Lotto24.de

2013

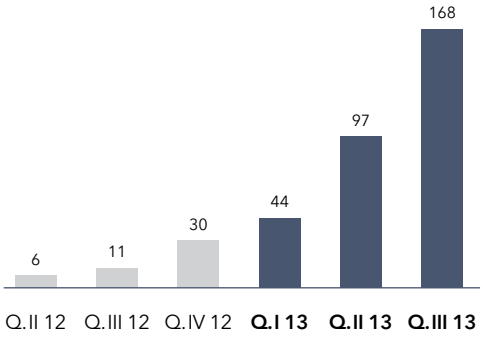
Q. I–III

QUARTERLY FINANCIAL REPORT OF LOTTO24 AG
1 JANUARY TO 30 SEPTEMBER 2013

Lotto24 has laid the foundations for further dynamic growth: the marketing measures commenced in the first quarter of 2013 are taking effect and our successful capital increase in September 2013 has enabled us to step up the acquisition of new customers.

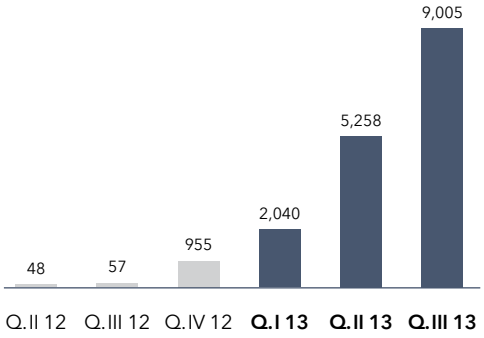
Registered customers

in thousand (accumulated)



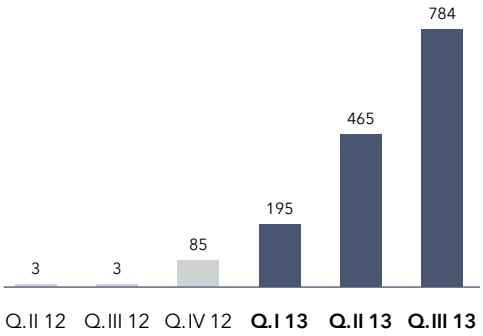
Billings

in EUR thousand



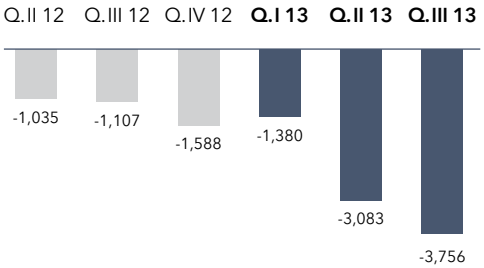
Revenues

in EUR thousand

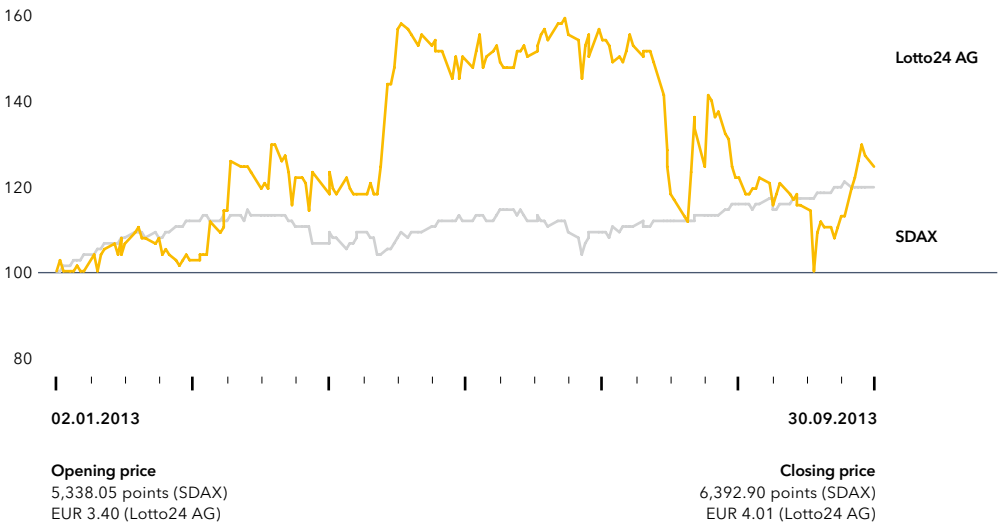


EBIT

in EUR thousand



Share performance (indexed)



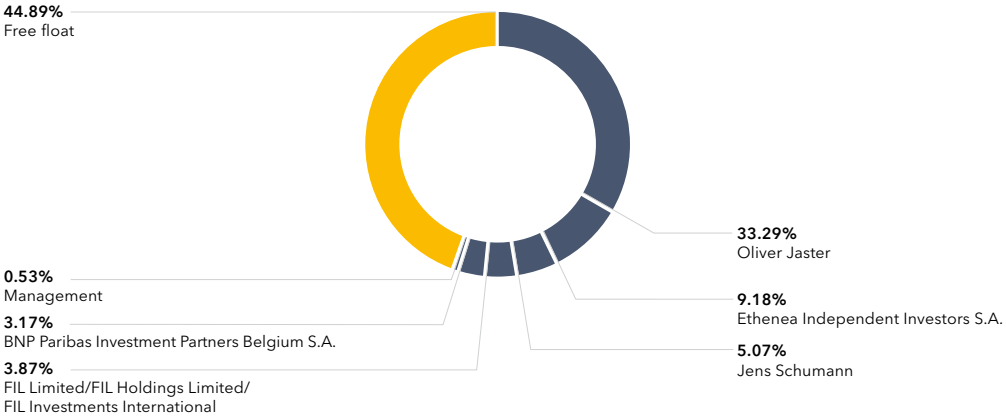
Key figures of Lotto24 AG

in EUR thousand	Q. I–III 2013	Q. I–III 2012
Revenues	1,444	8
EBIT	-8,219	-2,694
Net profit	-5,509	-2,705
Cash flow from operating activities	-6,305	-1,907
Equity (30 September)	42,525	31,384
Employees (30 September) headcounts[1]	26	17

[1] *Not including members of the Executive Board/management.*

Subscribed capital equals the Company's capital stock and is fully paid.

Shareholder structure (as of 22 Oktober 2013)



Shareholder service

WKN	**LTT024**
ISIN	**DE000LTT0243**
Ticker symbol	**LO24**
Stock exchange	**Frankfurt**
Market segment	**Official Market, Prime Standard**
Designated Sponsor	**Close Brothers Seydler**
Reuters	**LO24G.DE**
Bloomberg	**LO24:GR**

Key share figures

Day of initial listing		**03 July 2012**
Year-opening price	2 January 2013	**EUR 3.40**
Market capitalisation	2 January 2013	**EUR 47.5 million**
Period-end price	30 September 2013	**EUR 4.01**
Market capitalisation	30 September 2013	**EUR 80.1 million**
Highest price	13 June 2013	**EUR 5.60**
Lowest price	2 January 2013	**EUR 3.40**
Number of shares	30 September 2013	**19,963 thsd.**
Own shares	30 September 2013	**0 shares**
Average daily trading (Xetra)	1 January – 30 September 2013	**29,641 shares**
Earnings per share (undiluted and diluted)	1 January – 30 September 2013	**EUR -0.39**

01. FOREWORD

LADIES AND GENTLEMEN,

We continued our dynamic growth in the third quarter of 2013: the number of new customer registrations in the first nine months of 2013 amounted to around 139 thousand (prior year: 11 thousand), taking the total to 168 thousand. There was also strong growth in billings and revenues in the first three quarters: billings rose to a total of EUR 16.3 million (prior year: EUR 0.1 million), and revenues to EUR 1.4 million (prior year: EUR 0.0 million). This positive trend owes much to the expansion of marketing activities – following the receipt of our advertising permit in March 2013 – such as adding Google to our search engine marketing in the third quarter of 2013. As expected, our operating result was dominated by start-up costs (especially for new customer acquisition activities), and consequently EBIT fell to around EUR -8.2 million (prior year: EUR -2.7 million) in the first nine months of 2013.

All key figures continue to indicate that customers are behaving exactly as expected, based on our earlier experience from 2008 – this confirms that the business model of Lotto24 is viable and that we can look forward to a phase of dynamic company growth.

We have already laid the foundations for our future development: the first Annual General Meeting of Lotto24 AG as a listed company was held in Hamburg on 7 August 2013. Approximately 62% of voting capital was represented and all items on the agenda – including the creation of new Authorised Capital – were approved with large majorities.

In September, we reached a further milestone with our successful rights offering, which led to an increase in outstanding shares from 13,973,904 to 19,962,720: by issuing all 5,988,816 new shares from Authorised Capital on offer, we were able to reach the targeted net issue proceeds of around EUR 17 million. In the course of the rights offering from 12 to 25 September 2013, subscription rights for around 99.9% of the new shares on offer were exercised.

As planned, we intend to use the net proceeds from the capital increase above all for marketing activities aimed at accelerating new customer acquisition, as well as for the further development of our brokerage platform, the widening of our product portfolio to include further lotteries, and the expansion of services for state-licensed lotteries.

We regard the pace of market penetration as a key success factor in our efforts to secure a share of the young and dynamic online lottery market. The capital increase has given us more scope to expand our market presence with the aid of increased marketing expenditure, and will thus give us a strong lead when it comes to dividing up the market in the years ahead. Thanks to the support from our shareholders, we feel well prepared for this next step.

We continue to be satisfied with the development of Lotto24 AG – following the fast and successful start of business activities, the capital increase in the third quarter of 2013 was a further important milestone. We still expect a positive market trend in Germany with strong growth in lottery revenues and even faster growth for the online segment. In the third quarter of 2013, we improved our ability to benefit from these attractive prospects.

We will continue to work hard to expand our position as the leading German broker of lottery products via the Internet.

Hamburg, 6 November 2013

Petra von Strombeck
Chairman of the Executive Board

Magnus von Zitzewitz
Member of the Executive Board

02. INTERIM MANAGEMENT REPORT

BUSINESS AND ECONOMIC CONDITIONS

PROMISING BUSINESS MODEL

Lotto24 is attractively positioned in the value chain of the lottery business: we broker lottery products via the Internet, whereby we receive brokerage commissions from the state lottery companies. We can therefore generate income without bearing the bookmaking risk ourselves.

We currently offer our customers the possibility to participate in the state-licenced lottery products »Lotto 6aus49«, »Spiel 77«, »Super 6«, »EuroJackpot« and »Glücksspirale«, whereby we enter into gaming agreements with the respective gaming operator on behalf of, and in the name of, our customers. Our products are already well known on the market and well received by our customers due to their appeal and our attractive services – simple processing and free additional features.

Our aim is to extend our position as the leading broker of online lottery products in Germany. We benefit from our many years of experience in marketing, technology and management in the lottery business, which we regard as a major success factor.

In September 2012, Lotto24 AG was one of the first private German companies to receive a permit for the commercial brokerage of state lotteries via the Internet. On 13 March 2013, we were granted a permit for advertising via TV and the Internet – initially valid for a period of two years.

These two permits were the basic prerequisites for nationwide operations in Germany and the expansion of our business, as efficient marketing is one of the key factors for our success.

Marketing as success factor

The aim of our marketing is to raise awareness of the word/image brand »Lotto24« and thus gain new customers. In addition to TV advertising, we focus in particular on the following online advertising channels:

- In the field of **online advertising**, we mainly use text links, ads placed in journalistic content (content ads), banner advertising and ads loaded in the background (pop-unders). We use online advertising on a continual basis but also step up activities prior to high jackpot draws in order to acquire new customers.
- We have already concluded several contracts with **marketing partners** and are working on further cooperation agreements. Our marketing partners are always e-commerce suppliers, high-reach portals, other high-reach websites and other online providers with end-user relationships which place links to Lotto24's services on their online offerings – often accompanied by journalistic reports or newsletters. If customers click on a link, they are taken to the embedded Lotto24 game module on the marketing partner's website.
- In the field of **affiliate marketing**, we signed a contract with Affilinet GmbH – an affiliate network which claims to have over 500,000 partner websites (publishers). It gives us the opportunity to place advertising and product offers on publisher websites which individually may have low traffic, but collectively reach a large number of users. We offer publishers the possibility to place links to www.lotto24.de on their websites.

- Our **search engine marketing** is based on the fact that over 70.0% of online purchases were preceded by research using a search engine (source: Google, »Beyond last click: Understanding your consumers' online path to purchase«, 2011). We therefore believe that it is critical for success that Lotto24 can be easily found via search engines. Search engine marketing comprises keyword advertising as well as search engine optimising, which aims to position a website under relevant keywords in search engines and directories in such a way that it will be preferentially displayed when the target group searches for this item.
- In the field of **mobile marketing**, we have run initial tests to win new client groups and position ourselves as a relevant mobile lottery broker. To this end, we may also enter into marketing partnerships with high-reach mobile media and information portals.

In order to ensure the efficiency of our advertising activities, we monitor the impact of all our new customer acquisition efforts by continually observing generated customer contacts and utilising the latest findings on targeting specific client groups on the Internet.

Our marketing activities for existing clients is based on an extensive analysis of customer behaviour in order to optimise our contacts with them regarding optimum timing and the most appealing content. We also continually monitor and improve these activities.

PROMISING GROWTH STRATEGY

As already mentioned, we aim to grow in Germany by using targeted marketing measures to acquire new customers. It is also planned to expand the Lotto24 product portfolio: in addition to the lotteries already offered – and depending on the prevailing legal conditions – we plan to introduce »Keno«, scratch cards, lottery teams, social lotteries and possibly other state-licenced games of chance in the medium term.

To this end, we aim to focus on the German lottery market.

VALUE-ORIENTED CORPORATE MANAGEMENT

Management and control

Lotto24 AG is headed by Petra von Strombeck (CEO) and Magnus von Zitzewitz. Ms von Strombeck is responsible for Corporate Strategy and Development, Marketing, Sales, the B2C (Business-to-Customer) and ASP (Application Service Provider) business fields, as well as Investor Relations, Human Resources and Organisation, IT Strategy, Systems, Processes and Operation. Mr von Zitzewitz is responsible for the divisions Legal Affairs and Regulation, Finance, Accounts, Taxes, Controlling, Compliance and Risk Management, as well as Communication.

Management based on clear KPI system

We manage Lotto24 according to a clearly defined KPI system aimed primarily at raising the value of our customer base. This is derived from the accumulated contributions of active customers to total billings, and thus to revenues and earnings, as well as from the estimated future development of the intensity and duration of customer relationships.

The main KPIs which we use to steer the Company and whose respective values we strive to raise are:

- the **number of registered customers** (customers who have successfully completed the registration process on the Lotto24 website)
- the **activity rate** (ratio of the average number of active customers – customers with at least one transaction per month – to the average number of registered customers in a year)
- **billings** (stakes placed by customers, influenced by the variety and attractiveness of Lotto24's product portfolio and the efficiency of customer retention measures) as well as billings per active customer
- **gross margin** (ratio of revenues to billings)

We also monitor the efficiency of our marketing activities with the KPI cost per lead (CPL).

Key figures	Q. I–III 2013	Q. I–III 2012
Number of registered customers as of 30 September (in thsd.)	168	11
Number of registered new customers (in thsd.)	139	11
Average number of registered customers (in thsd.)[1]	–	–
Average number of active customers (in thsd.)[1]	–	–
Average activity rate (%)[1]	–	–
Average billings per active customer (in EUR)[1]	–	–
Marketing costs per registered new customer (CPL, in EUR)[1]	–	–
Gross margin (%)	**8.9**	6.5
Direct operating expenses as a proportion of billings (%)	**2.6**	22.5
Number of employees (30 September)[2]	26	17

[1] *Figures only disclosed on annual basis*
[2] *Not including members of the Executive Board/management.*

Registered customers: customers who have successfully completed the registration process on the company's website. This number is disclosed after adjustment for multiple registrations.

Average number of registered customers: the arithmetic mean of the number of registered customers at the beginning and end of the period under review.

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

Average activity rate: the relationship between the average number of active customers and the average number of registered customers in one year.

Average number of active customers in one year: the arithmetic mean of the number of active customers in each month of a year.

Average billings per active customer: the relationship between total billings of Lotto24 AG (incl. Business Services) and the average number of active customers

Employees

As of 30 September 2013, Lotto24 AG had – excluding the two Executive Board members – 26 employees (full-time equivalents), of which over half were employed in the Marketing department. In addition, there were 19 student helpers – mainly in the call centre.

RESEARCH & DEVELOPMENT

Lotto24 did not conduct any research & development activities in the period under review. We have commissioned an IT service provider to continue the development of the game brokerage software created and operated on our behalf by Smartgames Technologies Ltd.

ECONOMIC REPORT

REGULATORY CONDITIONS

GlüStV 2012 in force throughout Germany

On 1 July 2012, the new State Treaty on Games of Chance came into force in 14 federal states in the version of the First State Treaty to Revise the State Treaty on Games of Chance (»GlüStV 2012«). The new legislation maintains many of the restrictive regulations of the original State Treaty on Games of Chance from 15 December 2007 (»GlüStV 2008«) and only relaxes them in certain areas. Our business model is based to a large extent on the new regulations of the GlüStV 2012, which allows for the granting of special permits by the federal states for both online brokerage as well as for Internet and TV advertising for these products. However, there is no legal claim to the granting of such permits. On 24 January 2013, the Federal Supreme Court (»Bundesgerichtshof - BGH«) decided to submit questions regarding the permissibility of the GlüStV 2012 in Germany to the European Court of Justice (ECJ). A decision has not yet been issued.

Nationwide brokerage permit contains restrictive and uncertain regulations

On the basis of the permit issued on 24 September 2012 by the state of Lower Saxony, Lotto24 is authorised to broker state lotteries via the Internet throughout Germany. However, the official notification of Lower Saxony's Economics Ministry contains many restrictive and in part uncertain ancillary provisions and conditions, especially with regard to the protection of minors and the regionalisation duty.

Advertising guideline in force, advertising permit received

Following the introduction of the advertising guideline on 1 February 2013, Lotto24 AG was one of the first private German companies to receive a permit for advertising on TV and via the Internet for the online marketing of state-run lotteries on 13 March 2013. The permit is initially valid for two years. As of this date, we can therefore advertise in these media throughout Germany. Both the permit and the advertising guideline of the GlüStV 2012 which came into force on 1 February 2013 contain restrictions, such as for discounts and social media advertising. So far these restrictions do not significantly limit our business activities. We also assume that they will apply equally to our direct competitors.

Legal disputes and regulatory proceedings

On 24 October 2012, we brought an action before the Administrative Court of Hamburg against Lower Saxony's Ministry for Economics, Labour and Transport regarding its restrictive permit regulations, demanding the issue of an unrestricted permit. On 12 April 2013, we also brought an action before the Administrative Court of Hamburg against the state of North Rhine-Westphalia, represented by the District Government of Düsseldorf, regarding the restrictive ancillary regulations of the advertising permit and for the granting of an unrestricted permit. Neither of the proceedings have led to any significant events so far.

Legal uncertainties continue

We believe that there are still significant legal uncertainties even with the new GlüStV 2012. All in all, it is uncertain under such circumstances whether or not the GlüStV 2012, or individual prohibitions and restrictions, can be legally applied at all.

ECONOMIC FACTORS AFFECTING BUSINESS

Development of the lottery market

Following the introduction of GlüStV 2008 on 1 January 2008, which contained a general prohibition for the online brokering of all gaming products (including lotteries) from 1 January 2009 onwards, the German lottery market fell strongly: according to a survey of Global Betting and Gaming Consultants »GBGC« in April 2013, German lottery revenues fell by 16.0% between 1 August 2007 and 31 December 2012, while international lottery revenues increased by 22.0% over the same period. With the introduction of the GlüStV 2012 on 1 July 2012, a long-term rise in total lottery revenues to around EUR 11 billion in 2020 is now expected, representing a compound average growth rate (CAGR) of approximately 4.5% (source: Media & Entertainment Consulting Network GmbH »MECN«, »MECN Extra Research, German Lottery Market«, July 2013). We believe that this growth will be driven above all by three factors:

- strong revenue growth of the German lottery market due to catch-up effects in Germany,
- rising per capita spending for lottery products – e.g. due to new products and price/product changes for the German lottery »Lotto 6aus49«,
- greater awareness and improved perception of lottery products as a result of rising marketing expenditure following the advertising guideline of 1 February 2013, as well as an expansion of advertising channels following the removal of marketing restrictions.

Assuming that the current regulatory situation remains unchanged, a study published by Goldmedia GmbH on 18 May 2010 estimates that online lottery revenues will grow on average by as much as 21.0% per year (CAGR) in the period 2013 to 2016. MECN expects that the online share of the lottery market will account for around EUR 3.5 billion of total revenues in 2020 – and thus approximately 30.0% of total revenues of around EUR 11 billion forecast by MECN for 2020. In Germany, online revenues accounted for almost 10.0% of the total market in 2008 – the last year before the online brokerage ban was introduced (source: Dr. Luca Rebeggiani, May 2010). At present, the share is less than 2.0% (source: Goldmedia, »Glückspielmarkt Deutschland 2017« – Key Facts, July 2013).

In addition to the two growth drivers of the German lottery market already mentioned, the following factors form the basis for our expectations of potential growth for the online segment:

- Strong revenue growth of the online lottery market as online lottery offerings were completely forbidden until the end of 2011 and this market was only opened again in the course of 2012. Compared with foreign online lottery markets, which were less strictly regulated in the past years, we expect above-average growth for Germany in the medium term: in selected European countries, the online lottery market in 2011 accounted for an average of around 10.8%, in Finland the figure was around 21.3%, in the UK around 15.9% and in Austria around 4.6% (source: MECN, »MECN Lottery Benchmarking and Success Factors, 4th Edition«, November 2012).
- The growing importance of e-commerce as a sales channel for various products and services confirms the potential for the online lottery market – and mobile offerings strengthen this trend even more. In 2011, for example, the proportion of holidays sold online was 45.0% (source: Ulysses »Web-Tourismus« Rossmann & Donner GbR, 2011), that of music was 35.0% (source: Association of the Recording Music Industry, Annual Economic Report 2010, online share of music sales) and that of banking services was 44.0% (source: »Bundesverband deutscher Banken«, survey of persons over 18, 2011).

Product portfolios of the lottery companies

The development of our revenues may be positively or negatively influenced by enhancements or changes to the product portfolios of the German lottery companies and the respective regulations for the online brokerage of these products. We currently expect the product portfolio to be expanded in future.

Price and product changes of the lottery companies

Deutsche Lotto- und Totoblock introduced significant price and product changes in May 2013: one field of the lottery ticket »6aus49« now costs one euro instead of 75 cents. At the same time, a ninth prize division was introduced in which there is a guaranteed prize of five euros for two correct numbers plus the super number. In the highest winning class, 6.4% of stakes are now distributed (as opposed to 5.0% in the past). The former additional number has been replaced by a super number. All in all, these changes will have a positive impact on our business: on the one hand, our experience so far indicates that stakes for the most important product »Lotto 6aus49« will grow on average by more than 10.0% following the price increase, while the change will also cause jackpots to grow much more quickly – which is also likely to have a long-term positive effect on revenues.

Advertising and competition

Both our revenues from the brokerage of gaming products and our profitability are strongly determined by the scope and success of our marketing measures – especially new customer acquisition. In addition to the regulatory conditions, our key performance indicators (KPIs) are also influenced by the number of competitors aggressively advertising their online lottery services.

Our competitors in the lottery market are mainly the state lottery companies as well as private brokers. In early 2012, the state lottery company of Schleswig-Holstein allowed online playing again for the first time since the Internet ban of the GlüStV 2008. In February 2012, Lotto24 was the first private provider to resume Internet brokerage. A further 14 brokers subsequently notified the state of their activities: in addition to well-known providers such as Faber, these also included many new competitors.

With the introduction of the GlüStV 2012 in the rest of Germany in July 2012, most state lottery companies relaunched their online products and generally advertised them heavily. The authorities have obviously given the state companies a competitive advantage in this respect – in contravention of EU law. In October 2012, the state companies opened a joint marketing platform under www.lotto.de in addition to their own offers. We believe this offer is in breach of anti-trust regulations, as it greatly strengthens the market dominance of these providers and extends it to the Internet. This was also confirmed by the expert in anti-trust law Professor Dr. Andreas Fuchs in an expert opinion for the German Lottery Association:

> »With the creation of the joint platform www.lotto.de for online marketing and simultaneous strict implementation of the need to regionalise revenue generated this way, the state lottery companies (...) have extended their existing market division regarding lottery products to this new sales channel, thus precluding any potential competition between each other and ensuring territorial division (…). This represents an intentional and enforced restriction of competition in contravention of Article 101 (1) TFEU and Section 1 GWB.«

As of July 2013, Deutsche Lotto- und Totoblock has been broadcasting the lottery draws live and exclusively on its own online marketing platform www.lotto.de – only the draw results are presented on TV. We had considered taking legal steps against this decision, but have decided against it so far: according to our assessment, the traffic figures for the live draw are relatively low. According to media reports, lotto.de does not seem to have a valid broadcasting licence which would legally permit such broadcasts.

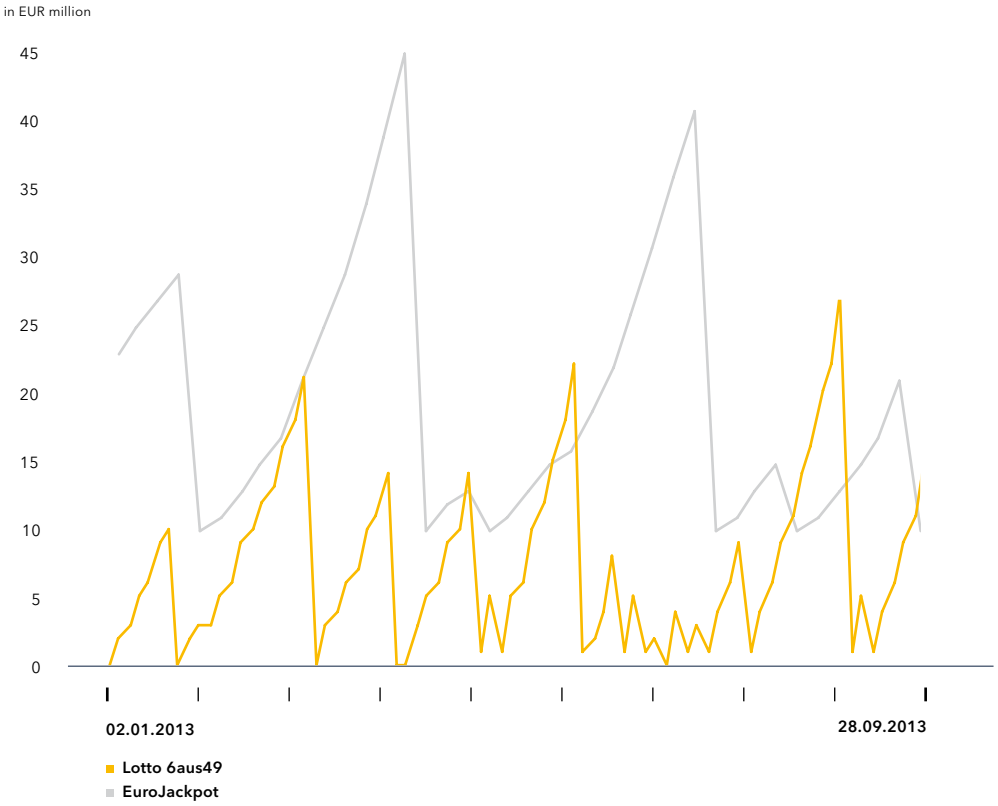
In addition to the state companies, we assume that the private brokers previously active in Schleswig-Holstein have applied for licences for other states following the introduction of the GlüStV 2012. Whether these companies have received such licences, however, is not publicly known at present. There are still only a few of these providers involved in low-level marketing activities.

Finally, a number of secondary lottery providers are also active on the market. Some of these are aggressively advertising their products via the Internet, although they possess neither brokerage nor advertising permits for Germany.

Large jackpots

We expect particularly strong increases in the number of registered customers when potential players have greater expectations of exceptional winnings, in other words whenever there are large jackpots. Such jackpots are comprised of stakes bet by players who did not meet the conditions for winning prizes and which are then paid out to the winners on top of regular prizes in a subsequent draw. In the German »6aus49« number lottery, this relates in particular to the combination of six correct numbers and the super number. In our opinion, the price and product changes described above will have a positive effect on both the size and frequency of attractive jackpots – and thus on our future performance.

Jackpot development 2013



CONCLUDING ASSESSMENT OF BUSINESS DEVELOPMENT

We are satisfied with the business development of Lotto24 AG in the first nine months of 2013: we were the first, or one of the first private lottery brokers

- to establish **technical interfaces** with all 16 state lottery companies and thus enable our customers in all German states to play the lottery online,
- to introduce a **mobile product for playing the lottery,**
- to receive an **advertising permit** on 13 March 2013 and launch online marketing on 15 March, and
- to launch our **first three TV commercials** in May, July and September 2013.

In addition, we

- successfully held our **first Annual General Meeting** as a listed company on 7 August 2013,
- generated net issue proceeds of around EUR 17 million from our **capital increase** in September 2013 and last but not least
- stepped up the **development of our business** with 168 thousand customers.

With the aid of targeted advertising measures, we aim to efficiently attract new customers and will implement our clearly defined and permanently monitored marketing plan to further establish and strengthen the Lotto24 brand.

The development of new customers proves that our online advertising activities have had a very successful impact since the receipt of our advertising permit in March 2013: from the beginning of April to the end of September, we gained a total of 124 thousand new customers. This growth owes much to the expansion of our marketing activities, such as the addition of search engine marketing on Google. We expect the pace of new customer acquisition to increase further with more intensive marketing activities.

The two TV campaigns in the third quarter of 2013, however, also raised our CPL due to their comparatively high costs – despite highly promising TV tests in the second quarter of 2013. As a result, CPL in the third quarter of 2013 was above our targeted level. We are therefore currently assessing whether to continue the media mix of TV and online advertising or to focus solely on online activities.

We are very encouraged by billings per active customer, confirming our assumed and historically documented customer behaviour figures.

The activity rate is even above our assumptions at present – due to the high proportion of new and very active customers. In the long run, we also expect these figures to conform with historically documented customer behaviour patterns.

Quickly securing market share via cooperation agreements

We offer major online portals and lottery companies IT and marketing services for the operation of their own online lottery services. In 2012, we recruited two major partners as multipliers for these integrated services with WEB.DE and GMX.

In the first nine months of 2013, we also succeeded in concluding advertising cooperation agreements with Focus.de, RTL.de, Sport.de, Meinestadt.de, Tagesspiegel.de, Stern.de and msn.de.

Play where you want – coming soon as an app!

Launched on 5 March 2013, our mobile product enabling smartphone users to play »Lotto 6aus49«, »Glückspirale« or the »EuroJackpot« lottery while on the road – and without missing out on Lotto24's services – has been well received. Smartphone users simply go to the www.lotto24.de website, where they are automatically redirected to the mobile service. Tickets can be submitted using either the »Quicktipp« function or by entering the user's own lucky numbers. Repeat and combined tickets can also be submitted. Customers and anyone else interested can also find out the latest winning numbers and odds at any time. We are currently developing apps for iPhone and Android smartphones, which we expect to be available in the current fiscal year.

First Annual General Meeting

The first Annual General Meeting of Lotto24 AG as a listed company was held in Hamburg on 7 August 2013. Approximately 62% of voting capital was represented and all items on the agenda were approved with majorities of over 96%. In addition to the discharge of the Executive Board and Supervisory Board for fiscal year 2012, the agenda also included the appointment of auditors for fiscal year 2013 and three amendments to the Company's articles. The Executive Board and Supervisory Board also proposed cancelling the existing Authorised Capital and replacing it with a new Authorised Capital: the Executive Board was thus authorised to raise share capital by up to a total of EUR 6,986,952 in the period up to 6 August 2018 (Authorised Capital 2013).

Successful rights offering

In September 2013, we completed a successful rights offering with the issue of 5,988,816 new shares with dividend rights for fiscal year 2013. As a result of the offering, share capital increased correspondingly to EUR 19,962,720 with partial use of Authorised Capital 2013. The Authorised Capital of Lotto24 AG fell as a result to EUR 998,136. After deducting transaction costs of around EUR 1 million, the net issue proceeds amounted to around EUR 17 million. The new shares were underwritten by M.M. Warburg & CO KGaA, Hamburg, and offered to shareholders via indirect subscription rights in a ratio of 7:3. Seven subscription rights entitled shareholders to three new shares, whereby each share of Lotto24 AG grants one subscription right. The subscription price amounted to EUR 3.00. The subscription rights were traded on the regulated market of the Frankfurt Stock Exchange in the period 12 to 23 September 2013. In the course of the subscription period from 12 to 25 September 2013, subscription rights for around 99.9% of the new shares on offer were exercised. The 5,775 new shares not subscribed for, were utilised by M.M. Warburg & CO KGaA.

After the capital increase was entered into the Commercial Register on 27 September 2013, the new shares were also admitted for trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard) on 27 September 2013 and included in the existing listing of the old shares on 30 September 2013.

Trustworthy Lotto24 online shop

On 28 August 2013, our online shop received the European quality seal of Trusted Shops GmbH. Their quality criteria are based on national and European legislation of relevance to online shopping and take into account the latest verdicts and demands of consumer associations – even exceeding them in some cases. Customers of certified merchants are automatically protected: any infringements of data protection regulations, opaque pricing, restricted withdrawal rights or other risks are inspected by Trusted Shops. We are delighted that this successful certification by Trusted Shops confirms our customer-friendly service and our respect of consumer interests. The highly respected seal will support our marketing activities – with regard to both new customer acquisition and customer retention.

EARNINGS, FINANCIAL POSITION AND NET ASSETS

EARNINGS

When comparing figures with those of the previous year, the following must be taken into consideration:

- Lotto24 did not generate significant revenues in the first nine months of 2012, as in this period we did not conduct any significant brokerage or similar revenue-related activities but focused mainly on preparing our market launch. In the first nine months of 2012, brokerage activities were limited to the state of Schleswig-Holstein.
- On 15 February 2013, a cancellation agreement was signed between Lotto24 AG and Tipp24 SE. It terminated a service agreement between Lotto24 AG and Tipp24 SE signed on 21 May 2012 regarding customer contacting and age verification. The value of the remaining measures was reimbursed by Tipp24 SE in the first quarter of 2013 and raised earnings of Lotto24 AG by EUR 450 thousand.

Income Statement	**Q. I–III 2013**		Q. I–III 2012	
	in EUR thsd.	%	in EUR thsd.	%
Billings	16,303	–	129	–
Stakes to be remitted (less revenues)	-14,859	–	-121	–
Revenues	**1,444**	**–**	**8**	**–**
Personnel expenses	-2,424	–	-974	–
Other operating expenses	-7,675	–	-1,710	–
less other operating income	480	–	0	–
Operating expenses	**-9,619**	**–**	**-2,683**	**–**
EBITDA	**-8,176**	**–**	**-2,675**	**–**
Amortisation and depreciation	-43	–	-19	–
EBIT	**-8,219**	**–**	**-2,694**	**–**
Financial result	76	–	-11	–
Earnings before taxes	**-8,143**	**–**	**-2,705**	**–**
Income taxes	2,634	–	351	–
Net profit	**-5,509**	**–**	**-2,354**	**–**
Breakdown of other operating expenses				
Marketing expenses	-4,746	–	-164	–
Direct operating expenses	-417	–	-29	–
Indirect operating expenses	-2,512	–	-1,125	–
Other expenses	–	–	-393	–
Total other operating expenses	**-7,675**	**–**	**-1,710**	**–**

Development of revenues

In the first nine months of 2013, Lotto24 AG continued to expand its activities as an online broker of lottery products. We generated revenues of EUR 1,444 thousand (prior year: EUR 8 thousand) in the reporting period, mainly from

- commissions received for the brokerage of lottery products of the state lottery companies in accordance with the existing contractual regulations, as well as from
- additional fees/ticket fees incurred in connection with the brokerage of stakes.

As of 30 September 2013, we raised the number of registered customers to 168 thousand (prior year: 11 thousand) – this figure is adjusted for multiple registrations and deregistrations. Billings increased to EUR 16,303 thousand (prior year: EUR 129 thousand), while the gross margin (ratio of revenues to billings) reached 8.9% (prior year: 6.5%). We assume that these key figures will increase further as a result of our ongoing advertising activities.

Development of earnings

In the first nine months of 2013, EBIT amounted to EUR -8,219 thousand (prior year: EUR -2,694 thousand) – a decline which resulted mainly from marketing activities, increased personnel expenses and higher costs for the further development of the IT platform.

The financial result amounted to EUR 76 thousand (prior year: EUR -11 thousand). Financial income results from interest received on investing liquid funds not immediately required.

The net loss for the period grew by EUR -3,154 thousand to EUR -5,509 thousand (prior year: EUR -2,354 thousand), whereby »negative« income taxes include both current and deferred taxes and once again had a positive impact on earnings in the period under review. There was also a positive effect on earnings of EUR 450 thousand from the cancellation agreement with Tipp24 SE described above.

Earnings per share amounted to EUR -0.39 (prior year: EUR -0.35).

Development of key income statement items

As of 30 September 2013, Lotto24 employed 26 people (full-time equivalents, without Executive Board members, prior year: 17 employees). Due to the addition of new staff, personnel expenses increased to EUR -2,424 thousand (prior year: EUR -974 thousand).

Compared to the reporting period of 2012, other operating expenses rose from EUR -1,710 thousand to EUR -7,675 thousand. The development in detail was as follows:

- Indirect operating expenses increased from EUR -1,125 thousand to EUR -2,512 thousand. They include costs for product adaptations in connection with price and product amendments to the »Lotto 6aus49« game, for finalising the technical interfaces with state lottery companies, for the ongoing development of age verification systems and the addition of EuroJackpot to the product portfolio of WEB.DE and GMX. There were also costs for consultancy services, which were mainly incurred for legal advice and Investor Relations activities. We expect comparable costs in the medium-term future.
- The launch of nationwide marketing campaigns resulted in an increase in marketing expenses to EUR -4,746 thousand. This cost item rose sharply once advertising for the nationwide brokerage of lottery products began.

Direct costs of operations amounting to EUR -417 thousand mainly comprise the costs for the technical processing of gaming operations and payment transactions. As all direct costs depend on the amount of billings, we expect a further significant increase in these costs in future.

The scheduled depreciation of acquired office and communication technology resulted in an increase in depreciation/amortisation of tangible and intangible assets from EUR -19 thousand to EUR -43 thousand.

FINANCIAL POSITION

Financial analysis

Our financial situation is mainly dominated by short-term liabilities and equity capital. As a result of the successfully completed rights offering in September 2013, the Subscribed Capital (share capital) of Lotto24 AG increased by EUR 5,989 thousand to EUR 19,963 thousand compared with the balance sheet date. The proceeds from the capital increase received in excess of the share's issue price were transferred to capital reserves as a post-tax amount (EUR 11,340 thousand) after the deduction of transaction costs (EUR -950 thousand) and the respective income tax effects (EUR 307 thousand).

As of 30 September 2013, equity amounted to EUR 42,525 thousand and comprised the following items:

Equity	30.09.2013	31.12.2012
in EUR thousand		
Subscribed capital	19,963	13,974
Capital reserves	31,543	20,203
Other reserves	-43	3
Retained earnings	-8,937	-3,429
Total	**42,525**	**30,751**

Subscribed capital equals the Company's share capital and is fully paid.

Trade payables	30.09.2013	31.12.2012
in EUR thousand		
Trade payables	1,526	738
Total	**1,526**	**738**

Trade payables mostly comprise open payment obligations as of the balance sheet date for legal and technical consultancy services already received. All trade payables have remaining terms of up to one year.

As of 30 September 2013, **other liabilities** consisted of the following:

Other liabilities	30.09.2013	31.12.2012
in EUR thousand		
Liabilities from gaming operations	1,465	205
Amounts due in connection with payroll processing	39	35
Holiday obligations	47	42
Other	81	10
Total	**1,632**	**292**

Investment analysis

In the period under review, we invested EUR -208 thousand (prior year: EUR -25 thousand) in hardware and software needed for our operating business, as well as in furniture, fixtures and office equipment.

Liquidity analysis	Q. I–III 2013	Q. I–III 2012
in EUR thousand		
Cash flow from operating activities	-6,305	-1,907
Cash flow from investing activities	713	-7,025
thereof financial investments	921	-7,000
thereof operative investments	-208	-25
Cash flow from financing activities	17,022	14,712
Change in cash and cash equivalents	**11,431**	**5,779**
Cash at the beginning of the period	8,086	63
Cash and cash equivalents at the end of the period	**19,517**	**5,842**
Available-for-sale financial investments	2,088	7,002
Held-to-maturity financial investments	–	–
Available funds	**21,605**	**12,844**

In the reporting period, **cash flow from operating activities** amounted to EUR -6,305 thousand (prior year: EUR -1,907 thousand), due mainly to the development of earnings and the increase in liabilities.

Cash flow from investing activities amounted to EUR 713 thousand (prior year: EUR -7,025 thousand). The net proceeds mainly result from repayments of available funds after netting with capital expenditure.

As a result of the capital increase in September, **cash flow from financing activities** amounted to EUR 17,022 thousand (prior year: EUR 14,712 thousand).

As of 30 September 2013, **other assets and prepaid expenses** comprised the following items:

Other assets and prepaid expenses	30.09.2013	31.12.2012
in EUR thousand		
Tax receivables	274	111
Receivables from gaming operations	487	144
Prepaid expenses	171	28
Deposits	396	281
Others	3	3
Total	**1,331**	**566**

ASSET SITUATION

Compared to 31 December 2012, total assets rose by EUR 14,451 thousand to EUR 46,843 thousand as of 30 September 2013. This overall effect resulted from the opposing effects of a fall in cash and other financial assets to finance operations and funds received from the capital increase shortly before the end of the quarter. There was also an increase in deferred tax assets from loss carryforwards. Current assets mainly comprise cash and cash equivalents (EUR 19,517 thousand; prior year: EUR 1,086 thousand), other financial assets (EUR 2,088 thousand; prior year: EUR 10,076 thousand) and other receivables and prepaid expenses (EUR 1,331 thousand; prior year: EUR 566 thousand).

Non-current assets are dominated by goodwill (EUR 18,850 thousand; unchanged from last year) and deferred tax assets (EUR 4,659 thousand; prior year: EUR 1,697 thousand).

Accounting judgements

We have not made any amended accounting judgements with a significant impact on the asset position of Lotto24 AG.

MANAGEMENT'S ASSESSMENT OF THE ECONOMIC POSITION

Lotto24 is well positioned to participate in the German online lottery market. However, the expansion of business was still subject to significant regulatory risks at the beginning of 2013 as the advertising permit was not granted until 13 March 2013 and active marketing thus only launched on 15 March 2013.

The capital increase completed in September 2013 gave us the expected additional financial scope to continue driving our business growth as planned.

SUBSEQUENT EVENTS

Between the end of the reporting period and the publication date, there were no significant events with a relevant influence on the earnings, financial position and net assets of Lotto24 AG.

REPORT ON EXPECTED DEVELOPMENTS AND ASSOCIATED MATERIAL OPPORTUNITIES AND RISKS

RISK REPORT

Lotto24 is a young company which has only been in business since 2012. We compete in the field of online brokerage of state-run lottery products, and thus in a dynamic and growing market.

Our business model depends on a number of factors: these include the legal and macroeconomic conditions, the retention of brokerage and advertising permits, and cooperations with our business partners or other contractual relationships. On the basis of these general conditions, we make assumptions about our development and profitability, the level of billings and revenues, cost items, staffing, funding and key balance sheet items. These assumptions may prove to be false or incomplete. There is also no guarantee that Lotto24 can succeed in this market. In particular, our continued growth depends on whether, and to what extent, we are able to gain new customers who will use Lotto24's products, to expand our current offerings, to add further products to the range and to establish new sales channels.

Consequently, the business model may prove to be unprofitable or unviable. This may lead to impairment especially of capitalised non-current assets, as well as to other significant negative effects on the financial position and performance of Lotto24.

In our Management Report 2012, we described in detail our risk management system as well as all risks in connection with the business activities of Lotto24, which can be divided mainly into sector and market risks, legal risks, business risks, risks from the processing of gaming operations, personnel risks and general business risks.

Individual risks

Within the scope of this quarterly financial report, we would like to focus in particular on the additional risks presented below:

Regulatory conditions

As a result of the regulatory conditions, the following risks may endanger the Company's future survival: the withdrawal or non-prolongation of brokerage permits already granted may prevent our continued business activities. The withdrawal or non-prolongation of the granted advertising permit would also significantly impede the establishment of Lotto24's business. Should the state lottery companies terminate their agreements with Lotto24, there is a danger that we would have no legal possibility to broker lottery products in the respective federal states. In such a situation, we would seek legal protection.

Law on the Amendment of the German Money Laundering Act
(Gesetz zur Ergänzung des Geldwäschegesetzes - GwGErgG)

In February 2013, the Law on the Amendment of the German Money Laundering Act (GwGErgG) was passed. The GwGErgG aims to combat money laundering via Internet gaming by improving the transparency of payment streams. The identification of game participants is subject to the same strict criteria as the opening of a bank account. Authorised gaming providers in Germany already meet strict identification requirements as part of the necessary age verification process, as required by youth protection purposes. In contrast to the procedures required under gaming law, however, it is sufficient under GwGErgG regulations to send a copy of an identification document by post – at least for the first stage of identification. It is currently unknown whether additional procedures will be required. However, lottery companies and brokers can be exempted from the additional requirements on application of the provider. For the application to be successful, however, the gaming legislation requirements must be met and there must be a risk analysis certifying a low level of risk. Lotto24 therefore commissioned a recognised, independent expert on money laundering to prepare a corresponding risk analysis. The analysis concludes that there is no, or very little, risk of money laundering involved in online lottery brokerage.

Should Lotto24 not be exempted from the GwGErgG obligations, further identification measures may be required according to GwGErgG – in addition to the implemented age verification procedures – with a possible negative impact on the registration ratio.

Entry of new competitors on the German market

As a consequence of the opening of the German lottery and gaming market following the introduction of the GlüStV 2012, competitors from Germany and abroad with a comparable, or even more attractive, product portfolio and possibly greater financial or technical resources than Lotto24 may enter the German market and offer their own gaming products or let third parties market them. Moreover, competitors already on the German market may commence the online brokerage of gaming products. This may hamper our future growth or lead to a loss of customers.

Increasing expense of advertising measures

Our growth depends heavily on the success of our advertising activities and the resulting increase in awareness of the »Lotto24« brand. Should the conditions for purchasing advertising space deteriorate or advertising partners refuse to take bookings for advertising space, we may be forced to limit our advertising activities or pay higher prices for them.

Continuation of existing cooperation agreements

We offer major online portals and lottery companies IT and marketing services for the operation of online lottery services (B2B business). In 2012, we already recruited two major partners as multipliers in WEB.DE and GMX. It cannot be excluded that these agreements may be terminated prematurely or not prolonged on expiry.

Assessment of the risk situation

All in all, based on the current development of the company, we believe that the probability of the above-mentioned risks is low.

FORECAST AND OPPORTUNITY REPORT

We have further improved on our strong starting position, enabling us to benefit from the liberalisation of online lottery brokerage in Germany and to exploit the tremendous opportunities offered by this market.

The successfully completed capital increase in September 2013 has improved our financial scope. The net issue proceeds will be used mainly for implementing marketing measures for the planned acceleration of new customer acquisition. A smaller proportion of these funds will be used to continue the development of our brokerage platform, including the expansion of our product portfolio with the addition of further lotteries, as well as to expand our range of services for state-licenced lotteries.

Moreover, we are currently in advanced negotiations with an international partner regarding the joint operation and marketing of a lottery product to be launched in Germany, which is to be operated for a German lottery company. As this new lottery product requires prior authorisation, the cooperation will depend on receiving the necessary permit from the relevant authorities. It is currently unclear when and whether such a permit will be issued.

Expected earnings position

Our earnings in 2013 and 2014 will be dominated by losses caused by planned heavy investment in advertising and revenues which are still comparatively low. We regard the development of business to date as positive – it is within the range of our continually updated business plan and budget targets.

Expected financial position

We aim to use the funds at our disposal, which were bolstered as planned by the successful capital increase in September 2013, for the further expansion of our business activities. As we can now advertise actively since receiving our advertising permit, and still have relatively low revenue streams in the early stage of our business, this will be reflected by significant use of funds in the fourth quarter of 2013.

REPORT ON TRANSACTIONS WITH RELATED PARTIES

With regard to disclosures on past transactions with related parties, we refer to Note 21 on page 40.

Hamburg, 6 November 2013

The Executive Board

Petra von Strombeck
Chairman of the Executive Board

Magnus von Zitzewitz
Member of the Executive Board

03. CONDENSED INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT
FROM 1 JANUARY TO 30 SEPTEMBER ACC. TO IFRS

in EUR thousand	Note	Q. I–III 2013	Q. I–III 2012	Q. III 2013	Q. III 2012
Billings		16,303	129	9,005	57
Remitted stakes (less commission)		-14,859	-121	-8,221	-53
Revenues	5	**1,444**	**8**	**784**	**4**
Other operating income	6	480	0	10	0
Total performance		**1,923**	**9**	**794**	**4**
Operating expenses					
Personnel expenses	7	-2,424	-974	-707	-681
Amortisation/depreciation on intangible assets and property, plant and equipment	15,16	-43	-19	-17	-9
Other operating expenses	8	-7,675	-1,710	-3,825	-421
Result from operating activities (EBIT)		**-8,219**	**-2,694**	**-3,756**	**-1,107**
Revenues from financial activities	9	100	1	0	1
Expenses from financial activities	9	-23	-13	-23	-3
Financial result	9	**76**	**-11**	**-23**	**-1**
Net profit before taxes		**-8,143**	**-2,705**	**-3,779**	**-1,108**
Income taxes	10	2,634	351	1,255	-105
Net profit		**-5,509**	**-2,354**	**-2,524**	**-1,213**
Earnings per share (undiluted, diluted, in EUR/share)		-0.39	-0.35	-0.18	-0.09
Weighted average of ordinary shares outstanding (undiluted and diluted, in shares)		14,061,652	6,655,292	14,234,287	13,974,904

Net profit is attributable to the owners of Lotto24 AG, Hamburg.

STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JANUARY TO 30 SEPTEMBER ACC. TO IFRS

in EUR thousand	Note	Q. I–III 2013	Q. I–III 2012	Q. III 2013	Q. III 2012
Net profit for the period		**-5,509**	**-2,354**	**-2,524**	**-1,213**
Losses of financial asstes available for sale	11	-68	2	37	2
Income tax effects		22	-1	-12	-1
Other result after tax		**-46**	**1**	**25**	**1**
Total net profit after tax		**-5,555**	**-2,353**	**-2,499**	**-1,210**

Total net profit is attributable to the owners of Lotto24 AG, Hamburg.

BALANCE SHEET
AS AT 30 SEPTEMBER ACC. TO IFRS

		30.09.2013	31.12.2012
ASSETS in EUR thousand	Note		
Current assets			
Cash and cash equivalents	11	19,517	1,086
Other financial assets	11	2,088	10,076
Trade receivables	12	145	30
Other receivables and prepaid expenses	13	1,331	566
Total current assets		**23,081**	**11,758**
Non-current assets			
Goodwill	14	18,850	18,850
Intangible assets	15	169	74
Property, plant and equipment	16	84	15
Deferred tax assets	10	4,659	1,697
Total non-current assets		**23,762**	**20,635**
ASSETS		**46,843**	**32,393**

EQUITY AND LIABILITIES in EUR thousand	Note	30.09.2013	31.12.2012
Current liabilities			
Trade payables	17.1	1,526	738
Other liabilities	17.2	1,632	292
Short-term provisions	18	549	413
Total current liabilities		**3,708**	**1,443**
Non-current liabilities			
Long-term provisions	19	611	199
Total non-current liabilities		**611**	**199**
Equity			
Subscribed capital	20	19,963	13,974
Capital reserves	20	31,543	20,203
Other reserves	20	-43	3
Retained earnings	20	-8,937	-3,429
Total equity		**42,525**	**30,751**
EQUITY AND LIABILITIES		**46,843**	**32,393**

CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER ACC. TO IFRS

in EUR thousand	Q. I–III 2013	Q. I–III 2012
Net profit before tax	**-8,143**	**-2,705**
Adjustments for		
Amortisation/depreciation on non-current assets	43	19
Financial income/financial expenditure	-76	-2
Changes in		
Trade receivables	-115	-2
Other assets and prepaid expenses	-765	-169
Trade payables	788	579
Other liabilities	1,341	39
Financial liabilities	–	-11
Short-term provisions	136	265
Long-term provisions	412	79
Interest received	98	–
Interest paid	-23	–
Taxes paid	–	–
Cash flow from operating activities	**-6,305**	**-1,907**
Payments received (+)/Disbursements (-) for financial instruments	921	-7,000
Investments in intangible assets	-124	-12
Investments in property, plant and equipment	-84	-13
Cash flow from investing activities	**713**	**-7,025**
Disbursements for the repayment of financial liabilities	–	-612
Payments received from taking out financing loans[1)]	–	1,150
Payments received from the capital increase for cash[2)]	17,972	14,173
Disbursements for transaction costs of capital increase	-950	–
Cash flow from financing activities	**17,022**	**14,712**
Change in cash and cash equivalents	11,431	5,779
Cash and cash equivalents at the beginning of the period	8,086	63
Cash and cash equivalents at the end of the period	**19,517**	**5,842**
Composition of cash, cash equivalents and securities at the end of the period[3)]	**19,517**	**5,842**
Cash	19,517	5,842
Cash equivalents	–	–

[1)] Comparative period shareholder loan

[2)] In the comparative period, the capital increase for cash was stated net: the net figure of EUR 14,173 thousand is the net result of the capital increase for cash of EUR 14,972 thousand less payments for transaction costs of the capital increase amounting to EUR -799 thousand.

[3)] In the comparative column of the prior-year quarterly report, a different accrual basis is used for cash and cash equivalents than in the IFRS separate financial statements as at 31 December 2012. The corresponding disclosure according to the IFRS separate financial statements as at 31 December 2012 would result in cash and cash equivalents of EUR 12,844 thousand, divided into cash of EUR 5,842 thousand and cash equivalents of EUR 7,002 thousand.

Explanations are provided in Note 3.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER ACC. TO IFRS

in EUR thousand	Subscribed capital	Capital reserves	Other reserves	Retained earnings	**Total equity**
As at 1 January 2012	**25**	**-**	**-**	**-374**	**-349**
Capital increase for contribution in kind	7,960	11,953	-	-	19,913
Capital increase for cash	5,989	8,983	-	-	14,972
Transaction costs of capital increase	-	-799	-	-	-799
Deferred tax relief for transaction costs	-	-	-	-	0
Net profit	-	-	-	-2,354	-2,354
Other result	-	-	1	-	1
Total result	-	-	1	-2,354	-2,353
As at 30 September 2012	**13,974**	**20,137**	**1**	**-2,728**	**31,384**
Capital increase for contribution in kind	-	25	-	-	25
Capital increase for cash	-	-	-	-	0
Transaction costs of capital increase	-	-308	-	-	-308
Deferred tax relief for transaction costs	-	349	-	-	349
Net profit	-	-	-	-701	-701
Other result	-	-	2	-	2
Total result	-	-	2	-701	-699
As at 31 December 2012	**13,974**	**20,203**	**3**	**-3,429**	**30,751**
As at 1 January 2013	**13,974**	**20,203**	**3**	**-3,429**	**30,751**
Capital increase for contribution in kind					
Capital increase for cash	5,989	11,983	-	-	17,972
Transaction costs of capital increase	-	-950	-	-	-950
Deferred tax relief for transaction costs	-	307	-	-	307
Net profit	-	-	-	-5,509	-5,509
Other result	-	-	-46	-	-46
Total result	-	-	-46	-5,509	-5,555
As at 30 September 2013	**19,963**	**31,543**	**-43**	**-8,937**	**42,525**

Explanations are provided in Note 20.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY TO 30 SEPTEMBER 2013

1 GENERAL

The following condensed and unaudited interim report for the first nine months of fiscal year 2013 was prepared in accordance with IAS 34. It was approved for publication by a resolution of the Executive Board on 6 November 2013.

The condensed interim report for the first nine months of 2013 was prepared in accordance with IAS 34 (Interim Financial Reporting), taking into account the valid IFRS standards and IFRIC interpretations of the International Accounting Standards Board (IASB) as applicable in the EU.

The condensed interim report does not include all information and disclosures required for IFRS separate financial statements and is therefore to be read in conjunction with the IFRS separate financial statements as at 31 December 2012.

The reporting period is 1 January to 30 September 2013. Lotto24 has no subsidiaries.

The Company is in the start-up and growth phase. Its main activity is the online brokerage of state-run lotteries in Germany. Lotto24 AG is domiciled in Hamburg. Its address is Neuer Wall 63, 20354 Hamburg, Germany.

2 GENERAL ACCOUNTING PRINCIPLES

The same accounting policies were used for this interim report as for the IFRS separate financial statements as at 31 December 2012. We refer to the IFRS separate financial statements as at 31 December 2012 for the corresponding details. There are no new or revised standards and interpretations to be applied in 2013 which have a significant impact on the IFRS interim financial statements. Unless stated otherwise, amounts are stated in thousands of euros (EUR thousand), which may lead to rounding differences in certain cases.

3 CASH FLOW STATEMENT

The cash flow statement is prepared pursuant to IAS 7. 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.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	30.09.2013	31.12.2012
in EUR thousand		
Available-for-sale financial investments (short-term)	–	7,005
Cash	19,517	1,086
Total	**19,517**	**8,092**

in EUR thousand	30.09.2013	31.12.2012
Reconciliation to the balance sheet		
Available-for-sale financial investments (short-term)	–	7,005
Available-for-sale financial investments (medium-term)	2,088	2,154
Held-to-maturity financial investments	–	918
Other financial assets	**2,088**	**10,076**

4 SEGMENT REPORTING

The Company has no reportable segments in addition to the online brokerage of state-run lotteries.

5 REVENUES

in EUR thousand	Q. I–III 2013	Q. I–III 2012
Revenues	1,444	8
Total	**1,444**	**8**

The strong increase in revenue to EUR 1,444 thousand (prior year: EUR 8 thousand) is due mainly to the advertising permit granted in March 2013 and the resulting launch of nationwide marketing campaigns, leading to a strong rise in the number of registered customers.

As of 30 September 2013, the number of registered customers amounted to 168 thousand. The development was as follows:

in EUR thousand	2013	2012
Number of registered customers as of 31 December of prior year (in thousand)	30	0
Q. I	15	2
Q. II	52	4
Q. III	71	5
Number of registered customers as of 30. September (in thsd.)	**168**	**11**

6 OTHER OPERATING INCOME

in EUR thousand	Q. I–III 2013	Q. I–III 2012
Other operating income	480	0
Total	**480**	**0**

In the first nine months of 2013, this item mainly comprised income from the cancellation agreement signed on 15 February 2013 with Tipp24 SE (EUR 450 thousand) as well as amounts charged to the contractual partners for technical set-up costs and services under the terms of existing cooperation agreements (EUR 28 thousand). A detailed explanation of this cancellation agreement is provided in Note 25.2 of the IFRS separate financial statements as at 31 December 2012.

7 PERSONNEL EXPENSES

In comparison to the same period last year, Lotto24 AG had higher personnel expenses in the first nine months of 2013. The Company's two Executive Board members have been paid by Lotto24 AG since 1 July 2012.

in EUR thousand	Q. I–III 2013	Q. I–III 2012
Salaries	-2,240	-875
Social security contributions	-185	-98
Total	**-2,424**	**-974**

In the current quarterly reporting period of 2013, personnel expenses also include share-based remuneration with cash settlement (phantom shares, EUR -412 thousand; same period last year EUR -79 thousand) for the Executive Board members. Details are provided in Note 19.

8 OTHER OPERATING EXPENSES

in EUR thousand	Q. I–III 2013	Q. I–III 2012
Marketing expenses	-4,746	-164
Direct operating expenses	-417	-29
Indirect operating expenses	-2,512	-1,125
Other expenses	–	-393
Total	**-7,675**	**-1,710**

As at 30 September 2013, other operating expenses increased year on year by EUR -5,965 thousand, from EUR -1,710 thousand to EUR -7,675 thousand.

The following factors influenced this development:

In contrast to the previous year, marketing expenses for new customer acquisition of EUR -4,746 thousand were incurred in the reporting period (prior year: EUR -164 thousand). This strong increase is related to the advertising permit granted in March 2013 and the resulting launch of nationwide marketing campaigns (especially online and TV advertising).

Indirect operating expenses rose from EUR -1,125 thousand to EUR -2,512 thousand. In summary, this rise mainly resulted from technical costs (EUR -1,227 thousand) for product adjustments in connection with the price and product changes for »Lotto 6aus49«, the finalisation of technical interfaces to the state lottery companies, the ongoing development of age verification systems and the addition of EuroJackpot to the product portfolio of WEB.DE and GMX. There were also costs for consultancy services totalling EUR -713 thousand, which were mainly incurred for legal advice and Investor Relations activities.

Direct costs of operations rose to EUR -417 thousand and mainly comprise the volume-related usage costs for the gaming platform.

Other expenses in the comparative prior-year period of EUR -393 thousand were in connection with the complete spin-off from Tipp24 SE. With regard to issuance costs in connection with the rights offering, we refer to the explanations in the Statement of Changes in Equity and Note 20 Equity.

9 FINANCIAL RESULT

	Q. I–III 2013	Q. I–III 2012
in EUR thousand		
Revenues from financial activities		
Interest income	100	1
	100	**1**
Expenses from financial activities		
Interest expenses	-23	-13
	-23	**-13**
Total	**76**	**-11**

Interest income results from the proceeds received from interest-bearing investments of surplus liquidity.

10 INCOME TAXES

The corporate income tax rate remains unchanged from 2012 at 15.0%; the solidarity surcharge is still 5.5% of corporate income tax.

Compared to 2012, the effective trade tax on income rate for Hamburg remains at 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 amounted to 32.28% (prior year: 32.28%).

Deferred tax assets and liabilities developed as follows:

in EUR thousand	01.01.2013	Income (+)/ expense (-)	**30.09.2013**
Deferred tax assets			
Deferred tax assets due to temporary differences	1	-1	–
Deferred tax assets due to tax loss carryforwards	1,914	3,240	5,154
	1,915	**3,240**	**5,154**
Netting with deferred tax liabilities			-495
Total			**4,659**

in EUR thousand	01.01.2013	Income (+)/ expense (-)	**30.09.2013**
Deferred tax liabilities			
Deferred tax liabilities due to temporary differences	218	-277	495
	218	**-277**	**495**
Netting with deferred tax assets			-495
Total			**0**

The Company recognises deferred tax assets for tax loss carryforwards, as the underlying planning and experience of management provides substantial indications that there will be sufficient taxable results within the next five years. This planning also provides the basis for impairment tests of goodwill (see also Note 14). In addition to the brokerage permit already granted in September 2012, planning also considers the permit for Internet and TV advertising of online lottery brokerage granted in March 2013. A particular competitive strength of the Company is also its experienced management which has already successfully operated the marketing of online lottery brokerage and boasts experience in the lottery, gaming and e-commerce markets.

The income statement discloses an amount of EUR 2,634 thousand, which not only includes the above-mentioned amounts but also deferred taxes of EUR 329 thousand recognised directly in equity.

11 CASH AND OTHER FINANCIAL ASSETS

in EUR thousand	**30.09.2013**	31.12.2012
Cash		
Bank balances	19,516	1,086
Cash on hand	1	0
Total	**19,517**	**1,086**

Cash and cash equivalents correspond almost entirely to the current account balances held with two banks.

in EUR thousand	30.09.2013	31.12.2012
Other financial assets		
Available-for-sale financial investments	2,088	9,159
Held-to-maturity financial investments	–	918
Total	**2,088**	**10,076**

Available-for-sale financial investments comprise shares in pension and money market funds with a wide investment spread which are managed by one bank. A change in equity prior to income tax effects of EUR -68 thousand was recognised for these assets (prior year: EUR 2 thousand).

As at the reporting date, there were no held-to-maturity financial investments (prior year: EUR 918 thousand).

in EUR thousand	30.09.2013	31.12.2012
Reconciliation to available funds		
Cash	19,517	1,086
Other financial assets	2,088	10,076
Available funds	**21,605**	**11,162**

12 TRADE RECEIVABLES

in EUR thousand	30.09.2013	31.12.2012
Receivables from customers	136	9
Receivables from amounts passed on	10	21
Total	**145**	**30**

Trade receivables mainly comprise receivables from amounts passed on, reimbursement claims and open billing amounts due from customers, which are all due in less than one year. The expected impairment risks of receivables from customers were suitably considered by value adjustments.

13 OTHER RECEIVABLES AND PREPAID EXPENSES

in EUR thousand	30.09.2013	31.12.2012
Tax receivables (VAT)	274	111
Receivables from gaming operations	487	144
Prepaid expenses	171	28
Deposits	396	281
Others	3	3
Total	**1,331**	**566**

With the exception of tax receivables (VAT) and prepaid expenses, this item comprises financial assets.

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

14 GOODWILL

The development of goodwill is presented in the table below.

in EUR thousand	2013	2012
Acquisition costs as of 1 January	**18,850**	**-**
Additions (purchased from third parties)	-	18,850
Additions (self-provided)	-	-
Disposals	-	-
Acquisition costs as of 30 September 2013/31 December 2012	**18,850**	**18,850**
Accumulated acquisition costs as of 1 January	**-**	**-**
Depreciation of the period	-	-
Disposals	-	-
Accumulated acquisition costs as of 30 September 2013/31 December 2012	**-**	**-**
Net book value as of 30 September 2013/31 December 2012	**18,850**	**18,850**

Goodwill results from the acquired business operation of online lottery brokerage as part of a contribution in kind. The disclosed goodwill has an unlimited useful life and is not amortised in scheduled amounts (impairment-only approach). Instead of amortisation, the asset is subjected to an impairment test once per year on 31 December according to IAS 36, unless there are indications of impairment during the year. The relevant technical, market-based, economic and legal parameters and conditions for the impairment test are continually monitored and updated.

15 INTANGIBLE ASSETS

The development of intangible assets is presented in the table below.

in EUR thousand	2013	2012
Acquisition costs as of 1 January	**99**	**64**
Additions (purchased from third parties)	124	35
Additions (self-provided)	–	–
Disposals	–	–
Acquisition costs as of 30 September 2013/31 December 2012	**223**	**99**
Accumulated acquisition costs as of 1 January	**-25**	**–**
Depreciation of the period	-29	-25
Disposals	–	–
Accumulated acquisition costs as of 30 September 2013/31 December 2012	**-54**	**-25**
Net book value as of 30 September 2013/31 December 2012	**169**	**74**

The useful life of intangible assets is generally between one and five years. The intangible assets listed above have useful lives of three years on commencement of use. There are no restrictions on rights of disposal. Moreover, no assets were pledged as collateral for liabilities. The additions consist mainly of a mobile app and acquired financial reporting software.

16 PROPERTY, PLANT AND EQUIPMENT

With regard to the development of property, plant and equipment, we refer to the following table. The item comprises furniture, fixtures and office equipment.

	2013	2012
in EUR thousand		
Acquisition costs as of 1 January	**19**	**5**
Additions (purchased from third parties)	84	14
Additions (self-provided)	–	–
Disposals	–	–
Acquisition costs as of 30 September 2013/31 December 2012	**103**	**19**
Accumulated acquisition costs as of 1 January	**-4**	**0**
Depreciation of the period	-15	-3
Disposals	–	–
Accumulated acquisition costs as of 30 September 2013/31 December 2012	**-18**	**-4**
Net book value as of 30 September 2013/31 December 2012	**84**	**15**

There are currently no assets from financial leases.

17 CURRENT LIABILITIES

17.1 TRADE PAYABLES

	30.09.2013	31.12.2012
in EUR thousand		
Trade payables	1,526	738
Total	**1,526**	**738**

Trade payables mainly consist of payment obligations still due on the balance sheet date for marketing services as well as legal and technical consultancy services already received. All trade payables are due within one year.

17.2 OTHER LIABILITIES

Other liabilities consist of the following items:

in EUR thousand	30.09.2013	31.12.2012
Liabilities from gaming operations	1,465	205
Amounts due in connection with payroll processing	39	35
Holiday obligations	47	42
Other	81	10
Total	**1,632**	**292**

Apart from amounts due in connection with payroll processing and holiday obligations, this item comprises financial liabilities.

18 SHORT-TERM PROVISIONS

in EUR thousand	30.09.2013	31.12.2012
Bonus	489	353
Litigation costs	60	57
Other	–	3
Total	**549**	**413**

Bonus provisions are formed pro rata temporis in 2013. All provisions are expected to be used within one year.

19 LONG-TERM PROVISIONS

in EUR thousand	30.09.2013	31.12.2012
Share-based remuneration	611	199
Total	**611**	**199**

The members of the Executive Board have been granted a share-based remuneration programme (phantom shares with cash compensation). The imputed number of shares is issued in annual tranches in the middle of the calendar year and vested over the twelve following months pro rata temporis. The calculation is made by dividing a nominal remuneration claim in Euro (initial value EUR 330 thousand) by the average Lotto24 share price (Xetra or a functionally comparable successor system) for the past 90 trading days. Claims to receive payment accrue after a vesting period of four years. The Company's share-based remuneration obligations are measured at fair value discounted for their remaining term using the rolling average Lotto24 share price (Xetra) for the past 90 trading days and are limited in the value growth to three times the initial value.

20 EQUITY

Subscribed capital equals the Company's capital stock and is fully paid.

in EUR thousand	**30.09.2013**	31.12.2012
Subscribed capital	19,963	13,974
Capital reserves	31,543	20,203
Other reserves	-43	3
Retained earnings	-8,937	-3,429
Total	**42,525**	**30,751**

Due to the partial usage of Authorised Capital, as adopted by the Annual General Meeting of 7 August 2013, the share capital of Lotto24 AG was raised in September. This involved the issue of 5,988,816 new shares with dividend rights for fiscal year 2013. As a result of the rights offering, the total number of no-par value shares issued by Lotto24 AG increased from 13,973,904 to 19,962,720. The proceeds from the capital increase received in excess of the share's issue price (EUR 11,983 thousand) were transferred to capital reserves. After the deduction of issuance costs (EUR -950 thousand), net issue proceeds of around EUR 17,022 thousand were generated. The issuance costs were netted with capital reserves without affecting income (EUR -643 thousand) as a post-tax amount after consideration of the tax effect (EUR 307 thousand). The remaining Authorised Capital fell to EUR 998 thousand.

The new shares were underwritten by M.M. Warburg & CO KGaA, Hamburg, and offered to shareholders via indirect subscription rights in a ratio of 7:3. Seven subscription rights entitled shareholders to three new shares, whereby each share of Lotto24 AG grants one subscription right. The subscription price amounted to EUR 3.00. The subscription rights were traded on the regulated market of the Frankfurt Stock Exchange in the period 12 to 23 September 2013. In the course of the subscription period from 12 to 25 September 2013, subscription rights for around 99.9% of the new shares on offer were exercised. The 5,775 new shares not subscribed for were utilised by M.M. Warburg & CO KGaA.

After the capital increase was entered into the Commercial Register on 27 September 2013, the new shares were also admitted for trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard) on 27 September 2013 and included in the existing listing of the old shares on 30 September 2013.

Capital reserves as at 31 December 2012 contain reserves blocked according to commercial law as well as a block on profit distribution from the capitalisation of deferred taxes and self-created intangible assets of EUR 2,349 thousand.

21 RELATED PARTIES

In the reporting period, there were no business relationships between Lotto24 AG and members of its executive bodies (Executive Board), the members of the Supervisory Board and the major shareholder Mr Oliver Jaster (attributable acc. to § 22 (1) sentence 1 no. 1, (3) WpHG via Othello Drei Beteiligungs-Management GmbH, Hamburg, Othello Drei Beteiligungs GmbH & Co. KG, Hamburg, Günther Holding GmbH, Hamburg, Günther GmbH, Bamberg), which required reporting.

Until its complete spin-off in 2012, Lotto24 AG was a subsidiary of Tipp24 SE. With regard to disclosures on past transactions with related parties, we refer to the Management Report for fiscal year 2012 and Note 23 of the IFRS separate financial statements as at 31 December 2012.

22 DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

Lotto24 holds available-for-sale financial instruments amounting to EUR 2,088 thousand (31 December 2012: EUR 9,159 thousand) which are measured at fair value.

As at the balance sheet date, the Company did not hold any financial liabilities measured at fair value.

The carrying values of the disclosed financial instruments represent a suitable approximate value for the respective fair value.

The scope of the credit risk of Lotto24 AG equals the sum of cash, short-term financial investments and other receivables.

In view of the ongoing 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 total amount of cash and short-term financial assets held by Lotto24 AG, 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 short-term securities offering as much liquidity and as little volatility as possible, while ensuring risk diversification. Following regular monitoring, there were no specific default risks in the portfolio as at the balance sheet date.

23 EVENTS AFTER THE BALANCE SHEET DATE

OTHER EVENTS

Between the end of the reporting period and the publication date, there were no significant events with a relevant influence on the earnings, financial position and net assets of Lotto24 AG.

24 OTHER DISCLOSURES

24.1 EXECUTIVE BOARD

Petra von Strombeck has been Chairman of the Executive Board of Lotto24 AG since 10 May 2012. Her responsibilities include the divisions Corporate Strategy and Development, Marketing, Sales, B2C and ASP business fields, Investor Relations, Human Resources and Organisation, IT Strategy, Systems, Processes and Operation. Magnus von Zitzewitz has been a member of the Executive Board since 2 May 2012 with responsibility for the divisions Legal Affairs and Regulation, Finance, Accounts, Taxes, Controlling, Compliance, Risk Management, and Communication (Public Relations, Public Affairs).

The members of the Executive Board work on a full-time basis.

24.2 EMPLOYEES

As at 30 September 2013, the Company employed 26 people (without Executive Board members, full-time equivalents, as of period-end; 30 September 2012: 17).

Hamburg, 6 November 2013

The Executive Board

Petra von Strombeck
Chairman of the Executive Board

Magnus von Zitzewitz
Member of the Executive Board

FINANCIAL CALENDAR

27 March 2014	Annual Report 2013
13 May 2014	Quarterly Financial Report as of 31 March 2014
25 June 2014	Annual General Meeting
7 August 2014	Half-Yearly Financial Report 2014
12 November 2014	Quarterly Financial Report as of 30 September 2014

PUBLISHED BY

Lotto24 AG
Neuer Wall 63
20354 Hamburg
Germany

Phone +49 (40) 8 222 39-0
e-mail ir@lotto24.de

www.lotto24-ag.de

Concept, text & design
Impacct Communication GmbH

www.impacct.de