other assets and prepaid expenses	15	6,674	7,964
<b>Total current assets</b>		<b>136,828</b>	<b>100,569</b>
Intangible assets	16	22,755	23,863
Other equipment, furniture & fixtures and leased assets	17	2,692	1,459
Financial assets	18	4,351	1,600
Other assets	27	629	0
Deferred tax assets	10	5,788	2,521
<b>Total non-current assets</b>		<b>36,215</b>	<b>29,444</b>
<b>ASSETS</b>		<b>173,043</b>	<b>130,013</b>

		31 Dec. 2011	31 Dec. 2010
<b>EQUITY &amp; LIABILITIES</b> in EUR thousand	Notes		
Trade payables	27	5,860	5,834
Other liabilities	19	21,844	17,536
Financial liabilities	27	102	87
Deferred income	20	2,350	4,561
Income tax liabilities	14	7,888	4,920
Short-term provisions	21	4,804	3,972
<b>Total current liabilities</b>		<b>42,848</b>	<b>36,911</b>
Deferred tax liabilities	10	904	181
<b>Total non-current liabilities</b>		<b>904</b>	<b>181</b>
Subscribed capital	22	7,985	7,985
Capital reserves	22	7,805	43,815
Other reserves	22	-21	-125
Retained earnings	22	113,523	41,247
<b>Total equity</b>		<b>129,291</b>	<b>92,921</b>
<b>EQUITY &amp; LIABILITIES</b>		<b>173,043</b>	<b>130,013</b>



## CONSOLIDATED CASH FLOW STATEMENT

### FOR THE PERIOD 1 JANUARY TO 31 DECEMBER ACC. TO IFRS

	2011	2010
in EUR thousand		
Profit from continued operations before tax	52,770	33,167
Profit from discontinued operations before tax	-1,976	-2,423
<b>Result before tax</b>	<b>50,793</b>	<b>30,744</b>
Adjustments for		
Amortization/depreciation on non-current assets	7,010	2,860
Result from disposal of non-current assets	44	2
Result from foreign exchange transactions	126	0
Revenues from financial activities	-1,129	-634
Expenses from financial activities	264	148
Changes in		
Trade receivables	14	-17
Other assets and prepaid expenses	1,290	-477
Financial assets	-2,751	50
Non-current other assets or prepaid expenses	-629	0
Trade payables	26	578
Other liabilities	4,308	-12,287
Financial liabilities	14	-17
Short-term provisions	832	1,885
Deferred income	-2,212	593
Other non-cash changes	29	13
Non-current provisions	0	-148
Interests received	815	632
Interests paid	-209	-148
Taxes paid	-14,313	-9,697
<b>Cash flow from operating activities</b>	<b>44,323</b>	<b>14,081</b>
Changes (net) on financial investments (short-term)	-16,967	-36,431
Payments for investments in intangible assets	-5,178	-11,419
Proceeds from the sale of intangible assets	0	96
Payments for investments in property, plant and equipment	-2,016	-703
Proceeds from the sale of property, plant and equipment	4	11
<b>Cash flow from investing activities</b>	<b>-24,157</b>	<b>-48,446</b>

Explanations are provided in Note 3.

		2011	2010
in EUR thousand	Notes		
Sale of treasury shares		0	8,950
<b>Cash flow from financing activities</b>		<b>0</b>	<b>8,950</b>
Changes in cash and pledged cash		20,166	-25,415
Cash at the beginning of the period (except pledged cash)		42,673	69,111
Changes due to consolidation		0	11
Changes in pledged cash		527	-1,033
<b>Cash at the end of the period (except pledged cash)</b>		<b>63,366</b>	<b>42,673</b>
<b>Composition of cash at the end of the period</b>			
Cash and pledged cash	12	64,123	43,957
Pledged cash	12	-757	-1,284
		<b>63,366</b>	<b>42,673</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Share capital	Capital reserves	Other reserves	Retained earnings	Treasury shares	Total equity
<b>As at 1 January 2010</b>	<b>7,985</b>	<b>39,342</b>	<b>-146</b>	<b>21,104</b>	<b>-3,886</b>	<b>64,399</b>
Sale of treasury shares	0	8,950	0	-3,886	3,886	8,950
Adjustments of balance sheet loss	0	-4,477	0	4,477	0	0
Share-based payments	0	0	13	0	0	13
Other results	0	0	8	0	0	8
Net profit 2010	0	0	0	19,551	0	19,551
Total net profit 2010	0	0	8	19,551	0	19,559
<b>As at 31 December 2010</b>	<b>7,985</b>	<b>43,815</b>	<b>-125</b>	<b>41,247</b>	<b>0</b>	<b>92,921</b>
<b>As at 1 January 2011</b>	<b>7,985</b>	<b>43,815</b>	<b>-125</b>	<b>41,247</b>	<b>0</b>	<b>92,921</b>
Contribution to other provisions	0	0	72	-72	0	0
Adjustments of balance sheet loss	0	-9,625	0	9,625	0	0
Withdrawal from capital reserves	0	-26,385	0	26,385	0	0
Share-based payments	0	0	18	0	0	18
Other results	0	0	14	0	0	14
Net profit 2011	0	0	0	36,339	0	36,339
Total net profit 2011	0	0	14	36,339	0	36,353
<b>As at 31 December 2011</b>	<b>7,985</b>	<b>7,805</b>	<b>-21</b>	<b>113,523</b>	<b>0</b>	<b>129,291</b>

Explanations are provided in Note 22

## NOTES TO THE CONSOLIDATED STATEMENTS AS AT 31 DECEMBER 2011 ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### 1 GENERAL INFORMATION

Tipp24 SE, Hamburg, was formed in 1999 in Hamburg. Tipp24 SE holds a group of consolidated companies (hereinafter referred to as Tipp24) comprising the investment companies GSG Lottery Systems GmbH, Hamburg (hereinafter referred to as GSG), Tipp24 Entertainment GmbH, Hamburg (hereinafter referred to as Tipp24 Entertainment), Tipp24 Deutschland GmbH (hereinafter referred to as Tipp24 Deutschland), Ventura24 S.L., Madrid, Spain (hereinafter referred to as Ventura24), Ventura24Games S.A., Madrid, Spain (hereinafter referred to as Ventura24Games), Giochi24 S.r.l., Monza, Italy, (hereinafter referred to as Giochi24), MyLotto24 Limited, London, UK (hereinafter referred to as MyLotto24), Tipp24 Services Limited, London, UK (hereinafter referred to as Tipp24 Services) and Tipp24 Operating Services Limited, London, UK (hereinafter referred to as Tipp24 Operating Services) as well as Schumann e. K., Hamburg (hereinafter referred to as Schumann e. K.).

For over twelve years, Tipp24 has been operating privately in a European lottery market which is still dominated by state operators. Tipp24's activities are divided strictly between its Germany and Abroad segments.

#### AMENDMENTS TO THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

The consolidated financial statements and Group management report prepared and audited as of 26 March 2012 were amended on 20 April 2012 prior to their approval. The following items of the consolidated financial statements and Group management report are affected by these amendments:

In the consolidated balance sheet of the amended consolidated financial statements, an amount of EUR 36,010 thousand was withdrawn from capital reserves in favour of retained earnings. In the original consolidated financial statements, an amount of just EUR 9,625 thousand was withdrawn from capital reserves.

The corresponding increase in withdrawals from capital reserves of EUR 26,385 thousand was included in the consolidated statement of changes in equity of the amended consolidated financial statements.

In the notes to the consolidated financial statements of the amended consolidated financial statements, amendments were made to the disclosures in note 22.3 on capital reserves. Moreover, the disclosures in notes 23 and 26 regarding the proposed dividend in kind were amended. Events after the balance sheet date as disclosed in note 28 were amended insofar as information regarding the planned spin-off was added. Further amendments refer to additional disclosures in note 29.2 regarding the Supervisory Board member Oliver Jaster and his membership of other supervisory boards or comparable controlling committees.

In the Group management report, information on the proposed dividend in kind in connection with the planned spin-off of German lottery brokerage operations was added to the sections Strategy, Concluding Statement Concerning the Group's Risk Situation, and the Forecast and Opportunity Report.

#### END-USER BUSINESS IN GERMANY

In fiscal year 2011, our business in Germany included activities in the field of class lotteries and skill-based games. The processing of class lottery tickets was governed by a cooperation agreement with Schumann e. K., whose sole shareholder is the former Executive Board member and current Supervisory Board member Jens Schumann. It conducts its operations on the basis of a sales agreement with the management of the North German State Lottery (Norddeutsche Klassenlotterie – NKL) and by way of appointment by the management of the South German State Lottery (Süddeutsche Klassenlotterie – SKL). The business volume generated by customers in Germany primarily comprises the stake money remitted to the gaming operators. Our revenues consist of commissions received for submitting lottery tickets to the lottery companies.

The Skill-Based Games division is operated via the website [www.tipp24games.de](http://www.tipp24games.de). Tipp24 Entertainment develops the games offered and operates the platform. In the case of games offered via the company's own platform, revenues are recognized at the time of game participation and result primarily from withholding a defined share of the stakes received from players. For games on social networks, revenue is recognized by the purchase of the required game currency in the amount of the forwarded stakes.

#### END-USER BUSINESS ABROAD

The entire non-German business of Tipp24 – i.e. its activities in Spain, Italy and the UK – is pooled with the fully consolidated UK-based minority holding MyLotto24. This company organises English secondary lotteries based on various European lotteries. In addition, Tipp24 Services acts as broker for various lotteries and other games in the UK and organises skill-based games on the website operated by Tipp24 Entertainment.

In Spain, Ventura24 currently offers the national 6 out of 49 lottery (La Primitiva) and related lottery teams, the Christmas lottery (Sorteo de Navidad), the European lottery Euromillones and other Spanish lotteries. In Italy, a legally binding operating and brokerage licence acquired by Giochi24 entitles it to offer the national 6 from 90 lottery (SuperEnalotto), as well as scratch cards and skill-based games via the website [www.giochi24.it](http://www.giochi24.it).

Revenue in **Spain** results mainly from additional fees, and in **Italy** mainly from commissions paid by lottery organisers for tickets transmitted.

With regard to the organising of games in the **UK**, revenue results from stakes received less vouchers granted, and winnings to be distributed. Licence and operator fees payable in the UK are disclosed as a cost position within »Other operating expenses«. In our UK brokerage business, revenue is generated by commissions received from game organisers, as well as additional fees charged to players. Winnings are subject to considerable statistical fluctuations compared to the expected value based on the playing systems of the reference games. In order to improve comprehension of the earnings position, the effect on revenue of any deviation between expected and actual payouts is also stated.

#### BUSINESS MODEL ADAPTED TO GLÜSTV

Following the implementation of the second stage of the German State Treaty on Games of Chance (GlüStV), which completely prohibited the brokering of state-run lotteries via the Internet as of 1 January 2009, Tipp24 SE discontinued its lottery brokerage activities in Germany. Its alignment was therefore brought in line with the regulatory environment – although Tipp24 continues to fight in the courts for the resumption of its business in Germany. In the course of this realignment, Tipp24 SE transferred assets that it no longer required to MyLotto24 and its subsidiaries, which had been active in the UK since 2007. This concerned both the brokerage of state-run German lottery products, as well as the subsidiaries Ventura24 in Spain and Giochi24 in Italy. In addition, Tipp24 SE transferred control over its UK subsidiaries in accordance with company law in the second quarter of 2009 to reflect the autonomy and individual responsibility of these companies in their respective business fields. Specifically, 60% of the voting shares in both MyLotto24 and Tipp24 Services were sold to a Swiss foundation set up by Tipp24 SE in the form of preference shares stripped of their main economic rights. These shares have a guaranteed limited right to dividends of up to a total of GBP 30 thousand p.a.. The inclusion of this affiliated company and its respective subsidiaries in the consolidated financial statements is based on an economic view of their situation, whereby the significant opportunities and risks are still borne by Tipp24 SE.

#### RESUMPTION OF BUSINESS IN GERMANY

In our former core market of Germany, we aim to resume the brokerage of state-licensed lotteries and return to our former growth rates for customer figures and billings.

Against the backdrop of the current legal and actual implementation of the gaming monopolies, including the lottery monopoly in Germany, the European Court of Justice (ECJ) declared on 8 September 2010 that

key regulations of the German State Treaty on Games of Chance (GlüStV) were not applicable as they represented an unjustifiable restriction of basic European freedoms. The regulations for existing gaming monopolies in Germany are thus not applicable as a whole at present. We believe that this affects – especially in the field of lotteries – the obligation of brokers to seek permission from the federal states, the prohibition of online gaming and the restriction and prohibition of advertising. Nevertheless, for the GlüStV's short remaining term of validity (until 31 December 2011), Germany's Federal Administrative Court (Bundesverwaltungsgericht – BVerwG) and Federal Supreme Court (Bundesgerichtshof – BGH) have generally confirmed the blanket Internet ban and need for permission in sports betting proceedings – despite reservations regarding the compliance of Germany's gaming monopoly with EU law – without any indication that they regarded the legal position of lottery brokerage any differently, despite the lack of high court verdicts. These recent verdicts are likely to be overturned though by future legislation following the amendment of the GlüStV in 2012 – which will once again allow the online brokerage of lotteries – and will thus not be of any lasting significance. Until the GlüStV 2012 comes into force, however, the state gaming laws based on the old GlüStV continue to apply in the 15 states other than Schleswig-Holstein. With its new »Schleswig-Holstein Gaming Law«, which came into effect on 1 January 2012, the north German state decided against an Internet ban and the need for permits – in the case of lottery brokerage. This would mean that in respect of the jurisdiction of the German Federal Administrative Court and Federal Supreme Court, the Internet ban and permit requirement may also have lost its applicability for the entire territory of Germany as of 1 January 2012. At present, there is no jurisdiction to support this highly contested theory.

The registered offices of Tipp24 SE are located at Falkenried-Piazza, Strassenbahnring 11, 20251 Hamburg, Germany.

The balance sheet date is 31 December 2011. Fiscal year 2011 covered the period from 1 January 2011 to 31 December 2011.

Tipp24 SE has been listed at the Frankfurt Stock Exchange (Prime Standard) since 12 October 2005 and was accepted into the German SDAX index on 22 June 2009. The change in legal form has no influence on the listing of Tipp24's shares.

These consolidated financial statements were prepared on 20 April 2012 with a resolution of the Executive Board and subsequently forwarded to the Supervisory Board for examination and adoption. The Annual General Meeting still has the fundamental right to alter the consolidated financial statements.

## 2 GENERAL ACCOUNTING PRINCIPLES

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

### 2.1 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1.1 GENERAL

The consolidated financial statements of Tipp24 as of 31 December 2011 were prepared in accordance with the valid IFRS and IFRIC of the International Accounting Standards Board (IASB) which have to be applied in the EU as of the balance sheet date.

The following standards and revisions of existing standards and interpretations were applied for the first time in the fiscal year under review:

- IAS 24 Related Party Disclosures (amended)
- IAS 32 Financial Instruments: Presentation (amended)
- Improvements to IFRSs (May 2010)

The impact on Tipp24's net assets, financial position and earnings from the application of these standards and interpretations is described below.

#### IAS 24 Related Party Disclosures (amended)

The amendment clarifies the definitions of a related party, thus improving comprehensibility and removing the existing inconsistencies in the past version of IAS 24. The adoption of the amendment did not have any impact on the net assets, financial position and earnings of Tipp24.

#### IAS 32 Financial Instruments: Presentation (amended)

The IASB issued an amendment that alters the definition of a financial liability according to IAS 32. The amendment contains an amended definition insofar as rights issues (and certain options or warrants) are to be classified as equity instruments if such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has no impact on the net assets, financial position and earnings of Tipp24, as it does not have such instruments.

#### Improvements to IFRSs (May 2010)

In May 2010, the IASB issued its third omnibus of amendments to various standards, with a view to removing inconsistencies and clarifying wording. The amendments resulted in changes to accounting policies, but had no impact on the Group's net assets, financial position and earnings.

- IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The amendment has no impact on the net assets, financial position and earnings of Tipp24, as it does not hold such collateral at present.
- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. Tipp24 presents this analysis in its notes to the financial statements.

Other amendments resulting from Improvements to IFRSs (May 2010) to the following standards did not have any impact on the accounting policies, net assets, financial position and earnings of Tipp24:

- IFRS 3 Business Combinations
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

The following new and amended interpretations did not have any impact on the accounting policies, net assets, financial position and earnings of Tipp24:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amended)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The IASB published the following standard, which has already been integrated into EU law within the framework of the comitology procedure but was not yet mandatory in the financial year 2011. Tipp24 did not prematurely adopt this standard:

- IFRS 7 Financial Instruments: Disclosures – Enhancing Disclosures about the Transfer of Financial Assets: The amendment requires extensive new qualitative and quantitative disclosures about transferred financial assets that were not derecognized, and about the entity's continuing involvement in transferred financial assets as of the reporting date. The amendment is likely to extend the scope of disclosures about financial instruments. However, it will have no impact on the recognition and measurement of assets and liabilities, nor earnings, in future fiscal years.

The IASB has issued standards and interpretations which were not yet effective in fiscal year 2011 and for which the comitology procedure required by EU law has not been completed yet. Tipp24 did not adopt these standards and interpretations. The standards and interpretations listed below are only those whose future adoption can reasonably be expected to have an impact on Tipp24's net assets, financial position and earnings.

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income: The amendment concerns the presentation of items of other comprehensive income. Items that could be reclassified to profit or loss at a future point in time are to be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the net assets, financial position and earnings of Tipp24.
- IFRS 9 Financial Instruments: Classification and Measurement: The first part of Phase I contains new regulations on the classification and measurement of financial assets. Regulations concerning financial liabilities were added in the second part of Phase I. The project is expected to be completed in 2012. Adoption of the new regulations may have an effect on the classification and measurement of Tipp24's financial assets, but will probably have no impact on the classification and measurement of financial liabilities. Tipp24 will quantify the effect in conjunction with the other phases, when issued, in order to present a comprehensive picture.

- IFRS 10 Consolidated Financial Statements: The new standard replaces the provisions of IAS 27 (Consolidated and Separate Financial Statements) regarding consolidated financial statements and the interpretation of SIC-12 (Consolidation – Special Purpose Entities). The new standard establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. Tipp24 does not expect these changes to have any impact on the current group of consolidated companies.
- IFRS 13 Fair Value Measurement: The standard establishes a single source of guidance for all fair value measurements and defines extensive quantitative and qualitative disclosures regarding fair value measurement. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Tipp24 is currently examining the impact which the new standard will have on its net assets, financial position and earnings in future.

### 2.1.2 BASIS OF PREPARATION

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

### 2.1.3 MEASUREMENT CURRENCY

The measurement currency is the Euro (EUR). Unless otherwise stated, amounts are stated in thousands of Euros (EUR thousand), which may lead to rounding differences in certain cases.

### 2.1.4 ESTIMATES AND ASSUMPTIONS

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

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

### Share-based payment

The cost of granting stock options to employees is measured by the Group using the fair value of these stock options at the moment they were granted. A valuation process has been determined to estimate their fair value; this depends on the conditions attached when granted. The valuation process also requires consideration of further relevant data, in particular the expected option term, volatility and dividend yield, as well as the corresponding assumptions. These assumptions and the related procedures are disclosed in Note 22.4.

### Deferred tax assets

Deferred tax assets are recognized for all unused tax loss carryforwards to the extent that it appears probable that taxable income will be available, so that the loss carryforwards can actually be used. When determining the amount of the deferred tax assets, management must make estimations regarding the expected time and size of the future taxable income, as well as future tax planning. Further details are provided in Note 10. Due to a changed assessment of taxable income, the annual financial statements as at 31 December 2011 include deferred taxes to the full amount on tax loss carryforwards of Tipp24 SE.

### Development costs

Development costs for intangible assets are capitalized in accordance with the accounting and measurement methods stated in Note 2.1.6, provided that the corresponding requirements are met. In order to determine the expected future benefit, management must make assumptions about the size of expected future cash flows from assets, the discount rates to be applied and the period of the expected future cash flows generated by the asset.

## 2.1.5 CONSOLIDATION PRINCIPLES

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

On 30 April 2009, Tipp24 SE transferred control over its UK subsidiaries in accordance with company law and sold 60% of the voting shares in both MyLotto24 and Tipp24 Services to a Swiss foundation set up by Tipp24 in the form of preference shares stripped of their main economic rights. As a consequence, Tipp24 owns no more than half the voting rights in MyLotto24, while MyLotto24 owns no more than half the voting rights in Tipp24 Services. The inclusion of these affiliated companies and their respective subsidiaries in the consolidated financial statements is based on an economic view of their situation, whereby the significant opportunities and risks are still borne by Tipp24:

- The owner of the majority of voting rights receives a preliminary annual dividend of up to GBP 15 thousand for each company. In the case of liquidation, the owner of the majority of voting rights is entitled to receive previously agreed liquidation proceeds of GBP 30 thousand for each company. Tipp24 SE alone is entitled to the entire remaining profits and any remaining liquidation proceeds.
- Should certain conditions be met, Tipp24 has the right to repurchase the majority of voting rights for an amount of GBP 30 thousand for each company.
- Tipp24 SE can sell its shares in MyLotto24 as well as its right to repurchase the majority of voting rights in MyLotto24 and Tipp24 Services.
- Tipp24 SE has the right to block changes in the articles of MyLotto24 and Tipp24 Services.

The possibility of distributing profits of MyLotto24 to Tipp24 SE is restricted insofar as this requires certain conditions to be met.

Since its restructuring in 2009, Tipp24 SE holds (directly or indirectly) 100% of the shares in Tipp24 Entertainment and 40% of the voting rights in the UK sub-group. In addition to its parent company, MyLotto24, the UK sub-group includes 100% of shares in the subsidiaries GSG, Ventura24, Giochi24, Tipp24 Operating Services and 40% of the voting rights in Tipp24 Services.

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

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



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

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

In the course of 2011, MyLotto24 sponsored an Insurance-Linked-Security (ILS) vehicle which partially transfers its bookmaking risk to the capital market. The CAT bond was placed with institutional investors outside the group by a special purpose entity. MyLotto24 has no controlling influence, no exposure to the residual risk, no right to receive benefits and therefore no exposure to risk in respect of the ILS; hence MyLotto24 does not include the entity in its consolidated financial statements.

#### 2.1.6 INTANGIBLE ASSETS

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized using the straight-line method over their estimated useful lives. The amortization period and method are reviewed at the end of each fiscal year. The Group holds no intangible assets with non-definable useful lives.

Purchased intangible assets are disclosed in the consolidated financial statements. In the case of self-produced intangible assets, development costs are also capitalized. The estimated useful life of intangible assets varies between three and five years.

#### Patents, trademarks and licences

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

#### Software

The costs of acquiring new software are capitalized and disclosed under intangible assets, provided that these costs are not deemed an integral part of the related hardware. Software is amortized over a useful life of three years. Costs incurred in order to restore or maintain the future economic benefits that an entity can expect from the originally assessed standard of performance of existing software systems are recognized as an expense.

#### Research and development expenses

Research and development expenses for self-developed software are recognized in the period in which they are incurred. Capitalized development costs are the exception and must meet the following criteria in full:

- The product or process is clearly defined and the attributable costs can be separately identified and measured reliably.
- The technical implementation of the product is probable.
- The entity intends to complete the intangible asset as well as to use or sell it.
- The entity has the ability to use or sell the intangible assets and the product is to be sold or used for internal purposes.
- There is a potential sales market if the asset is to be sold or an economic benefit if the asset is to be used for internal purposes.
- Adequate technical, financial and organizational resources required to complete the project are available.
- The entity can demonstrate the estimated future economic benefit of the asset.

In 2011, research and development expenses of EUR 1,461 thousand were recognized, compared with EUR 1,579 thousand in 2010. The Company capitalized those development costs which met the criteria of IAS 38.57. These criteria were only met by externally acquired components and services.

### 2.1.7 PROPERTY, PLANT AND EQUIPMENT

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

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

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

	Years
Technical equipment	2–14
Office equipment	3–25

### 2.1.8 IMPAIRMENT OR WRITE-BACKS OF NON-CURRENT ASSETS

The Group assesses on every balance sheet date whether there is any indication of impairment of its non-financial assets. If there is any indication of impairment, the Group makes an estimation of the recoverable amount of the respective asset. The recoverable amount of an asset is the higher of the fair value of an asset or cash-generating unit less selling costs and its value in use. The recoverable amount must be determined for each individual asset, unless the asset does not generate

cash inflows that are largely independent from other assets or groups of assets. If the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. In order to calculate the value in use of the asset, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market expectations of interest and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. A review of non-financial assets is carried out on each reporting date to ascertain whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited to the extent that the carrying amount of an asset may not exceed its recoverable amount nor the carrying value that would have been determined, net of depreciation, if no impairment loss had been recognized for the asset in prior years. A reversal is recognized in the income statement.

### 2.1.9 LEASING

#### Finance leases

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

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

#### Operating leases

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

#### 2.1.10 RECOGNITION AND MEASUREMENT OF FINANCIAL ASSETS

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

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

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

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

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

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

Financial assets are initially recognized at fair value. In the case of financial assets other than those classified as at fair value through profit or loss, transaction costs directly attributable to the acquisition of the assets are also included.

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

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

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. After initial recognition, such financial assets are measured at amortized cost using the effective interest method less any necessary writedowns in the course of a subsequent valuation.

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

### 2.1.11 RECOGNITION AND MEASUREMENT OF FINANCIAL LIABILITIES

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

### 2.1.12 OTHER ASSETS

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

### 2.1.13 CASH AND SHORT-TERM FINANCIAL ASSETS

Cash includes bank balances and cash on hand and is stated at amortized cost.

We refer to the comments in Note 12, »Cash and short-term financial assets«.

### 2.1.14 TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are disclosed at amortized cost.

### 2.1.15 OTHER PROVISIONS

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

### 2.1.16 SHARE-BASED PAYMENT

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

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

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

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

### 2.1.17 INCOME TAXES

Current tax refund claims and tax liabilities for current and previous periods are measured at the amount at which the refund from the tax authority or payment to the tax authority is expected. The calculation is based on tax rates and tax legislation which apply on the balance sheet date in those countries in which the Group operates and generates taxable income.

Tax expenses are determined on the basis of the profit or loss recorded for the period and take account of current and deferred taxes. Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits, to the extent that it is probable that there will be taxable income against which the deductible temporary differences, and the carry forward of unused tax losses and unused tax credits can be utilized. Deferred tax assets and deferred tax liabilities are offset, if the Group has a legally enforceable right to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority. Deferred tax and current tax relating to items recognized outside profit or loss is also recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

### 2.1.18 REVENUES

Revenues are recognized when i) services have been provided or goods delivered and the risk has been transferred to the beneficiary or the buyer, ii) it is probable that the economic benefits attributable to the transaction will flow to the entity, and iii) the amount of revenue can be reliably measured. Revenue is disclosed net of VAT, discounts, customer bonuses and rebates.

Revenues disclosed by Tipp24 are recognized according to their underlying transactions. Revenues which MyLotto24 generates as the organizer of secondary lotteries based on various European lotteries are recognized at the moment the draw results of the respective lotteries are announced. Stakes received as of the balance sheet date, but which are intended for games whose draw results are not available until after the balance sheet date, are accrued. Revenues result from the stakes received less vouchers granted, and winnings to be distributed.

A contract to participate in an English secondary lottery based on various European lotteries is treated as a derivative. The definition of a derivative is to be applied to contracts for participation in an English secondary lottery as in such contracts payment is linked to the outcome of a random event. In comparison with the possible payout amount, the contract also requires comparatively low stakes. The contracts are concluded before the event occurs and, in the case of a win, the payout is made in the future after the event has occurred.

Profits or losses from a change in the fair value of derivatives are recognized in the consolidated net profit. Stakes and payouts are therefore not regarded as separate income and expenditure, but determine in total the fair value.

A possible term for such items in the income statement could be »Changes in the fair value of contracts for participation in English secondary lotteries«. Throughout the sector, however, this item is generally termed »Revenues«, as it refers to the ordinary activity of a company in the gaming industry.

Licence and operator fees payable to the British state are carried as »Other operating expenses« and not as a kind of sales tax within revenues.

Revenue also results from commissions and fees which Tipp24 receives for brokering bets. In the brokerage business, revenue is recognized when the bets have been made, the lottery ticket information passed on to the lottery organizer and confirmation of receipt of the information has been obtained. Ventura24 receives advance payments from some of its customers for subscriptions. Payments received are deferred and the revenue pursuant to IAS 18 is only recognized when the lottery ticket information has been passed on to the lottery organizer and confirmation of receipt of the information has been obtained.

Revenue generated by Tipp24 from selling »Klassenlotterie« tickets (a single raffle lottery played over a number of months where players' tickets are entered into monthly draws with winnings increasing over time) is recognized at the time the draw takes place. This is due to the different arrangement made in the sales agreement.

Tipp24 Entertainment offers interactive games – so-called skill-based games – both via its own platform and via social networks on the Internet. For games via its own platform, revenue is recognized at the moment of participation in the game and mainly generated from retaining a defined proportion of the stakes remitted. For games on social networks, revenue is recognized by the purchase of the required game currency in the amount of the forwarded stakes.

### 2.1.19 INTEREST INCOME

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

### 2.1.20 OPERATING EXPENSES

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

### 2.1.21 BORROWING COSTS

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

### 2.1.22 CONTINGENT RECEIVABLES

Contingent receivables result from unplanned or unexpected events which might result in an economic benefit accruing for the company. Contingent receivables are not recognized in the annual financial statements. Contingent receivables are disclosed in the notes if the possibility of the receipt of an economic benefit is probable.

### 2.1.23 CONTINGENT LIABILITIES

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

### 2.1.24 FOREIGN CURRENCY TRANSLATION

The consolidated annual financial statements are prepared in Euro. Each company within Tipp24 determines its own functional currency. All currency differences from foreign exchange transactions are recognized in profit and loss. The Group currency (Euro) is also the functional currency of all fully consolidated companies.

### 2.1.25 EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are events which could be favourable or unfavourable, that occur between the end of the reporting period and the date on which the consolidated financial statements are prepared. Events that provide further material evidence of conditions that existed at the end of the reporting period (»adjusting events«) are recognized in the consolidated financial statements. Significant events that provide evidence of conditions that existed after the end of the reporting period (»non-adjusting events«) are discussed in Note 28.

## 3 CONSOLIDATED CASH FLOW STATEMENT

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

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

Proceeds and disbursements for short-term financial investments under cash flow from investing activities are disclosed net as this item involves frequent changes, large amounts and short terms.

Liquid funds comprise cash, provided it is not subject to any restrictions. Cash includes cash in hand and sight deposits.

## 4 SEGMENT REPORTING

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

The »Germany« segment comprises all activities in Germany, while the »Abroad« segment mainly comprises the Group's activities in the UK, as well as in Spain and Italy.

Revenue from these business segments corresponds to the revenue of the geographical location of the operating units (Group subsidiaries) which generate that revenue. This more or less equates to the geographical location of the respective customers.

No segments were pooled together to form the above business segments. The development of each segment is evaluated on the basis of revenue and EBIT. The group-wide financial management system (including financial expenses and income) and income taxes are controlled separately according to the geographical segments »Germany« and »Abroad« and allocated to the individual business segments. Transfer prices between segments are calculated at standard conditions on an arm's length basis.

in EUR thousand	Germany		Abroad		Consolidation		Consolidated	
	1 Jan.–31 Dec.		1 Jan.–31 Dec.		1 Jan.–31 Dec.		1 Jan.–31 Dec.	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Revenue</b>	<b>572</b>	<b>637</b>	<b>141,457</b>	<b>103,733</b>	<b>-2,714</b>	<b>-2,488</b>	<b>139,316</b>	<b>101,882</b>
Depreciation/amortization	175	389	3,853	1,822	2,149	0	6,177	2,212
<b>EBIT</b>	<b>-8,779</b>	<b>-6,385</b>	<b>59,974</b>	<b>40,202</b>	<b>710</b>	<b>-1,136</b>	<b>51,905</b>	<b>32,681</b>
Financial result	-115	21	-3,498	465	4,478	0	865	486
Income taxes	3,281	912	-17,590	-12,472	-145	367	-14,455	-11,193
<b>Profit from continued operations</b>	<b>-5,615</b>	<b>-5,451</b>	<b>38,886</b>	<b>28,195</b>	<b>5,043</b>	<b>-769</b>	<b>38,315</b>	<b>21,974</b>
<b>Assets</b>	<b>42,569</b>	<b>47,590</b>	<b>93,676</b>	<b>67,946</b>	<b>-35,008</b>	<b>-36,667</b>	<b>101,236</b>	<b>78,869</b>
<b>Reconciliation to balance sheet</b>								
Deferred taxes							5,788	2,521
Tax refund claims							586	396
Short-term financial assets							65,433	48,226
<b>Total assets</b>							<b>173,043</b>	<b>130,013</b>
<b>Debts</b>	<b>10,143</b>	<b>7,435</b>	<b>38,834</b>	<b>35,043</b>	<b>-14,017</b>	<b>-10,487</b>	<b>34,960</b>	<b>31,991</b>
<b>Reconciliation to balance sheet</b>								
Deferred taxes							904	181
Tax liabilities							7,888	4,920
<b>Total debts</b>							<b>43,752</b>	<b>37,092</b>
<b>Investments</b>	<b>181</b>	<b>212</b>	<b>7,012</b>	<b>11,909</b>	<b>0</b>	<b>0</b>	<b>7,193</b>	<b>12,121</b>

Segment assets do not include deferred taxes, tax refund claims or short-term financial assets. Segment liabilities do not include deferred taxes, tax liabilities or interest-bearing liabilities.

Investments comprise payments for investments in intangible assets and property, plant and equipment.

## 5 REVENUES

In 2011, revenues grew by EUR 37,434 thousand to EUR 139,316 thousand. In fiscal year 2011, the actual payout ratio varied by -3.7 %-points (prior year: 7.8 %-points) from the expected value.

For the organization of secondary lotteries, reference is made to the organization of lottery gaming systems which have a fixed ratio of payouts to stakes. The ratio of payouts to stakes is known as the payout ratio. In the lottery gaming systems organized by the operators of those reference games of relevance to Tipp24, there is a fixed underlying payout ratio of 50% in the gaming system for ongoing lottery draws. This underlying payout ratio corresponds to the expected payout ratio for the organization of secondary lotteries.

There may be deviations from this expected value during the actual draws of secondary lotteries. Such deviations are chance effects and represent statistical fluctuations of the ratio of payouts to stakes. A payout ratio above the expected value results in revenues below the expected revenue figure, while a lower payout ratio increases actual revenues in comparison to the expected figure.

In order to aid comprehension of the consolidated annual financial statements and earnings, the following table therefore presents the reconciliation between actual revenues and revenues adjusted for chance effects, as well as the impact of deviations between actual winnings payouts and the expected value.

### Revenues

in EUR thousand	2011		2010		Deviation absolute
Revenues adjusted for chance effects	131,071	94.1%	117,277	115.1%	13,793
+/- Deviations between actual winnings payouts and expected value	-8,245	-5.9%	15,395	15.1%	-23,640
<b>Revenues</b>	<b>139,316</b>	<b>100.0%</b>	<b>101,882</b>	<b>100.0%</b>	<b>37,434</b>

## 6 OTHER OPERATING INCOME

in EUR thousand	2011	2010
Income from hedging transactions	15,773	4,534
Income not relating to the period	19	45
Income from lottery tickets bought for own account	21	17
Other	100	372
<b>Other operating income</b>	<b>15,913</b>	<b>4,968</b>

On 23 September 2009, MyLotto24 recorded a jackpot win of EUR 31.7 million which reduced revenue by the same amount. The jackpot payout was insured for an amount of EUR 21.7 million. The insurance case was the subject of litigation as of early 2010. The legal dispute was settled by mutual agreement in June 2011. The year-on-year change in income from hedging transactions of EUR 11.2 million is due mainly to this event. It is therefore treated as income not relating to the period.



## 7 PERSONNEL EXPENSES

Tipp 24 recognized total personnel expenses of EUR 12,026 thousand in 2011 (prior year: EUR 10,110 thousand). Of this total, an amount of EUR 10,521 thousand (prior year: EUR 8,816 thousand) referred to wages and salaries and EUR 1,505 thousand (prior year: EUR 1,294 thousand) to social security contributions. In Germany, pension insur-

ance contributions of EUR 66 thousand (prior year: EUR 59 thousand) were made by the employer. The proportion of employer social security contributions accounted for by pension insurance contributions is not disclosed separately in the UK, Spain and Italy.

## 8 OTHER OPERATING EXPENSES

in EUR thousand

	2011	2010
<b>Marketing expenses</b>	<b>7,813</b>	<b>9,826</b>
Cost of hedging transactions	21,067	15,334
Licence and operator fees	18,121	12,989
Handling of customer payments	2,652	2,048
Traffic	1,424	1,141
Non-deductible input tax	3,980	1,386
Bad debt	179	322
Product processing	464	340
Service/maintenance of online application	928	257
<b>Direct costs of operations</b>	<b>48,817</b>	<b>33,816</b>
Consulting	11,650	7,307
Third-party capacities/services	11,972	5,893
Rent & leasing	1,174	1,291
Travel, training and representation costs	912	981
Office expenses and insurance	499	502
PR, CSR and lobbying expenses	355	452
Non-deductible expenses	255	97
Exchange rate differences	263	376
Others <sup>1)</sup>	1,411	1,304
<b>Other costs of operations</b>	<b>28,491</b>	<b>18,204</b>
<b>Other operating expenses</b>	<b>85,121</b>	<b>61,846</b>

<sup>1)</sup> Other expenses include expenses of EUR 79 thousand relating to other periods (prior year: EUR 468 thousand).

Marketing expenses decreased by 20.5% to EUR 7,813 thousand (prior year: EUR 9,826 thousand). This reduction resulted mainly from the decline in marketing activities for business in Italy.

Direct operating expenses rose by 44.4% to EUR 48,817 thousand in the period under review (prior year: EUR 33,816 thousand). Licence and operator fees payable to the British state are carried as costs in this item. In addition, costs are disclosed in this item which were incurred in connec-

tion with hedging transactions of MyLotto24 as well as costs incurred during the processing of gaming operations as a result of the organiser's inability to deduct input tax.

Other operating expenses rose by 56.5% to EUR 28,491 (prior year: EUR 18,204 thousand). They mainly comprise increased costs for consultancy and outsourcing.

## 9 FINANCIAL RESULT

in EUR thousand

	2011	2010
<b>Revenues from financial activities</b>		
Other interest and similar income	389	336
Income from other long-term securities and loans	740	298
	<b>1,129</b>	<b>634</b>
<b>Expenses from financial activities</b>		
Interest expenses and similar expenses	-241	-148
Interest expenses for current liabilities	0	0
Interest expenses for other long-term securities and loans	-23	0
	<b>-264</b>	<b>-148</b>
	<b>865</b>	<b>486</b>

The average interest income of total financial assets in 2011 amounted to 0.9%, (prior year: 0.7%) before considering tax aspects.

## 10 INCOME TAXES

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

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

The corporate income tax rate amounts to 15% (in 2011 as in the previous year), while the solidarity surcharge remains 5.5% of corporate income tax.

Trade tax on income is levied on the trading profit of an entity. Trading profit is calculated by taking the taxable income according to income and corporation tax law together with any additions or subtractions according to German trade tax law. The effective trade tax on income rate depends on the municipality in which the entity maintains a permanent establishment for carrying on its operations. The effective trade tax on income rate for Hamburg in 2011 amounted to 16.45% (2010: 16.45%).

The same percentages are used to calculate deferred taxes.

Deferred taxes under IAS 12 are calculated at the anticipated average tax rate at the time the differences are reversed. For the calculation of deferred taxes, the total tax rate for domestic companies amounted to 32.28% (prior year: 32.28%). In the case of foreign companies, the respective country-specific tax rates were used to calculate deferred taxes.

#### Tax reconciliation

in EUR thousand	2011	2010
<b>Actual tax expense</b>	<b>-17,565</b>	<b>-13,759</b>
Tax expense/income from the use/recognition of deferred tax assets on loss carryforwards/temporary differences	3,242	1,848
Tax expense/income from the recognition/reversal of deferred tax liabilities due to temporary differences	-132	719
<b>Deferred taxes</b>	<b>3,110</b>	<b>2,567</b>
<b>Actual and deferred income taxes</b>	<b>14,455</b>	<b>11,193</b>
Earnings before taxes from continued operations	52,770	33,167
Loss before taxes from discontinued operations	-1,976	-2,423
<b>Earnings before taxes</b>	<b>50,794</b>	<b>30,744</b>
Income tax rate in %	32.275%	32.275%
Expected tax expense	-17,032	-9,922
Income/expenses IFRS without deferred tax (VBR, stock options)	-6	78
Additions acc. to §8 GewStG (see tax calculation)	-3	-6
Tax effects from not fully deductible operating expenses	-1,152	-35
Tax rate difference of foreign subsidiaries	3,636	1,906
Tax effects from not fully taxable income	-7	-76
Unrecognized tax loss carryforwards	-2,065	-3,417
Non-taxable expenses/income from consolidation	2,081	1
Tax effects from previous years	29	-90
Others	64	369
<b>Income taxes</b>	<b>14,455</b>	<b>11,193</b>
Tax expense disclosed in the consolidated income statement	14,455	11,193
Tax expense attributable to discontinued operations	—	—
	<b>14,455</b>	<b>11,193</b>

Deferred tax assets and liabilities developed as follows:

in EUR thousand	1 Jan. 2011	Income/expense	31 Dec. 2011
<b>Deferred tax assets</b>			
Deferred tax assets on temporary differences	671	865	1,536
Deferred tax assets on tax loss carryforwards	1,850	2,402	4,252
	<b>2,521</b>	<b>3,267</b>	<b>5,788</b>

in EUR thousand	1 Jan. 2011	Income/expense	31 Dec. 2011
<b>Deferred tax liabilities</b>			
Deferred tax liabilities on temporary differences	181	723	904
	<b>181</b>	<b>723</b>	<b>904</b>

Of the deferred tax assets carried by Tipp24, an amount of EUR 4,252 thousand refers to tax loss carryforwards, and an amount of EUR 1,536 thousand to temporary differences. Based on current business planning of the companies concerned, positive results are expected in future – especially due to the disclosure of hidden reserves in the course of providing Tipp24 Deutschland GmbH with assets necessary for the execution of its operations – and thus taxable income will be generated. Deferred tax liabilities amounting to EUR 904 thousand result mainly from the different treatment of self-produced software.

Of total tax loss carryforwards amounting to EUR 31,056 thousand as of the balance sheet date (prior year: EUR 23,690 thousand), Tipp24 did not form deferred taxes for an amount of EUR 19,702 thousand (prior year: EUR 17,584 thousand).

In the course of a tax inspection, there is currently a dispute with the relevant tax authority regarding the validity of tax assessments for various items in the inspection period (fiscal years 2005 to 2007 inclusive). Although we have grounds to believe that all the items queried by the tax authority were correctly assessed in accordance with the relevant regulations, the possibility cannot be excluded that the relevant authority may come to a different conclusion and successfully uphold this view in any respective legal proceedings. As a result, there is a total tax risk of up to EUR 4.3 million, which might have a correspondingly negative effect on the earnings, financial position and net assets of Tipp24. This risk is not recognized as a contingent liability in the consolidated financial statements.

## 11 DISCONTINUED OPERATIONS

The Skill-Based Games business model was unable to match the profitability of our core business over the long term. We have therefore decided to discontinue activities in this division in an orderly process during the fiscal year 2012.

As of 31 December 2011, Tipp24 Entertainment was thus classified as a discontinued operation.

The result of Tipp24 Entertainment can be broken down as follows:

in EUR thousand	2011	2010
Revenues	2,750	2,502
Expenses	-4,452	-4,925
Financing expenses	0	0
Impairment charge from restatement at fair value	-274	0
<b>Profit before tax from discontinued operations</b>	<b>-1,976</b>	<b>-2,423</b>
Income taxes	0	0
<b>Profit after tax from discontinued operations</b>	<b>-1,976</b>	<b>-2,423</b>

The net cash flow of Tipp24 Entertainment was as follows:

in EUR thousand	2011	2010
Cash flow from operating activities	-81	282
Cash flow from investing activities	-66	-166
Cash flow from financing activities	0	0
<b>Net cash flow</b>	<b>-147</b>	<b>116</b>

Earnings per share from discontinued activities amounts to:

Earnings per share from discontinued activities (basic and diluted, in Euro/share)	-0.25	-0.31
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## 12 CASH AND SHORT-TERM FINANCIAL ASSETS

in EUR thousand	31 Dec. 2011	31 Dec. 2010
Bank balances	63,362	42,667
Cash on hand	4	6
Pledged cash	757	1,284
<b>Cash and pledged cash</b>	<b>64,123</b>	<b>43,957</b>

Bank balances mainly comprise sight and term deposits on short-term call and with variable interest rates held at various major European banks.

Pledged cash serves as collateral for contracts.

In addition, Tipp24 held available-for-sale short-term financial assets amounting to EUR 65,433 thousand as of the balance sheet date (prior

year: EUR 48,226 thousand). They comprise government bonds issued by Euro zone nations, as well as shares and fixed-income funds. These securities are broadly spread and of high quality. A positive change in equity of EUR 14 thousand (prior year: EUR 8 thousand) was recognized. There were no held-to-maturity financial assets of EUR 57,453 as of the balance sheet date (prior year: EUR 0).

### 13 TRADE RECEIVABLES

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

### 14 INCOME TAX REFUND CLAIMS

As of the balance sheet date for the fiscal year 2011, the Company had claims to income tax refunds amounting to EUR 586 thousand (prior year: EUR 396 thousand).

### 15 OTHER ASSETS AND PREPAID EXPENSES

in EUR thousand	31 Dec. 2011	31 Dec. 2010
Receivables from lottery companies	191	492
Receivables from payment systems	1,778	2,393
Receivables from players	227	168
Security retainers	504	492
<b>Receivables from gaming operations</b>	<b>2,701</b>	<b>3,546</b>
<b>Prepaid expenses</b>	<b>2,616</b>	<b>1,247</b>
<b>Receivables from tax authorities for sales tax</b>	<b>597</b>	<b>1,160</b>
Receivables from loans granted	437	1,467
Receivables from employees	14	10
Creditors with debit balances	9	55
Other	300	479
<b>Others</b>	<b>760</b>	<b>2,011</b>
<b>Other assets and prepaid expenses</b>	<b>6,674</b>	<b>7,964</b>

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

## 16 INTANGIBLE ASSETS

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

in EUR thousand	2011	2010
<b>Accumulated acquisition costs as of 1 January</b>	<b>27,811</b>	<b>16,556</b>
Additions (purchased from third parties)	3,176	926
Additions (self-provided)	2,002	10,493
Disposals	-618	-164
<b>Accumulated acquisition costs as of 31 December</b>	<b>32,370</b>	<b>27,811</b>
<b>Accumulated depreciation as of 1 January</b>	<b>-3,947</b>	<b>-2,328</b>
Depreciation and value adjustments of the period	-6,226	-1,688
Disposals	558	68
<b>Accumulated depreciation as of 31 December</b>	<b>-9,615</b>	<b>-3,947</b>
<b>Net book value as of 31 December</b>	<b>22,755</b>	<b>23,863</b>

The remaining useful lives of intangible assets are between one and five years.

There are no restrictions on rights of disposal for the above mentioned intangible assets. Once again, no assets were pledged as collateral for liabilities.

The new international gaming software put into operation in January 2011 is recognized in the balance sheet in the amount of EUR 19,493 thousand (prior year: EUR 22,900 thousand). As of the balance sheet date, it had a residual amortization period of over 4 years.

## 17 PROPERTY, PLANT AND EQUIPMENT

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

in EUR thousand	2011	2010
<b>Accumulated acquisition costs as of 1 January</b>	<b>5,020</b>	<b>4,372</b>
Additions (purchased from third parties)	2,016	703
Disposals	-49	-55
<b>Accumulated acquisition costs as of 31 December</b>	<b>6,987</b>	<b>5,020</b>
<b>Accumulated depreciation as of 1 January</b>	<b>-3,562</b>	<b>-2,430</b>
Depreciation of the period	-784	-1,172
Disposals	51	40
<b>Accumulated depreciation as of 31 December</b>	<b>-4,295</b>	<b>-3,562</b>
<b>Net book value as of 31 December</b>	<b>2,692</b>	<b>1,459</b>

There are currently no assets from financial leases.

## 18 LONG-TERM FINANCIAL ASSETS

Long-term financial assets of EUR 4,351 thousand (prior year: EUR 1,600) include loans to external service companies. As of the balance sheet date, there was no cause for impairment requiring value adjustment.



## 19 OTHER LIABILITIES

in EUR thousand	31 Dec. 2011	31 Dec. 2010
Liabilities to players	15,384	13,757
Liabilities to game brokers	577	164
Liabilities from gaming duty	1,644	1,650
<b>Liabilities from gaming operations</b>	<b>17,605</b>	<b>15,571</b>
VAT	2,742	721
Wage & church tax	266	188
<b>Tax liabilities</b>	<b>3,008</b>	<b>909</b>
Social security contributions	136	118
<b>Liabilities from social security</b>	<b>136</b>	<b>118</b>
Outstanding invoices	416	714
Other liabilities	679	224
<b>Other liabilities</b>	<b>1,096</b>	<b>938</b>
<b>Total other liabilities</b>	<b>21,844</b>	<b>17,536</b>

All other liabilities are due in less than one year.

## 20 DEFERRED INCOME

The company disclosed deferred income of EUR 2,350 thousand (prior year: EUR 4,561 thousand). It relates to payments for gaming orders

and stakes received prior to 31 December 2011, yet which can only be recognized when the service is provided in the following year.

## 21 PROVISIONS

in EUR thousand	Opening balance 1 Jan. 2011	Usage	Releases	Additions	Closing balance 31 Dec. 2011
Provisions for bonuses	3,176	-3,059	-117	2,452	2,452
Provisions for severance pay	0	0	0	1,750	1,750
Provisions for lawsuits	796	-796	0	602	602
<b>Total</b>	<b>3,972</b>	<b>-3,855</b>	<b>-117</b>	<b>4,804</b>	<b>4,804</b>

Provisions amounting in total to EUR 602 thousand (prior year: EUR 796 thousand) comprise the court costs and lawyers' fees incurred for trial preparation and management. Bonus provisions are likely to be paid out in the first quarter of 2012.

Provisions for severance pay concern the expected benefits in connection with the premature departure of Marcus Geiss from the Executive Board of Tipp24 SE.

Income from the release of provisions was recognized with the expense items they were originally incurred for.

All provisions are expected to be used within one year.

## 22 EQUITY

### 22.1 SHARE CAPITAL

The Company's share capital equals its capital stock of EUR 7,985 thousand. It is fully paid and divided into 7,985,088 no-par value registered shares.

### 22.2 AUTHORIZED AND CONDITIONAL CAPITAL

At the Annual General Meeting of 29 June 2011, the following changes to the Company's share capital were adopted:

The Executive Board is authorized, subject to the approval of the Supervisory Board, to increase share capital in the period up to 28 June 2016 by up to a total of EUR 1,597 thousand by issuing on one or more occasions in whole or in partial amounts new no-par value shares in return for cash or contributions in kind (Authorized Capital 2011/I).

The share capital has been contingently increased by EUR 150 thousand (Conditional Capital 2011/I). Conditional Capital 2011/I serves the purpose of securing subscription rights from stock options issued by the Company on the basis of an authorization adopted on 29 June 2011 as part of the Stock Option Plan 2011.

The share capital has been contingently increased by a further EUR 10 thousand (Contingent Capital I). Contingent Capital I serves to ensure that subscription rights can be exercised for stock options to be issued by the Company between 1 January 2006 and 31 December 2010 (inclusive) under the 2005 stock option plan, on the basis of the authorising resolution of 7 September 2005.

### 22.3 CAPITAL RESERVES

Capital reserves amount to EUR 7,805 thousand (prior year: EUR 43,815 thousand). They include the capital reserve of Tipp24 SE recognized according to HGB of EUR 10,130 thousand (prior year: EUR 46,140 thousand) and transaction costs from equity transactions in previous fiscal years of EUR 2,325 thousand (prior year: EUR 2,325 thousand), which are carried in the consolidated financial statements as a deduction from equity.

The capital reserve of Tipp24 SE recognized according to HGB of EUR 10,130 thousand (prior year: EUR 46,140 thousand) contains restricted reserves of EUR 6,031 thousand (prior year: EUR 6,031 thousand). As of 31 December 2011, Tipp24 SE disclosed free reserves according to HGB of EUR 4,099 thousand (prior year: EUR 40,109 thousand), for which there is a block on profit distribution in the full amount (prior year: EUR 808 thousand) due to the capitalization of deferred taxes in the annual financial statements of Tipp24 SE.

An amount of EUR 9,625 thousand was transferred from capital reserves to settle a balance sheet loss in the amount of the balance sheet result disclosed in the commercial financial statements of the company Tipp24 SE.

In connection with the planned dividend in kind, an amount of EUR 26,385 thousand was also withdrawn from capital reserves. Further explanations on the planned dividend in kind are provided in Note 23.

### 22.4 SHARE-BASED PAYMENT

As part of the creation of Conditional Capital I at the Annual General Meeting of 7 September 2005, the Executive Board was authorized to establish a stock option plan (SOP 2005). This SOP 2005 expired in 2010. A total of 10 thousand stock options are currently outstanding from the five SOP 2005 tranches issued up to 2010.

A new stock option plan (SOP 2011) was adopted at the Annual General Meeting of 29 June 2011. No stock options have so far been granted on the basis of SOP 2011.

The following identical option terms apply to both SOP 2005 and SOP 2011:

The stock options are limited to a period of up to five years and intended exclusively for issue to members of the Executive Board, selected executives and other key employees of the Company as well as the general management, selected executives and key employees of associated companies, as defined by § 15, German Stock Corporation Law (AktG).

The stock option plans of Tipp24 SE are a share-based payment system, whereby the method of compensation is at the Company's discretion. The transaction is expected to be settled via equity instruments, whereby fair value is calculated at the time of granting. The Company measures the stock option plans using financial valuation methods according to the Black-Scholes-Merton formula.

The stock options from all tranches can be exercised no sooner than 2 years after the respective date of issuance and within a period of 3 years. Options can only be exercised if an absolute or relative performance target is reached at the end of the lock-up period. At the end of the exercise period, any options which have not been exercised will expire.

### Share-based payments

#### Development during the fiscal year

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at the beginning of the reporting period	14,000	19.98	10,000	17.45
Granted during the reporting period	0	-	4,000	26.30
Forfeited during the reporting period	0	-	0	-
Exercised during the reporting period	2,000	13.52	0	-
Expired during the reporting period	2,000	25.08	0	-
<b>Outstanding at the end of the reporting period</b>	<b>10,000</b>	<b>20.25</b>	<b>14,000</b>	<b>19.98</b>

At the end of the reporting period, 6,000 of the stock options of the various tranches outstanding at this time fulfilled the necessary exercise conditions. In the period under review, the range of exercise prices for outstanding options lay between EUR 13.52 and EUR 26.30 (prior year: EUR 13.52 to EUR 26.30). The average contract term was around three years.

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

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

The relative performance target is linked to the performance of the Tipp24 share relative to the SDAX. The relative performance target is achieved if the share's performance during the above mentioned performance period exceeds the index.

#### Performance during the fiscal year

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

### Underlying parameters

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

#### Share-based payments

Underlying parameters	Tranche 5	Tranche 4	Tranche 3	Tranche 2	Tranche 1
<b>Share-based payments</b>					
Dividend yield (%)	0.0	2.9	3.7	0.0	0.0
Expected volatility (%)	39.7	60.0	44.3	47.9	46.0
Risk-free interest rate (%)	0.86	0.73	3.72	3.98	3.44
Anticipated term of option (years)	2	2	2	2	2
Weighted average share price (EUR)	26.30	17.57	13.52	13.67	25.08
Model applied	Black-Scholes-Merton formula				

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

## 22.5 OTHER RESERVES

in EUR thousand	Opening balance 1 Jan. 2011	Reversals	Additions	Closing balance 31 Dec. 2011
Share-based payments	36	0	18	54
Changes in foreign exchange rates	-176	0	0	-176
Changes in fair values	14	-8	22	28
Other additions	0	0	72	72
<b>Total</b>	<b>-125</b>	<b>-8</b>	<b>112</b>	<b>-21</b>

in EUR thousand	Opening balance 1 Jan. 2010	Reversals	Additions	Closing balance 31 Dec. 2010
Share-based payments	23	0	13	36
Changes in foreign exchange rates	-176	0	0	-176
Changes in fair values	6	0	8	14
<b>Total</b>	<b>-146</b>	<b>0</b>	<b>21</b>	<b>-125</b>

The reserve for foreign currency translation serves to recognize differences between GBP and Euro from the translation of annual financial statements of the UK subsidiaries. With the commencement of fiscal year 2009, the Group's UK subsidiaries all changed their functional currency to the Group currency: Euro. As a consequence, the unchanged reserve of EUR -176 thousand will be carried forward in accordance with IAS 21.37 until the companies are sold.

The changes in fair values concern gains/losses from the revaluation of available-for-sale financial assets. The change recognized in other reserves (additions and reversals) corresponds to the other result in the consolidated statement of comprehensive income (EUR 14 thousand, prior year: EUR 8 thousand).

## 22.6 RETAINED EARNINGS

Retained earnings increased mainly by the amount of the consolidated net profit 2011 and the amount withdrawn from capital reserves in connection with the planned dividend in kind.

## 22.7 EARNINGS PER SHARE

Earnings per share (basic and diluted) increased in the past fiscal year from EUR 2.53 to EUR 4.55 per share. In comparison with the previous year, the average number of weighted outstanding shares rose from 7,715,614 to 7,985,088. The development of outstanding shares can be seen below:

### Development of outstanding shares

<b>As of 31 December 2007</b>	<b>8,218,272</b>
Change in 2008	-233,184
<b>As of 31 December 2008</b>	<b>7,985,088</b>
Change in 2009	-361,180
<b>As of 31 December 2009</b>	<b>7,623,908</b>
Change in 2010	+361,180
<b>As of 31 December 2010</b>	<b>7,985,088</b>
Change in 2011	0
<b>As of 31 December 2011</b>	<b>7,985,088</b>

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

Diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year (increased to account for the diluting effects from stock options). In fiscal year 2011, there was no significant dilutive effect from stock options.

## 23 PAID AND PROPOSED DIVIDENDS

Following the restructuring of business fields and the resulting transfer of control, Tipp24 SE currently has no significant cash flows as the payment of a dividend from profits generated in the UK is currently excluded. The net income of Tipp24 SE according to commercial law amounted to EUR -9,625 thousand, which was balanced by making a withdrawal from free capital reserves.

In view of the fact that Tipp24 may at least temporarily be required to apply for permits from the different regulatory authorities of the various federal states in order to act as a broker in Germany – according to the current draft of the new GlüStV – the activity of the UK minority investments could present the authorities with the opportunity to exercise their discretionary power and reject Tipp24's permit applications. Tipp24 therefore intends to spin off its planned German lottery brokerage business from the Tipp24 Group and transfer it to a company also listed on the stock exchange. The Executive Board and Supervisory Board will

therefore propose to the Annual General Meeting of Tipp24 SE to distribute shares in this new company, the future Lotto24 AG, to all shareholders in the form of a dividend in kind.

The Executive Board has proposed to use an amount of EUR 19,963 thousand from the balance sheet profit of EUR 26,385 thousand to pay a dividend of EUR 2.50 per no-par value share and to grant the dividend as a dividend in kind with a total value of EUR 19,963 thousand, whereby for each no-par value share in Tipp24 SE shareholders shall receive a no-par value share in Lotto24 AG, Hamburg (after transforming Tipp24 Deutschland GmbH into a public limited company and renaming it Lotto24 AG) by means of transfer in a collective custody account (entitlement ratio 1:1). The remaining balance sheet profit of EUR 6,422 thousand is to be carried forward.

## 24 LEASES

### 24.1 FINANCE LEASES

The Company held no finance leases in the period under review.

### 24.2 OPERATING LEASES

The Company has concluded several leases which were classified as operating leases pursuant to IAS 17.

Tipp24 expensed rental payments for offices amounting to EUR 758 thousand (prior year: EUR 836 thousand).

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

in EUR thousand	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
	Minimum lease payments		Present value of the minimum lease payments	
Obligation from the following year	723	972	663	915
> 1–5 years	635	494	538	433
> 5 years	0	0	0	0
<b>Minimum lease obligations</b>	<b>1,357</b>	<b>1,465</b>	<b>1,200</b>	<b>1,348</b>
less interest	-157	-118	0	0
<b>Present value of minimum obligations</b>	<b>1,200</b>	<b>1,348</b>	<b>1,200</b>	<b>1,348</b>

### 24.3 OTHER FINANCIAL OBLIGATIONS

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

in EUR thousand	2012	2013	2014	2015	2016 and beyond	Total
<b>Other contracts</b>	19,695	6,016	4,248	8	40	<b>30,009</b>

## 25 RELATED PARTIES

The members of Tipp24 SE's Executive Board and Supervisory Board, as well as their immediate relatives, are regarded as related parties in accordance with IAS 24. Oliver Jaster is a member of the Supervisory Board. The operating business of Schumann e. K. was outsourced to a related company of Oliver Jaster, Günther Direct Services GmbH. In return, Günther Direct Services received compensation of EUR 221 thousand in the period under review (prior year: EUR 201 thousand).

At the Annual General Meeting for fiscal year 2010 held on 29 June 2011, Jens Schumann was elected Chairman of the Supervisory Board with effect from 1 July 2011. Jens Schumann is the sole shareholder of Schumann e. K. This structure has existed in comparable form since 2002 and was chosen because class lotteries only issue sales licences at present to natural persons or companies in which neither the liability of the company or its direct and indirect partners is limited. A cooperation agreement is in place between Tipp24 SE and Schumann e. K., which governs the processing of game participation of class lottery custom-

ers by Schumann e. K.. Under the terms of the agreement, Schumann e. K. must pay all commissions and other brokerage fees collected in this context to Tipp24. Tipp24 SE provides Schumann e. K. with services in the field of controlling, bookkeeping, marketing and technical services and bears the costs incurred by Schumann e. K. in running its operations. As Jens Schumann operates Schumann e. K. in the interest of Tipp 24 SE, Tipp24 SE has undertaken to indemnify them in the event of any personal claims by third parties arising from or in connection with the operation of Schumann e. K.. Indemnification is limited to the extent that fulfilment of this indemnification may not cause Tipp24 to become insolvent or over-indebted. In his capacity as shareholder of Schumann e. K., Mr. Schumann did not receive any remuneration during the fiscal year.

The charitable foundation »Fondation enfance sans frontières«, owner of the preference shares of Tipp24 Service, has been identified as a related party. Dr. Heinrich Lammer is a member of the Board of Trustees of the charitable foundation »Fondation enfance sans frontières« and CEO of TBIC Asset Management AG, Zurich, Switzerland. TBIC Asset Management AG was involved in consultations regarding the strategy for its investment of liquid funds in the Abroad segment and received a reimbursement of expenses totalling EUR 189 thousand in the period under review.

There were no other transactions with related parties in the period under review.

Please refer to Note 29 for details on Executive Board and Supervisory Board remuneration.

## 26 CAPITAL MANAGEMENT

Tipp24 operates a decentralized capital management system. All major decisions concerning the financial structure of the Germany segment are taken by the Executive Board of Tipp24 SE. Capital management activities of the Abroad segment are handled by MyLotto24, with the exception of Tipp24 Services which operates its own capital management system. The principles and objectives of capital management are as follows, while the risks to which Tipp24 is hereby exposed are described in the current risk report.

Equity which exceeds the amount required to secure the company's stable financial position is to be used for investments and further growth finance in line with our growth strategy. In the medium term, Tipp24 may also leverage its financial position by means of interest-bearing debt. In future, liquid equity capital not required for the company's strategic objectives is to be used once again to pay dividends to our shareholders and buy back shares from the market. This optimization of the equity ratio, however, is only prudent and possible when MyLotto24 can distribute a dividend to Tipp24 SE again.

### Principles and objectives of capital management

in EUR thousand	31 Dec. 2011	31 Dec. 2010
Equity ratio	74.7%	71.5%
Equity	129,291	92,921
Interest-bearing debt	0	0
Proposed dividend for the fiscal year per share	dividend in kind	0.00

The dividend in kind is measured at fair value on the date of the Annual General Meeting resolution. On the basis of a valuation report, a fair value of EUR 19.97 million was determined for the dividend in kind. Based

on a total of 7,895,088 Tipp24 shares with dividend entitlement, this translates into a theoretical value of EUR 2.50 for the dividend in kind allocated to each Tipp24 share.

## 27 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

### 27.1 FAIR VALUE

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

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

#### Cash and short-term financial assets

The amortized cost of cash and short-term financial assets more or less corresponds to fair value. The fair value of publicly traded financial instruments is based on the price quotations available for these or similar instruments. For non-publicly traded financial instruments, fair value is measured on the basis of a reasonable estimate of future net cash flows.

#### Non-current financial assets

The fair value of non-current financial assets is based on the issue price available for like or similar securities. The fair value can differ considerably from the acquisition cost carried in the balance sheet.

#### Current liabilities

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

#### Non-current liabilities

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

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

#### Net profits from financial instruments

in EUR thousand	2011	2010	2011	2010
	Carried in equity		Carried in income statement	
<b>Financial assets</b>				
<b>Cash and pledged cash</b>	<b>0</b>	<b>0</b>	<b>83</b>	<b>129</b>
<b>Short-term financial assets</b>				
Available-for-sale financial assets	14	8	52	140
Held-to-maturity financial assets	0	0	580	0
<b>Long-term financial assets</b>				
Available-for-sale financial assets	0	0	150	216
<b>Financial result</b>	<b>14</b>	<b>8</b>	<b>865</b>	<b>486</b>
Other financial assets (short-term)	0	0	-194	7
	<b>14</b>	<b>8</b>	<b>675</b>	<b>493</b>

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



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

#### Financial instruments 2011

in EUR thousand	Amortized cost	Fair value recognized in equity	Non-financial assets/ liabilities	Total	Book value 31 Dec. 2011	Fair value 31 Dec. 2011
<b>Assets</b>						
<b>Cash and pledged cash</b>						
Receivables	64,119	0	0	64,119		
Non-financial assets	0	0	4	4	64,123	64,123
<b>Short-term financial assets</b>						
Available-for-sale financial assets	0	7,980	0	7,980		
Held-to-maturity financial assets	57,453	0	0	57,453	65,433	65,433
<b>Trade receivables</b>						
Receivables	12	0	0	12	12	12
<b>Other assets</b>						
Receivables	3,024	0	3,213	6,237		
Loans	437	0	0	437	6,674	6,674
<b>Long-term financial assets</b>						
Receivables	2,000	0	0	2,000		
Loans	2,351	0	0	2,351	4,351	4,351
<b>Long-term other assets</b>						
Receivables	629	0	0	629	629	629
<b>Total assets</b>					<b>141,222</b>	<b>141,222</b>
– of which loans and receivables					72,572	72,572
– of which available-for-sale financial assets					7,980	7,980
– of which held-to-maturity financial instruments					57,453	57,453
<b>Liabilities</b>						
<b>Liabilities</b>						
Trade payables	5,860	0	0	5,860	5,860	5,860
Other liabilities	18,700	0	3,144	21,844	21,844	21,844
Financial liabilities	102	0	0	102	102	102
<b>Total liabilities</b>					<b>27,806</b>	<b>27,806</b>
– of which liabilities					24,662	24,662

**Financial instruments 2010**

in EUR thousand	Amortized cost	Fair value recognized in equity	Non-financial assets/ liabilities	Total	Book value 31 Dec. 2010	Fair value 31 Dec. 2010
<b>Assets</b>						
<b>Cash and pledged cash</b>						
Receivables	43,951	0	0	43,951		
Non-financial assets	0	0	6	6	43,957	43,957
<b>Short-term financial assets</b>						
Available-for-sale financial assets	0	48,226	0	48,226	48,226	48,226
<b>Trade receivables</b>						
Receivables	27	0	0	27	27	27
<b>Other assets</b>						
Receivables	4,090	0	2,407	6,497		
Loans	1,467	0	0	1,467	7,964	7,964
<b>Long-term financial assets</b>						
Loans	1,600	0	0	1,600	1,600	1,600
<b>Total assets</b>					<b>101,774</b>	<b>101,774</b>
– of which loans and receivables					51,135	51,135
– of which available-for-sale financial assets					48,226	48,226
<b>Liabilities</b>						
<b>Liabilities</b>						
Trade payables	5,834	0	0	5,834	5,834	5,834
Other liabilities	16,509	0	1,027	17,536	17,536	17,536
Financial liabilities	87	0	0	87	87	87
<b>Total liabilities</b>					<b>23,457</b>	<b>23,457</b>
– of which liabilities					22,430	22,430

### Hierarchy of fair values

As of 31 December 2011, Tipp24 held securities amounting to EUR 65,433 thousand (prior year: EUR 48,226 thousand), which were classified in the amount EUR 7,980 thousand (prior year: EUR 48,226 thousand) as Level 1 financial instruments measured at fair value. As in the previous year, Tipp24 did not hold any Level 2 and Level 3 financial instruments.

As in the previous year, the Company did not hold any liabilities measured at fair value on the balance sheet date.

Tipp24 uses the following hierarchy to determine and disclose the fair value of financial instruments for each measurement method:

Level 1: listed (unadjusted) prices on active markets for similar assets or liabilities,

Level 2: methods in which all input parameters, which have a significant effect on the carried fair value can be observed, either directly or indirectly,

Level 3: methods which use input parameters which have a significant effect on the carried fair value and are not based on observable market data.

### 27.2 CREDIT RISK

The scope of the credit risk of Tipp24 equals the sum of cash, short-term financial assets, trade receivables and other receivables.

#### Cash and other financial assets

In view of the current adverse climate on the European and global financial markets, there may be a default risk both in respect of the cash and short-term financial assets themselves, as well as the accruing interest.

Due to the high total amount of cash and short-term financial assets held by Tipp24, and the resulting absolute and relative importance, extensive management processes have been established to steer and regularly monitor the Company's investment strategy.

Cash and short-term financial assets are invested in a variety of short-term securities offering as much liquidity and as little volatility as possible, while ensuring broad risk diversification. The overriding objective of our investment strategy is to preserve capital – even at the expense of expected returns.

Tipp24's investment strategy is aimed at spreading and minimizing risk by means of multi-dimensional diversification. Firstly, funds are divided into differing investment products, such as sight and term deposits, highly fungible government bonds of Euro zone states and short-term investment fund units. Secondly, we restrict our choice to those investments with good credit ratings. Following regular monitoring, there were no specific default risks in the portfolio as of the balance sheet date.

#### Trade and other receivables

The Company mainly collects the amounts owed by customers directly, via direct debit or credit card. On the basis of many years of collected data, the risk of returned direct debits or credit card charges is regarded as statistically limited. Missing amounts from such cancellations are charged directly to »Other operating expenses«.

The Company generates receivables from lottery organizers for the winnings of its customers, which are passed on directly to the winners upon receipt. Due to the credit standing of the lottery organizers, the Company does not anticipate any significant default on payment.

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

#### Contingent receivables

On 23 September 2009, MyLotto24 recorded a jackpot win of EUR 31.7 million which reduced revenue by the same amount. The jackpot payout was insured for an amount of EUR 21.7 million. As the insurance case has been the subject of litigation since early 2010, the entire amount of the receivable due from the insurance company was classified as a contingent receivable in the annual financial statements for 2009 and since this time not carried in the balance sheet.

The legal dispute was settled by mutual agreement in June 2011. This contingent receivable therefore no longer exists. As a consequence, the forecast for earnings before interest and taxes (EBIT) for 2011 was raised from EUR 30 million to EUR 40 million.

### 27.3 LIQUIDITY RISK

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

In order to reduce the particular risk of high jackpot payouts in the Abroad segment, MyLotto24 conducts hedging transactions – such as the transfer of payment obligation risks to a catastrophe bond (CAT bond) via an Insurance-Linked-Security (ILS) vehicle.

As of 31 December 2011, Tipp24 SE has available funds of EUR 11,296 thousand. At the moment, it only has income to a greatly restricted extent. Nevertheless, it has sufficient funds to secure its financing (see also Note 22 »Equity«).

### 27.4 INTEREST RATE RISK

in EUR thousand	Variable interest rates	Fixed interest rates	Total
<b>31 Dec. 2011</b>			
<b>Cash and pledged cash</b>	64,123	0	<b>64,123</b>
<b>Short-term financial assets</b>			
Available-for-sale financial assets	7,980	0	<b>7,980</b>
Held-to-maturity financial assets	0	57,453	<b>57,453</b>
	7,980	57,453	<b>65,433</b>
<b>Long-term financial investments</b>	0	2,351	<b>2,351</b>
<b>Total</b>	<b>72,103</b>	<b>59,803</b>	<b>131,906</b>

in EUR thousand	Variable interest rates	Fixed interest rates	Total
<b>31 Dec. 2010</b>			
<b>Cash and pledged cash</b>	43,957	0	<b>43,957</b>
<b>Short-term financial assets</b>			
Available-for-sale financial assets	5,619	0	<b>5,619</b>
Available-for-sale financial assets	0	42,607	<b>42,607</b>
	5,619	42,607	<b>48,226</b>
<b>Long-term financial investments</b>	0	1,600	<b>1,600</b>
<b>Total</b>	<b>46,576</b>	<b>44,207</b>	<b>93,783</b>

Tipp24 invests the majority of its funds in a combination of fixed term deposits and short-term government bonds. For these funds, which are mainly held in liquid or short-term investments, there is a general risk from changing interest rates. A sensitivity analysis was conducted for the portfolio of cash and short-term financial assets held on 31 December 2011 with a simulated interest rate increase of 50 base points. Assuming no changes are made to the portfolio in response to the interest rate increase, there would be a rise in interest income of EUR 648 thousand (in a simplified calculation). Under consideration of the duration of those investments currently in the portfolio, there would be an expected reduction of this interest income of EUR 102 thousand. The overall effect, therefore, would be an increase in interest income of EUR 546 thousand. In the previous year, a simpler calculation led to a difference of EUR 460 thousand.

## 27.5 CURRENCY RISK

The Company is exposed to a currency risk as a result of the GBP exchange rates. The risk arises from payments received and made in foreign currency, which differ from the Company's functional currency and are not always offset by payments in the same currency of the same amount and with the same maturities.

For the presentation of currency risks, IFRS 7 requires sensitivity analyses which display the effects of hypothetical changes of the relevant risk variables on earnings and equity. In order to determine the currency risk, a fluctuation of the Euro to British Pound exchange rate of 10% was assumed as of 31 December 2011.

On the basis of this assumption, a revaluation of the Euro against the British Pound of 10% to 0.9188 GBP/EUR would result in an effect of EUR 64 thousand on earnings. A devaluation of the Euro against the British Pound of 10% to 0.7518 GBP/EUR would result in an effect of EUR -78 thousand on earnings. In the previous year, a revaluation of the Euro against the British Pound of 10% would have resulted in an effect of EUR 454 thousand on earnings, while a devaluation of the Euro against the British Pound of 10% would have resulted in an effect of EUR -555 thousand on earnings. Due to improved currency management, excess foreign currency receivables/payables were significantly reduced in the fiscal year under review with a corresponding reduction of the Company's currency risk.

The financial assets currently held do not bear any material currency risk.

## 28 EVENTS AFTER THE BALANCE SHEET DATE

On 20 February 2012, Tipp24 launched restricted brokerage operations for the state lottery of Schleswig-Holstein («Landeslotteriegesellschaft Schleswig-Holstein») under the www.lotto24.de brand and now seeks to resume full brokerage operations in Germany as soon as possible.

It is currently impossible to make any estimation of the financial consequences. They depend to a large degree on the successful implementation of the planned spin off.

## 29 OTHER DISCLOSURES

### 29.1 EXECUTIVE BOARD

Dr. Hans Cornehl is Chairman of the Executive Board of Tipp24 SE and has been a member of the Executive Board since 2002. From 1 October 2009 to 30 June 2011, he led the company as the sole member of the Executive Board. He is responsible for Strategy, Corporate Development, Investor Relations, Communication, HR and Finance.

Petra von Strombeck, who already served on Tipp24's Executive Board from 1 April 2008 to 31 March 2009, has been responsible for Sales, Marketing and Brand Management since 1 July 2011.

Marcus Geiss was previously responsible for the Corporate Development and New Markets divisions. He will leave the company prematurely on 30 April 2012 by mutual agreement and on the best of terms. Expected expenses for benefits in this connection of EUR 1,750 thousand have been recognized in the annual financial statements.

The members of the Executive Board worked on a full-time basis. The remuneration of the Executive Board in fiscal year 2011 consisted of the following elements:

in EUR thousand	Fixed remuneration	Variable remuneration	2011
Dr. Hans Cornehl	350	666	1,016
Marcus Geiss	175	309	484
Petra von Strombeck	175	309	484
<b>Total</b>	<b>700</b>	<b>1,284</b>	<b>1,984</b>

The remuneration of the Executive Board in fiscal year 2010 consisted of the following elements:

in EUR thousand	Fixed remuneration	Variable remuneration	2010
Dr. Hans Cornehl	350	632	982
<b>Total</b>	<b>350</b>	<b>632</b>	<b>982</b>

In fiscal year 2011, total remuneration of the Executive Board amounted to EUR 1,984 thousand (prior year: EUR 982 thousand).

## 29.2 SUPERVISORY BOARD

The following persons held seats on the Supervisory Board in fiscal year 2011:

- Andreas de Maizière, Partner of Doertenbach & Co. GmbH, since 29 June 2011 (Chairman)
- Klaus F. Jaenecke, Managing Partner of Jaenecke & Cie. GmbH & Co. KG, until 29 June 2011 (Chairman)
- Prof. Willi Berchtold, Managing Partner of CUATROB GmbH, since 29 June 2011 (Deputy Chairman)
- Oliver Jaster, Managing Partner of Günther Holding (regular member)
- Dr. Helmut Becker, Member of the Executive Board of XING AG, since 29 June 2011 (regular member)
- Hendrik Pressmar, Lawyer (regular member)
- Jens Schumann, businessman, since 29 June 2011 (regular member)

Willi Berchtold is a member of the following other domestic supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- Bundesdruckerei GmbH, Berlin (Chairman of the Supervisory Board),
- Lufthansa Systems Aktiengesellschaft, Kelsterbach (Member of the Supervisory Board),
- Software Aktiengesellschaft, Darmstadt (Member of the Supervisory Board).

Andreas de Maizière is a member of the following other domestic supervisory boards which must be formed pursuant to statutory law:

- Conergy AG, Hamburg (Deputy Chairman of the Supervisory Board) (until September 2011)
- Eisen- und Hüttenwerke Aktiengesellschaft, Andernach (Member of the Supervisory Board),
- Fürstlich Castell'sche Bank, Credit-Casse AG, Castell (Chairman of the Supervisory Board),
- Rheinische Bodenverwaltung Aktiengesellschaft, Düsseldorf (Chairman of the Supervisory Board).

Andreas de Maizière is also a member of the following comparable domestic and foreign controlling committees:

- Arenberg – Recklinghausen Gesellschaft mit beschränkter Haftung, Recklinghausen (Chairman of the Supervisory Board),
- Arenberg Schleiden GmbH, Schleiden (Chairman of the Supervisory Board),
- Commerz Real Spezialfondsgesellschaft mbH, Wiesbaden (Deputy Chairman of the Supervisory Board),
- Grundkredit- und Bodenverwaltung Gesellschaft mit beschränkter Haftung, Düsseldorf (Chairman of the Supervisory Board),
- Dr. Vogler GmbH & Co. KG, Bad Homburg v.d.Höhe (Member of the Advisory Council).

Oliver Jaster is a member of the following other domestic supervisory boards which must be formed pursuant to statutory law, or other comparable domestic and foreign controlling committees:

- ALPHA Business Solutions AG, Kaiserslautern – Chairman of the Supervisory Board
- Orga Systems GmbH, Paderborn – Member of the Advisory Council

The remuneration of the Supervisory Board consisted of the following elements:

in EUR thousand	Fixed remuneration	Variable remuneration	2011
Andreas de Maizière, since 29 June 2011 (Chairman)	67	0	67
Klaus F. Jaenecke, until 29 June 2011 (Chairman)	17	18	35
Prof. Willi Berchtold, since 29 June 2011 (Deputy Chairman)	47	0	47
Oliver Jaster	37	11	48
Dr. Helmut Becker, since 29 June 2011	20	0	20
Hendrik Pressmar	27	7	34
Jens Schumann, since 29 June 2011	27	0	27
<b>Total</b>	<b>242</b>	<b>35</b>	<b>277</b>

in EUR thousand	Fixed remuneration	Variable remuneration	2010
Klaus F. Jaenecke (Chairman)	34	35	69
Oliver Jaster (Deputy Chairman)	21	21	42
Hendrik Pressmar	14	14	28
<b>Total</b>	<b>69</b>	<b>70</b>	<b>139</b>

### 29.3 DIRECTORS' DEALINGS

#### Shares and subscription rights held by executive bodies

The following table shows the number of shares held in Tipp24 SE by members of the executive bodies of Tipp24 SE as of 31 December 2011, as well as changes in shareholdings during 2011.

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

Shares	1 Jan. 2011	Changes	31 Dec. 2011
<b>Executive Board</b>			
Dr. Hans Cornehl	55,389	0	55,389
Marcus Geiss <sup>1)</sup>	0	4,000	4,000
Petra von Strombeck <sup>1)</sup>	900	0	900
<b>Supervisory Board</b>			
Oliver Jaster <sup>2)</sup>	0	2,169,842	2,169,842
Jens Schumann	405,000 <sup>3)</sup>	0	405,000

<sup>1)</sup> Since 1 July 2011

<sup>2)</sup> The change in 2011 resulted from the amended allocation of shares to Günther GmbH.

<sup>3)</sup> As of 29 June 2011

### 29.4 CORPORATE GOVERNANCE

#### Declaration of conformity with German Corporate Governance Code

In August 2011, the Supervisory Board and Executive Board have submitted their declaration of conformity with the German Corporate Governance Code pursuant to § 161 AktG and made the declaration permanently available to shareholders via the Company's website ([www.tipp24-se.de](http://www.tipp24-se.de)).



## 29.5 EMPLOYEES

The average number of employees is shown below:

2011	Germany	Abroad	Tipp24
Executive Board	2	0	2
General Managers	1	5	6
Employees	38	90	128
Trainees	1	0	1
Temporary personnel	29	1	30
<b>Total</b>	<b>71</b>	<b>96</b>	<b>167</b>

2010	Germany	Abroad	Tipp24
Executive Board	1	0	1
General Managers	0	6	6
Employees	35	86	121
Trainees	2	0	2
Temporary personnel	28	0	28
<b>Total</b>	<b>66</b>	<b>92</b>	<b>158</b>

## 29.6 AUDITING COSTS

The following fees were charged by the auditors of the annual financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for fiscal year 2011:

in EUR thousand	2011	2010
Auditing fees	439	508
thereof for international partner companies of the auditing company	289	408
Tax consulting	168	259
thereof for international partner companies of the auditing company	97	200
Other services	180	762
thereof for international partner companies of the auditing company	39	78
<b>Total</b>	<b>787</b>	<b>1,529</b>

## 29.7 CONSOLIDATED GROUP

The consolidated group comprises the companies listed below, for which the respective present and past shareholdings are also stated (see also Note 2.1.5 »Consolidation principles«).

Ventura24Games S.A., a wholly-owned subsidiary of MyLotto24, was founded in November 2011. There were formation costs of EUR 1 thousand. At the time of formation, there was no difference between carrying value and fair value. The result of the abbreviated fiscal year for this company since its formation amounts to EUR 4 thousand.

in % of voting rights	2011	2010	Initial consolidation
Tipp24 Entertainment GmbH, Hamburg	100	100	2008
Tipp24 Deutschland GmbH, Hamburg	100	100	2010
MyLotto24 Limited, London, UK	40	40	2007
Tipp24 Operating Services Limited, London, UK	40	40	2007
Ventura24 S.L., Madrid, Spain	40	40	2001
Ventura24Games S.A., Madrid, Spain	40	0	2011
Giochi24 s.r.l., Monza, Italy	40	40	2008
GSG Lottery Systems GmbH, Hamburg	40	40	2001
Tipp24 Services Limited, London, UK	16	16	2007

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

MyLotto24 sponsored an Insurance-Linked-Security (ILS) vehicle which partially transfers its bookmaking risk to the capital market. The CAT bond was placed with institutional investors outside the group by a special purpose entity. MyLotto24 has no controlling influence, no exposure to the residual risk, no right to receive benefits and therefore no exposure to risk in respect of the ILS; hence MyLotto24 does not include the entity in its consolidated financial statements.

Hamburg, 20 April 2012

The Executive Board

Dr. Hans Cornehl

Marcus Geiss

Petra von Strombeck

## AUDIT OPINION

We have audited the consolidated financial statements prepared by the Tipp24 SE, Hamburg, comprising the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

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

Our audit has not led to any reservations.

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

Hamburg, 26 March/20 April 2012<sup>1)</sup>

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Klimmer	Hoyer
Wirtschaftsprüfer	Wirtschaftsprüfer

<sup>1)</sup> Limited to the changes described in section »1. General Information« of the Notes.

## RESPONSIBILITY STATEMENT

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

The Executive Board

Dr. Hans Cornehl

Marcus Geiss

Petra von Strombeck

## REPORT OF THE SUPERVISORY BOARD

### ADVISING AND MONITORING MANAGEMENT

The Supervisory Board of Tipp24 SE regularly monitored and advised the Executive Board in accordance with statutory obligations during the period under review. We were directly involved in all decisions of the Executive Board which were of significance for the Company. Moreover, the Executive Board regularly informed the Supervisory Board fully and promptly, in oral and written reports, about all material issues of business planning and strategic development, about the course of events, the Group's current situation, including possible risks and the risk management system. Deviations between the planned and actual course of business were explained to us in detail. The Executive Board consulted with us about the company's strategic alignment. Moreover, the Executive Board provided the Supervisory Board with comprehensive reports about the course of business, including the development of revenue and profitability, as well as the Company's current situation and business policy. These reports were presented to all members of the Supervisory Board. Based on these reports of Tipp24 SE, the Supervisory Board was able to discuss in detail, monitor and advise on all important business activities. After careful examination and detailed discussion, the Supervisory Board approved all resolutions presented by the Executive Board.

A total of six Supervisory Board meetings were held in fiscal year 2011, which were attended by all members. Further resolutions concerning current topics were adopted by circular written consent.

In the period January to March 2011, an extensive Board Review was conducted by Board Consultants International. The main focus was placed on advising the Supervisory Board on ways to optimize its performance.

In addition to the Supervisory Board meetings, the Chairman of the Supervisory Board was also informed in detail by the Executive Board about significant business transactions and discussed various aspects of business policy with the Executive Board.

### MAIN TOPICS OF DISCUSSION

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

- the development of sales and earnings, as well as the financial position of Tipp24 SE and its fully consolidated associated companies in Germany and in the foreign markets UK, Spain and Italy,
- corporate planning, including investment and personnel planning,
- the legal disputes being conducted by Tipp24 SE,
- the development of the regulatory and economic environment in those markets of relevance for Tipp24, focusing in particular on the development of the regulatory discussion relating to the State Treaty on Games of Chance in Germany, especially following the ECJ rulings in early September 2010,
- the strategic alignment and growth strategy of Tipp24 SE and its fully consolidated associated companies, with particular regard to the re-establishment of lottery brokerage in Germany in the light of discussions about a revised State Treaty on Games of Chance and the new gaming legislation in Schleswig-Holstein,



- the ongoing development of the early risk warning systems.
- discussion and consultation of all business transactions requiring approval and
- the continuous improvement of Corporate Governance and its adaptation to new statutory requirements.

In view of the transfer of control over the fully consolidated associated companies in the foreign markets UK, Spain and Italy completed in 2009, discussions concerning these companies were restricted to an assessment of the opportunities and risks which Tipp24 SE believes are associated with these businesses.

#### COMMITTEES

The Supervisory Board consists of six members and as of 23 August 2011 now has various committees. The Presidial Committee, comprising Messrs. de Maizière (Chairman), Jaster and Schumann, met twice during the remaining months of the reporting year. Their discussions focused mainly on the strategic alignment, target agreements with the Executive Board and issues concerning members of the Executive Board. The Audit Committee and its members Prof. Berchtold (Chairman), Messrs. Jaster and de Maizière convened once during the remaining course of the reporting year and dealt with corporate structure and the main audit focus of the annual financial statements 2011.

#### COMPOSITION OF THE SUPERVISORY BOARD

In accordance with a resolution of the Annual General Meeting of 29 June 2011, the Supervisory Board has been expanded from three to six persons. The Annual General Meeting elected Andreas de Maizière, Prof. Willi Berchtold, Dr. Helmut Becker and Jens Schumann as new members of the Supervisory Board. The resolution concerning the expansion of the Supervisory Board became effective on 20 July 2011 with its entry in the Commercial Register. The Supervisory Board currently consists of Andreas de Maizière (Chairman), Prof. Willi Berchtold (Deputy Chairman), Dr. Helmut Becker, Oliver Jaster, Hendrik Pressmar and Jens Schumann. Mr. de Maizière, Prof. Berchtold and Dr. Becker have been members of the Supervisory Board since 20 July 2011, Mr. Schumann since 29 June 2011, Mr. Pressmar since 19 December 2008, and Mr. Jaster since 29 May 2008. Mr. Jaster was Chairman from 29 June 2011 to 20 July 2011, while Mr. Schumann was Deputy Chairman during this period. From 29 May 2008 to 29 June 2011, Mr. Jaster was Deputy Chairman of the Supervisory Board. Mr. Klaus F. Jaenecke was a member of the Supervisory Board and its Chairman from 10 August 2005 to 29 June 2011.

## CORPORATE GOVERNANCE AND THE DECLARATION OF CONFORMITY

During the past year, the Supervisory Board dealt in detail with the recommendations of the German Corporate Governance Code. In August 2011, the Executive Board and Supervisory Board submitted a Declaration of Conformity, pursuant to Sec. 161 German Stock Corporation Law (AktG) and made it permanently available to shareholders via the Company's website [www.tipp24-se.de](http://www.tipp24-se.de). The declaration states that the company complied and continues to comply with the recommendations of the German Corporate Governance Code with the following exceptions: the D&O insurance taken out for members of the Supervisory Board does not include a deductible; there were no committees of the Supervisory Board until their formation in late July 2011; there are no targets regarding the composition of the Supervisory Board; and in respect of Supervisory Board remuneration, no performance-oriented components have been included. Moreover, since submitting the previous Declaration of Conformity in September 2010, recommendations were not observed during certain periods regarding the formation of an Executive Board consisting of several members, and concerning the disclosure of benefits granted to a member of the Executive Board, or changed during the fiscal year, for the case of his premature or regular termination of activities.

## AUDITING OF THE PARENT COMPANY AND CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The annual financial statements and management report for fiscal 2011 of Tipp24 SE, as prepared by the Executive Board in accordance with the German Commercial Code (HGB), and the consolidated annual financial statements and Group management report prepared in accordance with International Financial Reporting Standards (IFRS) were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, which issued an unqualified audit certificate in each case. The audit also included an examination of the respective accounting systems. The Executive Board provided us with the aforementioned documents and its proposal for the appropriation of the balance sheet profit in due time. They were discussed in detail at the Audit Committee's meeting on 19 March 2012.

The Supervisory Board comprehensively dealt with the annual financial statements and consolidated financial statements of Tipp24 SE during the balance sheet meeting on 20 March 2012, which was also attended by the auditor. In addition, the auditor reported on the chief results of his audit and confirmed that there were no significant weaknesses in the internal control system and the risk management system. During the meeting, the Executive Board explained the annual financial statements of Tipp24 SE and the Group, as well as the risk management system. The auditor also reported on the scope, focus areas and costs of the audit. The Supervisory Board was unable to conclude its own audit procedures during this meeting and subjected the financial statements prepared and audited as of 26 March 2012 to further audit procedures.

On 20 April 2012, the Executive Board followed a proposal of the Supervisory Board to amend the annual financial statements and consolidated financial statements, including the respective management report, insofar as an amount of EUR 36,009,739.17 was withdrawn from free capital reserves. The Executive Board also presented a dividend proposal. The amended financial statements and accounting system were also audited on 20 April 2012 by the auditors in the course of a subsequent audit and each awarded an unqualified audit certificate. The amended audit reports were distributed to all members of the Supervisory Board and discussed with regard to the changes caused by the release of reserves during the second balance sheet meeting of the Supervisory Board on 20 April 2012, which was also attended by the auditor and the Executive Board.

On conclusion of the subsequent audit, we concur with the auditor's findings. Based on the final result of the audit undertaken by the Audit Committee and our own final examination, there are no objections to be raised. The Supervisory Board approved the financial statements prepared by the Executive Board; the annual financial statements are thus adopted. The Executive Board has proposed to use the balance sheet profit of EUR 26,384,783.26 as follows:

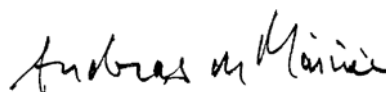
Payment of a dividend in kind of EUR 19,962,720.00, whereby for each no-par value share in Tipp24 SE shareholders shall receive a no-par value share in the future Lotto24 AG, Hamburg, currently still Tipp24 Deutschland GmbH, after its conversion into the legal form of a public limited company and renaming, by means of transfer in a collective custody account (entitlement ratio 1:1). The remaining balance sheet profit of EUR 6,422,063.26 is to be carried forward. We concur with this proposal.

#### PERSONNEL

Klaus F. Jaenecke retired from his office as member and Chairman of the Supervisory Board on expiry of the Annual General Meeting on 29 June 2011. In the course of the Supervisory Board's expansion from three to six members, the shareholders elected Andreas de Maizière, Prof. Willi Berchtold, Dr. Helmut Becker and Jens Schumann as new members of the Supervisory Board. As of 1 July 2011, the Executive Board was expanded from one to three members with the appointment of Marcus Geiss and Petra von Strombeck. Marcus Geiss will leave the company on 30 April 2012 by mutual agreement and on the best of terms.

The Supervisory Board would like to thank the members of the Executive Board and all employees of Tipp24 SE and its fully consolidated associated companies for their commitment and successful efforts during the past fiscal year. We would also like to express our special gratitude this year to our long-serving Chairman of the Supervisory Board, Klaus F. Jaenecke. Over a period of almost six years, Mr. Jaenecke led the Supervisory Board and during this time played a major role in ensuring the company's positive and sustainable development.

Hamburg, 20 April 2012



**Andreas de Maizière**

(Chairman of the Supervisory Board)



## KEY CONSOLIDATED FIGURES OF TIPP24 SE

As of 26 March 2012

		2011	2010	2009	2008
<b>Customers</b>					
Number of registered customers (at year-end)	Thsd.	n/a	n/a	n/a	2,526
Number of registered new customers (at year-end)	Thsd.	n/a	n/a	n/a	203
Customer activity rate		n/a	n/a	n/a	24.7%
Average billings/customer	EUR	n/a	n/a	n/a	566
Acquisition costs per new customer	EUR	n/a	n/a	n/a	46.44
<b>Income statement</b>					
	EUR thsd.				
Billings		n/a	n/a	n/a	335,947
Revenue		139,316 <sup>2)</sup>	101,882 <sup>2)</sup>	89,551	45,838
EBIT		51,905 <sup>2)</sup>	32,681 <sup>2)</sup>	23,052	8,897
EBT		52,770 <sup>2)</sup>	33,167 <sup>2)</sup>	25,076	10,720
Net profit		36,339	19,551	17,482	6,606
<b>Balance sheet</b>					
	EUR thsd.				
Cash, cash equivalents and securities (incl. pledged cash, cash equivalents and securities)		64,123	43,957	69,361	21,261
Other current assets		65,433	56,613	20,466	59,586
Total non-current assets		36,215	29,444	18,296	12,304
ASSETS		173,043	130,013	108,123	93,151
Current liabilities		42,848	36,911	42,971	35,623
Non-current liabilities		904	181	752	2,607
Equity		129,291	92,921	64,399	54,922
EQUITY AND LIABILITIES		173,043	130,013	108,123	93,151
<b>Cash flow</b>					
	EUR thsd.				
Cash flow from operating activities		44,323	14,081	30,217	9,651
Cash flow from investing activities		-24,157	-48,446	25,579	-47,040
Cash flow from financing activities		0	8,950	-7,723	-7,386
<b>Personnel</b>					
Number of employees (average no. of full-time staff without board members/managing directors/interns/apprentices)	No.	128	121	132	185
Personnel expenses	EUR thsd.	12,026 <sup>2)</sup>	10,110 <sup>2)</sup>	12,524	12,667
Expenses per employee	EUR thsd.	94 <sup>2)</sup>	84 <sup>2)</sup>	72	69
R&D expenses	EUR thsd.	1,461	1,579	1,396	3,374
R&D staff	No.	30	33	33	68
<b>Share (from 2004)</b>					
Average number of shares (undiluted)	No.	7,985,088	7,715,614	7,730,961	8,032,265
Earnings per share (undiluted)	EUR	4.80 <sup>2)</sup>	2.85 <sup>2)</sup>	2.26	0.82
Operating cash flow per share (undiluted)	EUR	5.55	1.82	3.91	1.2
<b>Ratios</b>					
	%				
Gross margin		n/a	n/a	n/a	13.6%
EBIT margin		37.3% <sup>2)</sup>	32.1% <sup>2)</sup>	25.7%	19.4%
Net operating margin		26.1% <sup>2)</sup>	19.2% <sup>2)</sup>	19.5%	14.4%
Return-on-equity (RoE)		28.1%	21.0%	27.1%	12.0%

<sup>1)</sup> 1999–2003: unaudited; 1999: Short fiscal year from 31 July until 31 December 1999

<sup>2)</sup> from continued operations

	2007	2006	2005	2004	2003 <sup>1)</sup>	2002 <sup>1)</sup>	2001 <sup>1)</sup>	2000 <sup>1)</sup>	1999 <sup>1)</sup>
	2,344	1,770	1,322	1,031	675	441	323	121	0
	574	448	291	356	234	118	202	121	0
	28.7%	28.6%	28.6%	30.9%	30.3%	31.4%	n/a	n/a	n/a
	588	598	609	584	620	591	n/a	n/a	n/a
	20.11	18.81	20.12	17.01	17.52	14.21	n/a	n/a	n/a
	346,776	264,235	204,696	154,094	104,812	70,926	42,933	5,200	0
	44,974	34,575	26,119	19,504	14,085	8,284	3,808	691	0
	8,949	7,244	6,048	3,207	1,000	1,019	-3,170	-5,364	-682
	11,192	8,365	6,490	3,324	1,070	1,055	-3,124	-5,695	-690
	6,272	7,445	3,318	1,575	2,994	1,752	-3,289	-5,697	-690
	66,121	60,764	57,174	13,202	8,251	4,217	2,100	3,878	269
	18,405	16,290	7,666	3,092	3,940	2,440	1,558	809	143
	7,213	5,740	7,296	2,602	3,845	2,104	1,371	1,366	220
	91,739	82,794	72,135	18,896	16,036	8,761	5,029	6,053	633
	35,774	22,128	18,854	10,955	9,872	5,797	3,897	1,659	1,068
	335	14	96	124	99	150	70	46	0
	55,630	60,652	53,185	7,817	6,065	2,814	1,062	4,349	-435
	91,739	82,794	72,135	18,896	16,036	8,761	5,029	6,053	633
	17,886	8,360	10,308	5,375	4,570	2,546	-1,321	-5,569	-412
	-1,200	-4,769	-6,371	-600	-506	-399	-457	-1,304	-236
	-11,335	-	40,035	175	-30	-30	0	10,481	917
	154	144	114	95	72	47	26	17	3
	10,324	8,277	6,990	5,522	4,285	3,021	2,005	1,076	81
	67	58	61	58	60	64	77	63	27
	3,051	2,767	2,151	1,938	1,420	n/a	n/a	n/a	n/a
	58	56	44	38	30	n/a	n/a	n/a	n/a
	8,524,199	8,872,319	7,191,100	6,451,928	n/a	n/a	n/a	n/a	n/a
	0.74	0.84	0.46	0.24	n/a	n/a	n/a	n/a	n/a
	2.1	0.94	1.43	0.83	n/a	n/a	n/a	n/a	n/a
	13.0%	13.1%	12.8%	12.7%	13.4%	11.4%	8.9%	13.3%	n/a
	19.9%	21.0%	23.2%	16.4%	7.1%	12.6%	-83.2%	-776.3%	n/a
	13.9%	21.5%	12.7%	8.1%	21.3%	21.6%	-86.4%	-824.5%	n/a
	11.3%	12.3%	6.2%	20.1%	49.4%	62.3%	-309.7%	-131.0%	158.6%

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## FINANCIAL CALENDAR

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27 MARCH 2012 ..... ANNUAL PRESS CONFERENCE

7 MAY 2012 ..... REPORT FIRST QUARTER

22 JUNE 2012 ..... ANNUAL GENERAL MEETING

6 AUGUST 2012 ..... HALF-YEAR REPORT

6 NOVEMBER 2012 ..... NINE-MONTH REPORT

IN NOVEMBER 2012 ..... ANALYST CONFERENCE (FRANKFURT)

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