

**Buy** Risk: Fair Value: € 15.50  
(initial coverage) High

Bloomberg: T1C GR Price: € 11.00  
Reuters: T1CG.DE Index: CDAX  
ISIN: DE000TACL107  
Internet: www.10TACLE.de  
Segment: General Standard  
Sector: Software/IT

Share data: Bloomberg 22.06.2006 / closing price

Share price high / low 52 weeks: € 11.00 / € 11.00  
Market capitalisation: €m 55.55  
Number of shares: 5.05 m

Shareholders: Patrio Plus AG 33 %  
(pre-IPO) Bertram Rickmers 18 %  
Management 6 %  
Free Float 43 %

Calendar: Issue period (planned): 13.-20 June 2006

#### Analysis: SES Research

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## Reaching new levels with the IPO

- In the past few years 10TACLE has managed to position itself as a developer for top games ("AAA") and to establish excellent developing teams. This was made possible by raising liquid funds of some € 35 m through innovative fund models and a private placement. In addition, internationally leading publishers (e.g. EA) have been acquired as partners for marketing and sales of the productions developed. This underscores the company's quality.
- Thanks to simultaneous fund and in-house developments, the company can carry out large projects, create its own technology base, set-up an infrastructure and create trademark rights (from successful initial versions) with comparatively low risk. Today 10TACLE has some 200 employees and, based on its structure, is able to develop top titles in-house or for account of a third party.
- The company's capacities will be well utilised until 2007 through already contracted services for existing funds. The company's position is therefore much less risky than pure game developers that only produce on their own accounts. However, the achievement of profit targets highly depends on sales from services rendered as well as on new game and fund projects.
- The company's ability to develop state-of-the-art products in the prospering games market represents the fundamental value of the company. The company's valuation is much more attractive compared to the peer group. This is striking given the fact that the company has its own "engine" technology and possesses valuable USPs thanks to its experience in the field of fund models.

## Recommendation

We deem 10TACLE's position in the games market promising. Our DCF model indicates a fair value of € 15.50. However, this approach includes significant risk-related discounts (beta: 1.75). We anticipate a valuation of around € 20 (in line with the peer group) as soon as the company manages to launch its first major top titles in the market. Our initial recommendation is Buy.

Fiscal year end	12/05	12/06e	12/07e	12/08e	CAGR
<b>Sales</b>	17.9	20.1	44.7	64.0	53.0%
<b>EBITDA</b>	2.7	5.4	9.9	12.9	67.7%
<i>Margin</i>	15.26%	26.71%	22.23%	20.10%	
<b>EBIT</b>	1.7	4.1	7.6	8.4	70.8%
<i>Margin</i>	9.41%	20.58%	16.96%	13.10%	
<b>Net Income</b>	1.1	2.0	5.0	5.5	72.8%
<i>Margin</i>	5.91%	9.87%	11.09%	8.52%	
<b>EpS</b>	0.21	0.39	0.98	1.08	72.8%
<b>Dividend</b>	0.00	0.00	0.00	0.00	n.m.
<i>Yield</i>	0.00%	0.00%	0.00%	0.00%	
EpS in €, other figures in €, price: € 11.00					
<b>Price/Sales</b>	3.10	2.76	1.24	0.87	
<b>P/E</b>	52.53	27.97	11.22	10.19	
<b>EV/Sales</b>	2.57	2.28	1.03	0.72	
<b>EV/EBITDA</b>	16.82	8.54	4.63	3.57	

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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## Opportunities

- The market for computer games (“games market“) has featured very high growth rates for years. A continuation of this growth is also anticipated for the coming years.
- 10TACLE has thus far primarily seen itself as a development service provider for third parties (particularly funds) and creates games at its own risk only in selected cases. The company is making use of the option of follow-up titles of successful initial versions in particular on its own account. This business model allows 10TACLE to participate in the growth of the market without constantly facing utilisation risks like other game manufacturers. In this structure, a major part of the costs is covered by fund productions. The company therefore takes significantly fewer risks than developers who only work on the basis of internal financing. This optional strategy makes the strategic direction of 10TACLE particularly attractive.
- 10TACLE was able to raise budgets of ca. € 35 m alone with the first two funds raised and a fund-like private placement. This puts the company in a position to become one of the most important game developers at its first attempt. 10TACLE has ca. 170 of its own developers at its disposal and also partially contracts external studios whenever demanded by the order situation.
- With a planned EBIT (2007) of around € 8 m (SES estimate), 10TACLE is a relatively large game manufacturer. Comparable companies are valued with EV/EBIT multiples between 10 and 20.
- 10TACLE possesses its own high quality middleware technology (“engine“). The company uses this in game projects whenever possible. On the one hand, this can reduce production costs and on the other hand opens up the option of a further marketing of this technology to third parties.
- The Fraunhofer institute has a participation in 10TACLE through a fund (Munich Venture Partners). We see this as a quality indicator of its own technology on the one hand and an opening up of possibilities for a co-operation with the Fraunhofer institute on the other.
- 10TACLE plans to market an acquired production in H2 2006. A marketing guarantee yields marketing sales of an estimated € 1.7 - 2 m. On the contrary, the project is written off over the entire selling period. Earnings will therefore be very good in H2. However, this is only considered to a small extent in our forecasts, as we do not deem this depreciation policy appropriate. We are assuming that the company will switch to a performance-related depreciation method.
- The fact that 10TACLE was already able to win over marketing partners such as EA and ATARI for the first smaller projects underscores the quality of the company’s products.



Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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- 10TACLE is positioned in Asia with very good prospects. The company should be able to open up this region in the coming years as both a financing source and a sales market.

### Risks

- 10TACLE has granted volume guarantees of 70% of manufacturing costs (budgets) to the funds. In case of the games produced not selling would present a risk for 10TACLE. However, this will only be the case if 10TACLE fails to likewise receive volume guarantees from publishers (which are typically received). The same goes for 100% of marketing costs. However, contrary to manufacturing budgets, marketing cost plans cannot be reduced after their release. The 10TACLE Group is exposed to a significant risk in these two points in our view.
- Almost all ongoing projects at 10TACLE at the moment are financed through funds. Some 75 % of sales refer to sales coming directly or indirectly from fund productions. The 10TACLE team has to some extent been fully utilised at the moment with such productions. However, this can change at any time. The changed German income tax treatment of losses from shares in a fund in particular can have negative effects. The possible renunciation of fund companies by 10TACLE presents a risk. 10TACLE would be forced to increasingly switch to its own production, though this could also offer advantages in utilisation. However, there is no bottleneck at the moment according to company statements. Additional financing possibilities could result in both Germany and particularly Asia.
- 10TACLE is downright dependent on its (partially acquired) developing team. It is normal in the sector for entire teams to migrate. At 10TACLE such events have yet to be seen, though a considerable risk in terms of the feasibility of the planning can be seen here.
- The company plans to release numerous top titles ("AAA content") in the next few years. It possesses sufficiently high development budgets and with GTR has already released high technological quality content. However, it is not clear whether the planned releases will bring the sales hoped for. Should sales here fall significantly short of the forecast, a problem would result in reaching the goal and in financing subsequent projects. However, the fact that there are already high minimum purchase agreements by distributors for some projects, which exceed the development costs, this risk is limited and proves 10TACLE's ability to develop AAA content.
- The framework of game developments regularly involves a capitalisation of development services (according to the IFRS accounting standard to which the company is bound). This constitutes some € 3 m in 2006. These capitalised services could turn out to be worthless in extreme cases.



Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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- The first important media funds have been raised by companies whose shareholders also hold 10TACLE shares. This results in potential conflicts of interest.

The risks mentioned are selected. The IPO prospect offers a more extensive overview of the risks.



Chances & Risks	<b>Company Profile</b>	Equity Story	Market Environment	Financials	Valuation	Ratios
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### The company

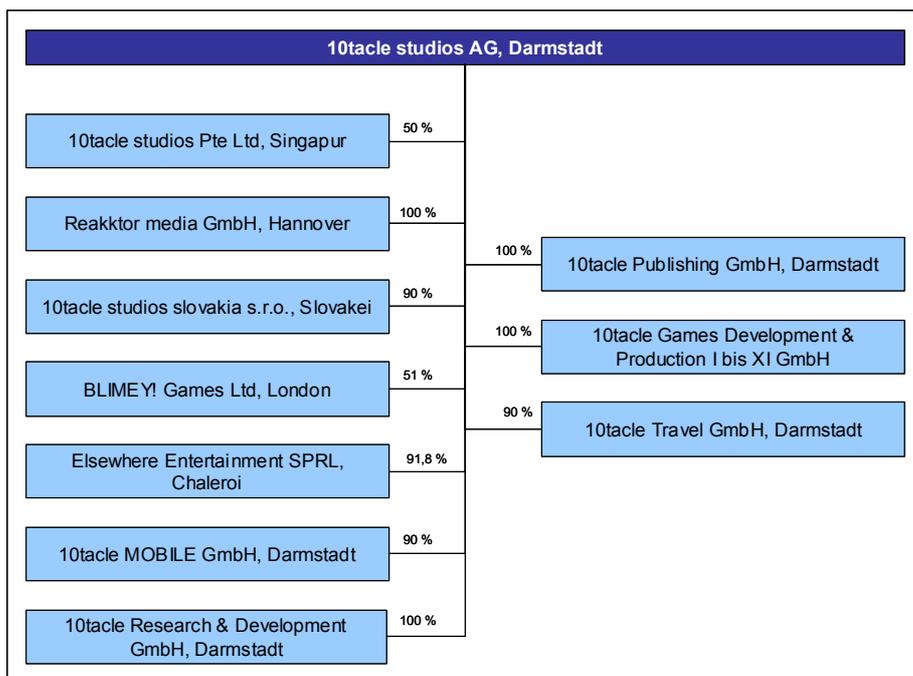
10TACLE is a development and production company for computer and video games. The most important releases up to now have been "GTR", GT Legends" (both racing simulations) and Neocron (massive multiplayer online game, MMO). However, order productions for media funds currently represent the most important source of sales (e.g. "Elveon").

### Historical development

10TACLE Studios GmbH was founded in Darmstadt in August 2003 by Michele Pes, Kay Krämer and Manfred Volz. The company was converted into a joint stock company on 14 May 2004.

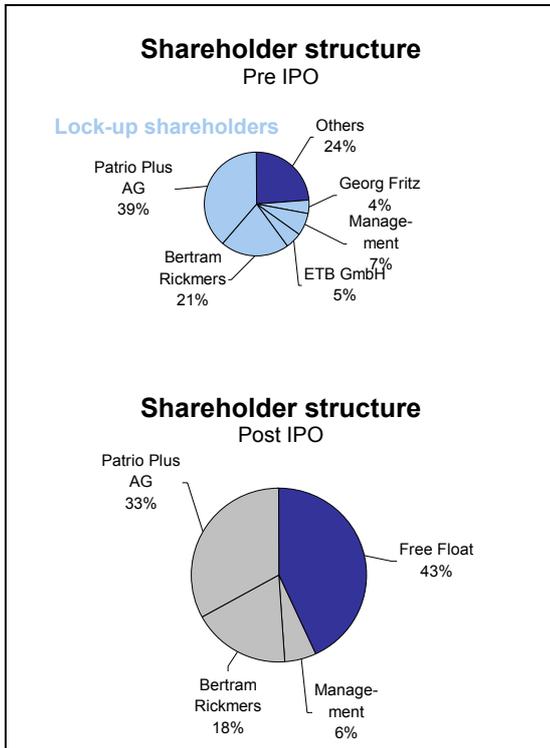
### Organisation structure

10TACLE has shareholdings in multiple development studios and special purpose enterprises (through which game productions are administered for third parties). 10TACLE is structured as follows:



Graph 1; Source: 10TACLE

Chances & Risks	<b>Company Profile</b>	Equity Story	Market Environment	Financials	Valuation	Ratios
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Graph 2; Source: 10TACLE

## IPO

Some 780 thousand shares of 10TACLE were placed at a price of € 11.75 in the scope of the company's IPO. The company therewith received gross proceeds of some € 9.2 m. Nearly half of the originally planned capital increase by up to € 1.8 m shares was thus successfully placed in the weak market environment. The number of shares now amounts to 5.05 m (previously: 4.27 m).

## Shareholders

The company's main shareholders are Patrio Plus AG and Mr. Bertram Rickmers (together some 51%). Management holds some 6% of the company. The shareholder structure (pre and post-IPO) can be seen in graph 2. 76% (pre-IPO) or 65% (post-IPO) of the shares are subject to a lock-up period (see Chart 2).

## Management

Michele Pes, founder of 10TACLE, is the sole member of the company's Management Board. Second level management consists of Frank Holz (Marketing and Sales), Jürgen Reusswig (Head of Development), Kay Krämer (Business Development, founding member) and Andreas Lang (Legal).

## Employees

10TACLE is a globally operating game developer with six development studios in Darmstadt, Hanover, Bratislava, Charleroi, Singapore and London. Of a total 201 employees, 170 work in the development studios and 31 at 10TACLE Studios AG, which is responsible for the Group administration and coordinates the studio developments.



Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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**Different business models mean a diversification of risks**

10TACLE sees itself as an independent, international development and production company for high quality computer and video games or so-called "AAA content". With this goal, the company follows three different business models: the "service model", the "studio model" and the "publishing model".

- Service model

The service model offers third parties the opportunity to transfer the acquisition of computer and video games, the project controlling and management of development and the subsequent marketing to 10TACLE as a service order. Media funds are the main contractor in the service model.

- Studio model

The studio model is based on shareholdings. 10TACLE thereby holds considerable shares in six development studios. The games are developed by the commissioning of third parties on the one hand and by internal financing on the other. It is often a case of subsequent versions of games already on the market.

- Publishing model

The publishing model is based on the commissioning of game developments to external studios. 10TACLE only takes over the project controlling and project management. The company subsequently licenses the developed games to distributors, who take over sales and marketing to the end customer. A development studio for real-time strategy games was won over as a partner in the 2005 fiscal year with the Hungarian company Stormregion Ltd. from Budapest.

The finished game is supplied to a distribution partner as merely a blank or as a reproduced product. This product can either have been produced for a media fund for third parties or on its own account. Media funds play an important role at 10TACLE. 10TACLE is currently developing games for two media funds with a volume of € 32 m. Additional funds were raised in the scope of a structured private placement (€ 3 m).

**Phases of game development**

The development of games can typically be divided chronologically into in the following five phases:

- Acquisition phase

In the acquisition phase, the Group either develops a game idea / rough concept or tests an already existing rough concept by a studio. The phase ends with the commissioning of pre-production or the rejection of the idea.

**Unique positioning in game development for funds**

**Production process of games professionally organised**

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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### 3 phase model

- Pre-production phase

In the pre-production phase, the rough concept is improved and an exact planning of the necessary resources is implemented. Considerable elements of the game are already proven in an initial, executable version. This phase can last between three and twelve months and forms the basis of the project controlling. Here the problem of recognising capitalised services often occurs. Pre-productions optimally result in book gains for third parties in the subsequent production or in case of own productions lead to sales which exceed the project costs. However, here there is a fundamental risk of performing unrealisable services.

- Development phase

The development phase is based on the pre-production phase. Defined solution processes are initiated if the development falls short of the planning or exceeds the planned financial budget. These solutions are consistent overall in the Group and should guarantee a solution in different escalation steps. This process is rounded off by continuous quality control. The development phase lasts between six and 24 months depending on the project. The end result is the completion and fine-tuning of the game version selected for reproduction.

- Marketing phase

10TACLE is merely a supporting element in the marketing phase and coordinates the international marketing as well as the international establishment of the game brand. The company does not employ workers that are commissioned for the wholesale or retail sale of the games. 10TACLE merely supplies the game as a blank or as produced and reproduced goods to the distribution partner. With games offered over the Internet (so-called massive multiplayer online games or MMOs), the marketing phase also includes the technological provision of the server infrastructure and billing. The Group coordinates marketing cycles (e.g. pricing policy) together with the distribution partner.

- Post-production phase

The development of demo versions of the game as well as customer support are characterised as post-production. Necessary changes to the game after its release and agreed upon improvements/expansions (updates/add-ons) also occur in this phase.

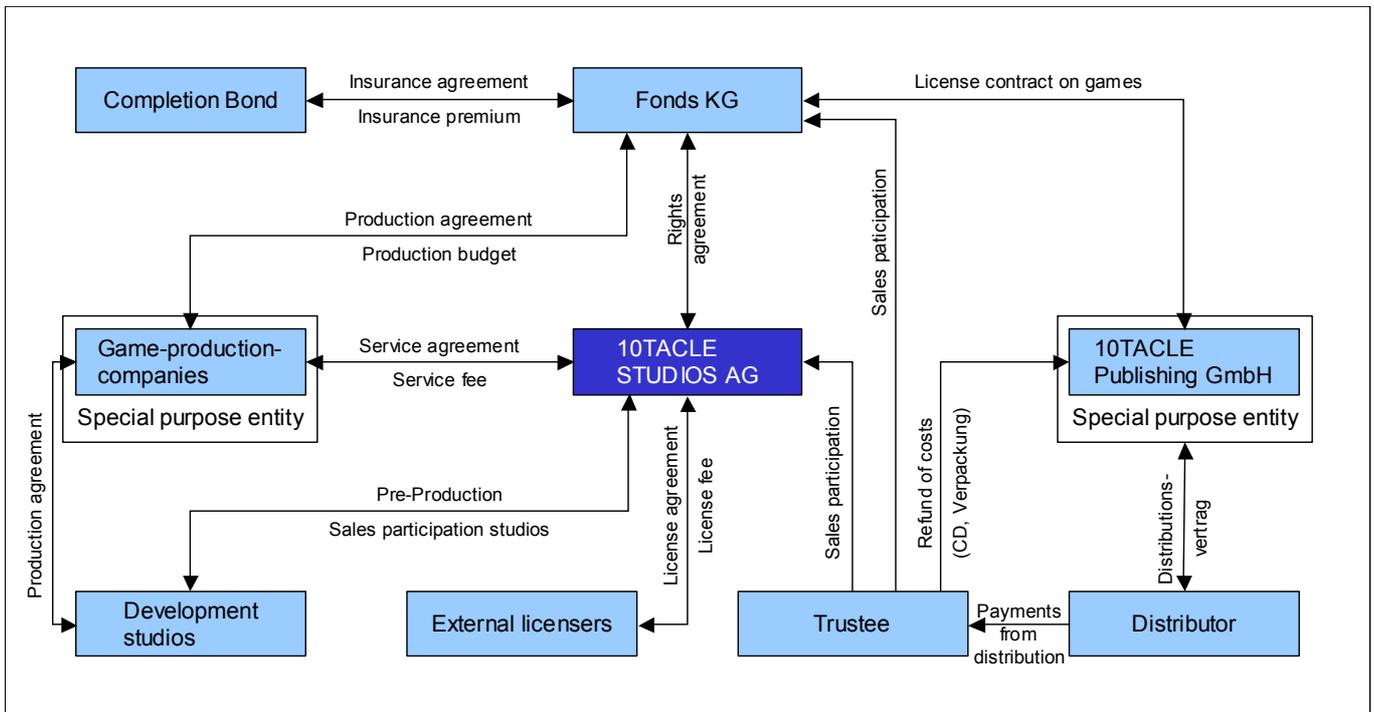
### Game funds

### € 32 m raised through game funds

Contracted (€ 32 m after marketing costs) and planned (ca. € 15 m) media funds already form a central component of the business planning. Of the latter, only a service fee and low sales from pre-productions are considered in the forecasts. In the case of already contracted funds, sales and earnings from the production of games are considered. In addition, the planning includes sales from fund games, though these are largely "forwarded" to the funds.

The typical operating mode of this business model is explained in the following:

Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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Graph 3; Source: 10TACLE, SES Research

In the scope of the service model, media funds commission the 10TACLE Group as a service provider with the acquisition, development, project control and marketing of new titles. 10TACLE initially secures itself the rights to game ideas during the acquisition and pre-production phase, which are then presented to the media funds. Each media fund chooses a game concept and then commissions a so-called special purpose entity (SPE) especially founded by 10TACLE for this purpose. This SPE generates service in the scope of a "fake order production" (the contractor bears the entire business risk). For this purpose the SPE again promptly commissions the production studio responsible for the development phase, which could be a studio belonging to the 10TACLE Group or an external partner studio. Moreover, the SPE commissions 10TACLE itself with the project controlling and management required during the development phase.

The rights to the implementing of game ideas, limited to the manufacture and marketing for each specified hardware platform are acquired by the 10TACLE Group through the media funds. More extensive rights remain at 10TACLE.

**Completion bonds possible**

The services to be rendered by the 10TACLE Group are fully refunded by the media funds with the placement of orders. The media funds can hedge themselves against the risk of non-performance to their own advantage and on their own account through "completion bonds". Up to now, such bonds have been concluded for the development of the ELVEON game for both the PC platform and the Xbox 360. As the respective media fund is the "manufacturer" of the game, 10TACLE takes no responsibility for the provision or quality of the respective development. However, in cases of failure to perform or a considerable default, the unused part of the fee must be refunded to the respective media fund.



Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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**10TACLE is responsible for 70% of manufacturing costs in extreme cases...**

**...but the manufacturing costs are often already covered by distributor guarantees.**

The possibility of a “completion bond” places high requirements for the organisation of a producer. We interpret the fact that 10TACLE can conclude such insurance for its projects as a quality feature.

Due to the construction of the service model, the 10TACLE Group, which is paid by the media funds for the acquisition and development of games as well as the project management, earns a margin independent of the market success of the game produced.

After the conclusion of the development by the media funds, the global marketing rights are exclusively transferred to 10TACLE Publishing GmbH, which is responsible for the marketing of the title. This company is a 100% subsidiary of 10TACLE Studios AG, which concludes the corresponding contracts with the distribution partners. All resulting sales are distributed according to the agreement with the respective media fund. First the accrued reproduction and marketing costs are refunded. 10TACLE is faced with the considerable risk of possibly having to bear the non-recourse costs not covered by the sales achieved (esp. reproduction and marketing costs). Earnings that remain after the deduction of costs flow to the media funds in the full amount up to a defined limit. Only when this limit is reached does 10TACLE receive a share. This increases if a second, pre-determined limit is exceeded.

Another significant risk for 10TACLE is the fact that the 10TACLE Group takes over a marketing guarantee of 70% of the total manufacturing costs of the game. If the media funds fail to earn at least 70% of manufacturing costs within a pre-determined timeframe, the Group is forced to refund the shortfall. These guarantees rendered are, as the case may be, refunded from the sales earned after the balance sheet date.

10TACLE is attempting to eliminate this risk through exclusive marketing agreements with distributors. Marketing guarantees have thus far been agreed upon and initiated for the first three games. These were significantly above the 70% mark. 10TACLE has not yet to cover claims from marketing guarantees against media funds.

Sales from game funds result from production and service orders as well sales from the games produced. These are first drawn to cover marketing costs and are then “passed through” to the funds. Only when sales exceed a certain level does 10TACLE receive an earnings share (“waterfall”).

10TACLE thus fundamentally generates income in four ways within the scope of the fund model:

The company initially achieves a margin with the sale of a pre-production to a fund. The company furthermore receives a margin on the co-ordination of development (“service fee”) and a margin on the development itself (profit margin of production). 10TACLE therefore establishes pre-productions and concepts at its own risk. The service fees in game production are generally quite high. This is due to the fact that the scouting of both “good” developers and their controlling as well as the marketing of games must be carried out at a very high level. These are also an important influencing factor on potential earnings in addition to the quality of the game.

Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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Just how margins and shareholdings are structured depends on the funds. The following table shows a sample calculation of a possible fund construction of an internal production of the Group:

Sample calculation of game project					
Scenario	Negative	Neutral	Positive	Remarks	
Budget of the game:	1.00	1.00	1.00	Medium-sized game project, budget of € 1 m.	
<i>-thereof pre-production:</i>	0.05	0.05	0.05	In the example some 5 % of the budget was spent for the purchase of pre-production.	
Service fee	0.25	0.25	0.25	25 % of total costs are charged as service fees.	
Marketing costs:	0.50	0.75	1.00	Depending on market environment, marketing costs may vary.	
<b>Total costs</b>	<b>1.75</b>	<b>2.00</b>	<b>2.25</b>		
<b>Generated sales</b>	<b>0.75</b>	<b>2.50</b>	<b>4.00</b>	The sales achievable vary depending on the quality of games and the market environment. An average game should generate at least 150 % of its budget (after marketing costs).	
<b>Profitability analysis funds:</b>					
Proceeds of game sales (after marketing costs)	0.25	1.75	3.00	Sales proceeds (after marketing costs) are allocated to the fund.	
Costs for service fee	-0.25	-0.25	-0.25	The service fee must always be paid.	
Budget	-1.00	-1.00	-1.00	The fund bears the production costs.	
Participation 10TACLE	0.00	-0.19	-0.87	10TACLE will participate if fund proceeds exceed 154 % of the budget. The studio likewise participates with 25 %, though as of 100% of the budget.	
Partial refund of the budget	0.45	0.00	0.00	10TACLE must refund up to 70 % of the budget to the fund if the budget is not earned.	
<b>Result funds:</b>	<b>-0.55</b>	<b>0.31</b>	<b>0.89</b>		
<b>Profitability analysis funds 10TACLE:</b>					
Service fee	0.25	0.25	0.25	See above	
Pre-production	0.05	0.05	0.05	The fund purchases one of the suggested pre-productions from 10T.	
Production sales	1.00	1.00	1.00	10TACLE carries out production within the Group (externally as the case may be).	
Participation 10TACLE ("waterfall")	0.00	0.19	0.87	See above	
Refund of marketing costs	0.50	0.75	1.00	Marketing costs will initially be refunded to 10TACLE.	
Service costs	-0.23	-0.23	-0.23	The service costs may vary significantly depending on the situation. In this example they make up 90 % of the service fee.	
Pre-production costs	-0.04	-0.04	-0.04	10TACLE receives a margin of 20% of production costs for pre-production. The costs are calculated accordingly.	
Production costs	-0.90	-0.90	-0.90	10TACLE receives a margin of 20% of production costs for Group-internal productions. The costs are calculated accordingly. A higher margin is paid if its own technology is used.	
Marketing costs	-0.50	-0.75	-1.00	See above	
Partial refund of the budget to the fund	-0.45	0.00	0.00	See above	
<b>Result 10TACLE:</b>	<b>-0.32</b>	<b>0.32</b>	<b>1.00</b>		

Table 1; Source: SES Research



Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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**Technology**

**Engine – the motor of a game**

10TACLE has its own technology, namely a so-called “middleware engine”. A middleware engine is an independent part of a computer programme enabling a reality-like displaying of objects, persons and their environment (virtual reality). This engine offers a programmer a large spectrum of graphic and other functions (e.g. consideration of the object physics) and effects (geometric object description, surface textures, light and shadows, transparency, reflections etc.) which have to be adjusted only for their special application. The quality of the effects of each engine often determines the commercial success of a game. For the development of games at the highest level of quality and accordingly the current status of hardware platforms, there is currently only a small number of engines on the market. It is therefore normal for game manufacturers to further market their own engine to third parties with a licence in addition to the marketing of games. The licensing of such technology costs up to € 1 m with a small to medium sized development budget (€ 3 - 5 m).

**EA pays US-\$ 48 m for Criterion**

Important technologies currently include “Unreal Engine 3” (Unreal Technology) as well as “RenderWare”. The latter was acquired in summer 2004 through the takeover of the game manufacture Criterion by the industry leader Electronic Arts. RenderWare is used by many designers for their games. To what extent third party manufacturers can now count on RenderWare is unclear. However, EA receives an excellent insight into the strategy of all of its competitors who use the licensed RenderWare. EA is presumed to have paid US-\$ 48 m for Criterion.

**“NeoReality” already successfully used**

10TACLE has acquired its own development engine (“NeoReality” project) through the acquisition of a 92% shareholding in the company Elsewhere Entertainment SPRL, Belgium. In addition to savings, this also means the necessary independence from the few suppliers of such technology. The purchase price for the Belgian subsidiary amounted to a mere € 0.8 m (payment according to milestones). Here the good relationship between 10TACLE and the company founder of Elsewhere was a deciding factor. We furthermore assume that the company will put another some € 2 m into the development of this technology.

NeoReality has already been successfully used for the development of PC and console games. Over the course of 2006, the development engine should also permit use for the Microsoft Xbox 360 and PS3 platforms (so-called “NextGen consoles”). The generation of additional sales from the third party marketing of the development engine is not possible at the moment, as this technology has not yet been sufficiently documented and furthermore has not yet been adapted to all established game platforms. The ability to use and sell such technology for many future game projects (also for funds and order productions) can translate into immense synergy and earnings potential for 10TACLE. Third party marketing has yet to be considered in the earnings forecasts. On the contrary, costs for the further development have. As such, there is additional potential here. However, should the technology not turn out to be competitive, there could be a need for impairments here.

The fact that the Fraunhofer institute holds a share of 10TACLE (2%) through a fund (Munich Venture Partners) also speaks for the

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**Forecasts primarily consists of fees and sales from game projects which have already been financed**

technologically leading position of 10TACLE. This opens up possibilities of a co-operation with the Fraunhofer institute.

### Games

10TACLE is currently working on 11 games in 21 versions (versions indicate the adaptation of a game on different platforms). Moreover, the company is regularly involved in pre-productions for funds and evaluates the market for interesting projects and teams that can be acquired.

As the following table shows, 80% of the currently running projects are games developed for funds. Approximately  $\frac{3}{4}$  of the planning for 2006 and 2007 arise from sales resulting from either the production of fund games or their marketing. As marketing sales (except the coverage of marketing and sales costs) are largely paid to the funds, they are shown in the Group's sales, though they are profit-neutral. The earnings largely result from the service model illustrated above. We particularly deem our 2006 earnings forecast, which only includes a small share of proprietary developments and pre-production sales, well reachable provided that the planned unit sales figures of the fund games are roughly achieved. On the contrary, the 2007 forecast includes considerable sales from fund projects which have not yet been contracted. Moreover, the most important games will be released in 2007. This will therefore be an important year for 10TACLE.

The following table shows the planned releases by 10TACLE:

Releases and current productions of 10TACLE						
Working title/genre platform	P	POC	Release	Budget million €	Generated sales (or forecast)	Produced By studio
NEOCRON I and II PC MMO	O	100%	10/2004	n.a.	n.a.	reakktor
GTR / racing game PC	O	100%	11/2004	1.2	3.0	Simbin, Blimey!
GT Legends / racing game PC	1	100%	10/2005	0.8	3.0	Simbin, Blimey!
Oktoberfest / skilled PC, MOBILE	O	100%	10/2005	0.1	0.2	Dooin (extern)
Michael Schumacher / racing game PC	O	100%	11/2005	0.1	0.3	Inverse Entertainment (ext.)
Black Buccaneer / Action PC, Xbox, PS2	1	95%	10/2007			Widescreen Entertainment (ext.)
GTR II / racing game PC	1	90%	Q2/06			Simbin, Blimey!
JUDO / Sport PC, Xbox, PS2, GC	O	85%	Q3/06			10TACLE Belgium
Codename: Asia / Sport PC Online	1	80%	Q1/07			10TACLE Asia
ELVEON / Fantasy PC, Xbox 360	1	60%	Q2/07	Total budget: ca. € 21 m	Total sales: ca. € 75 m	10TACLE Slovakia
PANZERS II / Strategy PC	3	40%	Q4/07			Stormregion (ext.)
Codename: TOTEMS / Action PC, Xbox 360	2	20%	Q4/07	Individual budgets are not published (competition)	Individual sales are not published (competition)	10TACLE Belgium
Codename: Nintendo DS	O	10%	Q4/07			10TACLE MOBILE
Codename: Race / racing game PC, Xbox 360, PS3	2	20%	Q2/08			Simbin, Blimey!
Codename: Prophecy / SF PC MMO	2	20%	Q2/08			reakktor/10TACLE Asia
Codename: Belpheoros / fantasy PS3	2	20%	Q2/08			10TACLE Slovakia

Key: P = start of production (Own production, On-demand production, funds 1/2/3); POC = Percentage of completion; release = (planned) release date; MMO = "Massive Multiplayer Online game"

Table 2; Source 10TACLE, SES Research



Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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The table clearly shows that of the € 35 m available in fund orders, around € 21 m will flow into the game of the respective funds in the form of budgets. A third of the € 35 m, meaning approximately € 12 m, will go to 10TACLE as a service fee. The rest will serve as a cash reserve.

Our model earmarks sales from production and service fees of nearly € 32 m for the years 2005-2007. However, this includes services for a fund which can still be applied in 2006 (€ 1.8 m from the sale of pre-productions to new funds in 2006 as well as a proportionate service fee in 2007). Production sales from this have not yet been considered.

We are allowing for some € 10 m each in sales from the game production and service fees for the years 2006 and 2007. This corresponds to the budgets and the completion data of the planned games. Sales for the games released (to which at least the funds are entitled) incur as well.

The game Elveon is of central importance for the planning. A major part of the sales planned for 2007 accounts for title, whereas a major part is forwarded to the media fund. However, a sales share of around € 1 m is planned for 10TACLE, as relatively high sales figures are anticipated. Should Elveon only sell half as much, as is assumed in the forecast, the earnings (forecast) would only be lower by this waterfall. This shows a central point of 10TACLE's equity story: if the games also sell only roughly within the framework of the planning, the planning for 2007 is realistic. Should games turn out to be successful in their initial version financed by a fund, 10TACLE could produce the subsequent version (or versions for other platforms) on its own account. This of course would occur with the financing partner in mind.

The media fund can thus claim the majority of sales from "Elveon" for itself, though it must bear 30% of the manufacturing costs of the games. However, the forecasts, which concern sales from fund games, is so conservative that hardly any downstream revenues ("waterfalls") accrue for the company from fund games.

**Strategy**

10TACLE's strategy is supported by several pillars which are detailed in the following. The capital increase from the IPO should flow into the following fields to a somewhat equal extent:

**Resources**

10TACLE produces games with both its own resources and through co-operations with other development studios. The company thus takes over parts of the controlling for the processed titles. 10TACLE thereby fundamentally grants its studios a high degree of independence, which the "creative ones" in this occupational branch demand. The takeover of Reakktor Studios, the founding of 10TACLE Studios in Bratislava and the takeover of BLIMEY! Games have shown that 10TACLE can deepen the value-added chain and become more efficient through sensible capacity expansions. The proceeds from the IPO should be used for the acquisition of additional development resources among other things.

**Elveon particularly important for the planning**

**Creating additional resources**



Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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**Services**

10TACLE plans to continue its co-operation with ATLANTIC (ATLANTIC Gesellschaft zur Vermittlung internationaler Investitionen mbH & Co. KG) and AAA (AAA Capital - Atlantic Investitionsgesellschaft mbH & Co. KG) for the purpose of establishing itself as a leading game fund developer in Europe and Asia. The proceeds from the IPO enable 10TACLE the option of possibly taking over guarantees itself, which makes payments for "completion bonds" redundant.

It is furthermore conceivable that 10TACLE will also carry out game projects in the Asian region in particular with other co-operation partners. In Asia, the fund-based development of computer games sparks a great deal of interest and is even in part subsidised by public agencies (see below).

Order productions represent another interesting branch for services. 10TACLE was able to make a good name for itself (GTR) in the field of racing simulations.

**Brands/proprietary developments**

Proprietary developments represent another promising field of business. The fund projects 10TACLE is currently working on enable the company to produce high-quality and complex titles within a powerful structure. The IPO and the past capital increases enable 10TACLE to conduct the entire development of interesting titles on its own account. This is part of the mid-term planning.

This is particularly interesting against the background of the brands created. Games which saw a sound performance in their initial version (financed by funds) can now be produced and marketed by 10TACLE in their follow-up versions on its own accounts. Follow-up versions can often be marketed with much lower risk. Furthermore, their conception is cheaper in most cases, as the idea had already been established in the initial version. This of course occurs in agreement with the fund partners.

10TACLE basically creates numerous attractive brands, with most belonging to the company. These can possibly be further marketed attractively.

**Technology**

As was already outlined, the further development and possibly the tertiary marketing of the company's own technology represent an essential development potential. Parts of the IPO proceeds should be used to advance the company's technology.

**USA**

The internationalisation efforts of 10TACLE primarily point in two directions. The first is the opening up of the marketing location in the US to improve relationships with local distributors. The US market is very similar to the European one. The establishment of high-volume distribution of the European product range is therefore appropriate. Furthermore, collaboration with a US studio is planned. This is particularly important as American consumers prefer products manufactured by an American studio.

**Follow-up versions: proprietary developments with high earnings potential and comparatively low risk**

**Making the technology marketable**

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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## Conquering markets

### Asia

The Asian presence is planned to be expanded to a fully-fledged development location. 10TACLE AG holds an 80% stake in 10TACLE studios Pte. Ltd, Singapore ("10TACLE Asia"). The company is currently developing a sport title ("Badminton"). In February 2006 the company agreed to a co-financing by the MDA (Media Development Authority) of Singapore, which has close ties to the government. 10TACLE Asia took the chair of Games Exchange Alliance (association-like organisation of 40 companies of the media sector and IT industry in Singapore) in March 2006.

## Asia offers enormous potential

The Group began the development of a MMO engine in Asia in April 2006. Furthermore, 10TACLE Asia acquired all rights to a Korean MMO technology of ATC. The founder and chief developer of this technology will accompany the adaptation of this MMO software for Black Prophecy for 10TACLE Asia in the future. In addition, the software is being expanded to an MMO module of Neo-Reality technology. A team of experts for MMO technology will be established in Asia in the mid-term. In addition to supporting the development of its own games, this team should also enable the third-party licensing of the NeoReality technology, particularly of the MMO component.

Asia is particularly important as a financing option for further projects. The National Research Foundation (NRF), which has been institutionalised in Singapore since January 2006, has provided its own funds amounting to US-\$ 1 bn through 2011 for the media industry in Singapore. 10TACLE could profit from this.

The "Singapore-Games-Fonds" product is also of interest to Germany and Europe. As 10TACLE enjoys the so-called "Pioneer status" in Asia, a temporary and gradual corporate tax exemption (0 to 100% within 2 to 10 years) can be achieved. The status is separately and independently granted for the different fields of business. This would allow German investors to generate tax-free income from Singapore. Taxation would only accrue upon the payout of this income in Germany.

These developments are not considered in the forecasts, with the only exception being the "Badminton Tournament" project.

## Conclusion

## Unique business model

10TACLE is pursuing a unique combination of different business models. The company offers various financing concepts in the complex market of computer games. 10TACLE benefits either as a service provider in the scope of on-demand productions or by way of internally financed game projects. All options are of interest to the company. Risky initial developments may occur in the scope of funds. The company can then produce promising follow-up versions of successful games on its own accounts. This however is carried out under consideration of the financing partner's needs.

It is not only the company's business model that makes 10TACLE stand out. We see specific potential in the positioning as a strong developer of games in general. Furthermore, the business trend in Asia and the expansion of the value-added chain with respect to its own technology offers opportunities.



Chances & Risks	Company Profile	<b>Equity Story</b>	Market Environment	Financials	Valuation	Ratios
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If the marketing of the first major AAA titles (particularly “Elveon”) proves successful, 10TACLE can be counted among the top game developers in Europe.

Chances &amp; Risks

Company Profile

Equity Story

Market Environment

Financials

Valuation

Ratios

## Game market exhibiting strong growth

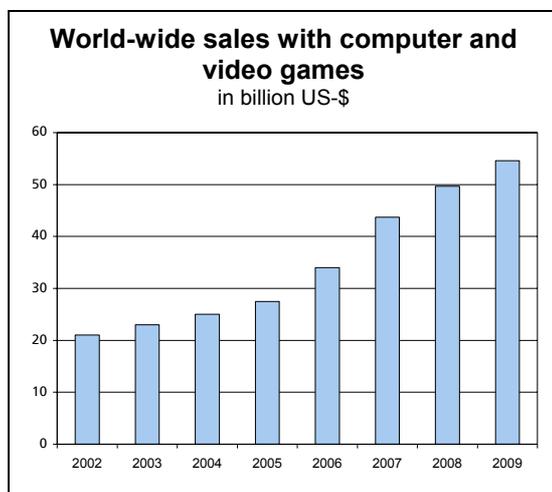


Chart 4; Sources: PWC, Wilkosky Gruen Associates

## Synergies between the different media

## Market environment

The video and PC game market reached a sales volume of US-\$ 25.4 bn in 2004. Average annual growth of 19 % is expected between 2005 and 2009. The three regional markets of Asia, the US and Europe are characterised by a heterogeneous structure regarding the acceptance of different game platforms and have different game requirements. According to PWC, Asia will post an average growth rate of 18% p.a. through 2009 as the largest market and 12.9% p.a. for the US as the second-largest market. Europe (incl. Middle East and Africa) is expected to see growth of 19.1% p.a.

The market of game consoles is characterised by the three major players Sony, Microsoft and Nintendo. With its Xbox 360, Microsoft is the first company to offer the new generation. Sony will follow with the PlayStation 3 and Nintendo with the Wii. In addition to the console, the PC is another important platform. In the field of consoles, independent development is marked by a certain degree of dependence compared to the three major hardware suppliers, as these suppliers must approve the games and furthermore charge license fees. The market of game development has a relatively heterogeneous structure. Besides Sony, Microsoft and Nintendo, there are several small and medium-sized firms acting on the market with numerous partnerships and co-operations. There is fierce competition not only due to the high number of companies but also due to the rapid technological progress.

There is a certain cycle within the sector which is largely determined by the launch of new hardware platforms. The games generally have a short product life cycle during the initial selling phase of six to twelve months (so-called "hit-market"). Due to these short cycles, it is very important to maintain the creative potential. Development often turns out to be tedious and also has high financing requirements due to the more mature technology. The availability of financial resources is therefore an important determinant in competition.

The development of the mobile telephone market and the Internet offers enormous potential. As such, mobile games had a share of 3.34% of the 2004 market volume in Asia, 7.76% in the US and 7.66 in Europe. For 2009 PWC forecasts a share of 13.85% in Asia, 23.95% in the US and 26% in Europe. The number of broadband Internet connections is steadily on the rise. In 2004 online games had a share of 7.89% of the market volume in Asia, 10.82% in the US and 8.44% in Europe. For 2009 PWC forecasts a share of 24.97% in Asia, 30.29% in the US and 29.43% in Europe.

The fact that free time is increasingly characterised by electronic entertainment is another positive issue for the video and PC game market. This yields synergies between film, TV and music, also in connection with the Internet. Contents and structures of the media sector are increasingly growing together. As such, games have already been used as models for films and, to a much greater extent, successful films are the basis for games. This trend is creating an interesting field of additional utilisation of rights.

The problem of pirate copies has not been solved in a sustainable fashion. However, this is only a side issue of the games market. Based on the rapidly growing market, games could increasingly

Chances & Risks	Company Profile	Equity Story	<b>Market Environment</b>	Financials	Valuation	Ratios
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serve as advertising platforms. This may open up new potential for the sector.

### Competition

As a game producer, 10TACLE principally competes with all major producers and marketers of high-quality computer games. While some of the larger game producers develop games themselves, they also sell products by other manufacturers. The following is a sample of a few market participants:

- **Activision:** The Californian company has eleven branches in Asia, Australia, Europe and North America. Activision covers a broad spectrum throughout all genres and develops titles for PCs and consoles.
- **CDV Entertainment:** The headquarters of CDV are based in Karlsruhe, while a subsidiary is located in New Jersey. The company has some 100 employees and focuses on the publishing of PC games.
- **Electronics Arts:** Electronics Arts is the largest producer of entertainment/games software and is headquartered in California. The company has around 6,100 employees and generated nearly 50% of its 2005 sales in North America. In addition to its own developments, the company also distributes games by other developers.
- **Frogster:** In its current form, the company was founded at the beginning of 2005. Frogster is active in the field of PC games and is focussed on Germany in terms of sales and marketing.
- **Infogrames:** Infogrames is the holding of Atari Inc. and Atari Europe. The companies develop and market games for consoles and PCs. The lion's share of sales is generated in the US.
- **JoWood:** JoWood AG is a small developer and publisher of games for different platforms. The company is listed on the Vienna Stock Exchange and has 54 employees.
- **Microsoft:** The company is the world's leading software producer. The "Xbox 360" console is a product of Microsoft. In addition to Microsoft's own games, other companies are also developing games for the Xbox 360.
- **Nintendo:** The company produces the Game Cube as well as Game Boy and develops for these games. Licenses are also granted to other developers.
- **Shanda:** Shanda is among the leading online game suppliers in China. Since 2004 the company has been listed on the Nasdaq. The company has developed its own games since 2003.
- **Sony:** The Japanese company has an important family of consoles with the PlayStation. Sony develops its own games and grants licenses to other firms as well.
- **Take 2:** The company with headquarters in New York develops and sells PC and console games. Take 2 is also present in Australia and Europe with several branches.



Chances & Risks	Company Profile	Equity Story	<b>Market Environment</b>	Financials	Valuation	Ratios
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- The 9: The 9 is located in Shanghai and is mostly a supplier of online games. The first beta version of its own developed MMO game has been in circulation since mid-2005.
- THQ: The company is headquartered in California and specialises in interactive entertainment software. Additional branches are based in Asia and Europe.
- Ubisoft: The French Ubisoft produces and sells games as well as learning programmes. The product portfolio comprises more than 1,000 titles.

**Project sizes and production quality represent market entry barriers**

Provided that 10TACLE positions itself successfully as a producer of high-quality games, the company will compete with the major producers. As high-quality content is of great interest to distributors, we see less competitive pressure than in the mid and low-priced-segment. The market for AAA content features high growth and the creation of high-quality content is becoming increasingly complex in terms of technology. As a consequence, smaller competitors can be pushed out of the market. 10TACLE benefits from both trends.

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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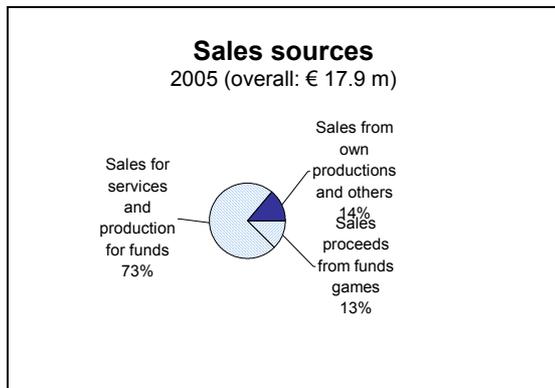


Chart 5; Source: 10TACLE

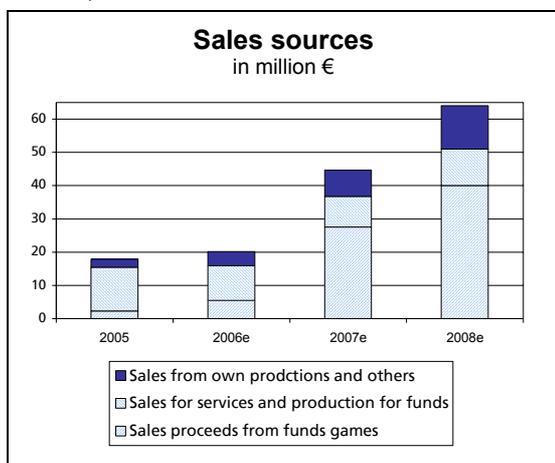


Chart 6; Source: SES Research

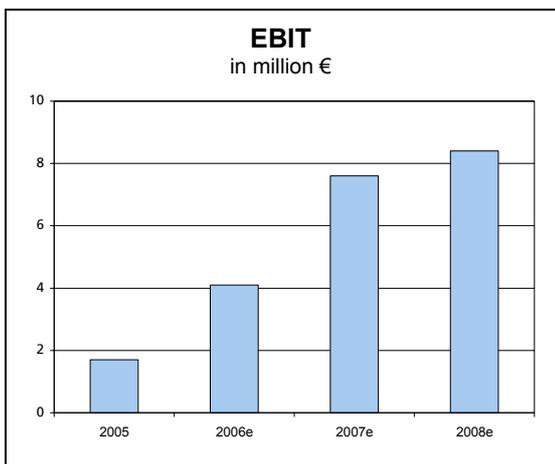


Chart 7; Source: SES Research

## Sales and earnings development

10TACLE generated sales of € 17.9 m in the 2005 fiscal year. Nearly three-quarters thereof stemmed from the production and marketing of games for the first and second media fund. Earnings of the year 2005 (€ 1.7 m) are not representative as the company was still affected by heavy structural changes (set-up of the corporate organisation).

### 2006

#### Sales

One part of the games for the funds will be completed in 2006, which will then generate sales. However, sales from the fund games are “passed through” to the ordering parties. Service fees, production margins and higher capitalised internal developments will have a positive impact on earnings. Capitalised internal developments and the sale of pre-productions (around € 2 m) for one new fund cover roughly one-third of the total performance.

#### Earnings

The largest part of our earnings forecast for 2006 indirectly results from (already concluded) fund contracts (3 funds) and the associated production sales, service fees and sales from fund games (as long as they refer to guarantees and advances by 10TACLE). The capitalisation of internal developments will also play a major role with a good € 3 m in 2006.

10TACLE plans to market a production acquired in H2 2006. We expect marketing sales of approximately € 1.7 – 2 m from the marketing through sales guarantees. However, the project is written off over the entire sales period, which is why earnings in H2 could appear very good at first glance. However, our forecasts only include earnings calculated on the basis of a performance-based depreciation, as we expect this form of depreciation to apply.

### 2007

Somewhat higher sales from internal developments and service fees for one new fund will be seen in 2007 in addition to fund sales that are “passed-through”. Higher capitalised internal developments are considered in terms of earnings in 2007. To a lesser extent, 2007 also includes sales from sales participations of funds games.

### As of 2008

We anticipate a further rise in sales from fund games in 2008 as well as from capitalised own productions. Sales of fund services and productions for funds should reach a similar level as that in 2005-2007. The exact sales structure depends on the funds placed. In 2008 we only anticipate a marginal increase in earnings. However, this can be considered as a conservative assumption, as both the real net output ratio (purchase of capacities) and the marketing of NeoReality (particularly in funds and internal developments) will heavily affect earnings in 2007. The possibilities arising from an IPO (see Equity Story) in particular have hardly been considered. It can be assumed that a strategically appropriate use of the funds will yield higher profits than those included in our forecasts, particularly in the long-term. Should no additional funds be

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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**Up to now forecasts do not explicitly consider the growth possibilities from an IPO**

**Solid balance sheet**

**Additional liquid funds in the scope of the IPO**

issued in the mid-term (contrary to expectations), the IPO proceeds will enable 10TACLE to utilise a major part of capacities with internal developments.

### Balance sheet situation

As of 31 Dec. 2005 the company had liquid funds of € 7.1 m and receivables of € 12.3 m (mostly in relation to funds productions). Furthermore, the company displayed intangible assets of € 7.7 m, mostly comprising internal developments in the run-up to game productions and its own technologies (NeoReality). The items comprise most of the company's assets.

The company's equity amounted to € 11 m. Provisions (€ 6.9 m) and liabilities (€ 10.2 m) made up most of the remaining liability items. The lion's share of these liabilities results from service obligations against funds. Liabilities to banks comprised only € 2.6 m, of which a major part was already paid back in the first months of 2006.

In conclusion, the balance sheet was already seen as solid before the IPO. The company received liquid funds of some € 9.2 m through the IPO.

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	<b>Valuation</b>	Ratios
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### Valuation ratios

Price: € 11.00	12/05	12/06e	12/07e	12/08e
PER	52.5	28.0	11.2	10.2
Price/Sales	3.1	2.8	1.2	0.9
EV/Sales	2.6	2.3	1.0	0.7
EV/EBITDA	16.8	8.5	4.6	3.6
EV/EBIT	27.3	11.1	6.1	5.5
Yield	0.0%	0.0%	0.0%	0.0%

Table 3; Source: SES Research (estimates)

A market capitalisation of ca. € 55 m results on the basis of 5.05 m shares. 10TACLE is considerably cheaper valued than comparable companies with a PER of less than 12 for the current year. In regard to the favourable EV/Sales valuation however, the facts show that 10TACLE accounts for sales from fund games, which third parties are entitled to, in its balance sheet. The (relative) sales valuation therefore cannot be interpreted as an indication of a favourable valuation contrary to the earnings multiples.

The valuation of 10TACLE is first based on a DCF model. The company is then valued compared to a group of roughly similar listed companies.

### DCF model

Our forecasts explained in the Financials section form the basis of our DCF model. We are using a very high beta of 1.75 for 10TACLE, as particularly earnings in the distant future will be heavily influenced by less predictable game sales. In general, the DCF value is lower than is indicated by the earnings momentum due to the significant amount of capitalised internal developments. Start-up costs tie up a large amount of capital, particularly in the growth phase of 10TACLE. Although all projects are pre-financed, thus lowering their underlying risk, payments are only made according to the progress of the projects.

### DCF Model

	2006e	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Sales	20.1	44.7	64.0	72.6	82.4	92.2	103.3	115.7	124.4	133.7	143.7	150.9	158.5	166.4
Change	12.5%	121.8%	43.4%	13.4%	13.4%	12.0%	12.0%	12.0%	7.5%	7.5%	7.5%	5.0%	5.0%	5.0%
EBIT	4.1	7.6	8.4	8.8	10.0	12.9	14.5	16.2	17.4	18.7	20.1	21.1	22.2	23.3
EBIT-Margin	20.6%	17.0%	13.1%	12.1%	12.1%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Tax rate	42.4%	30.1%	29.0%	26.8%	26.6%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Depreciation	1.2	2.4	4.5	5.1	5.8	7.4	8.3	9.3	10.0	10.7	11.5	12.1	12.7	13.3
in % of Sales	6.1%	5.3%	7.0%	7.0%	7.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Change in Liquidity from														
- Working Capital	-1.0	-2.1	-0.3	0.2	-0.4	-0.4	-0.6	-0.6	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
- Investments	-4.0	-6.7	-9.6	-10.9	-12.4	-7.4	-8.3	-9.3	-10.0	-10.7	-11.5	-12.1	-12.7	-13.3
Investitionsquote	20.0%	15.0%	15.0%	15.0%	15.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Other	-0.5	-3.6	-2.4	-2.5	-1.5	-1.1	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Free Cash Flow (WACC-Model)	-1.9	-4.7	-1.9	-1.6	-1.2	8.2	8.9	10.2	11.2	12.2	13.2	14.1	14.8	15.7

Valuation (mln)	Model parameter	Sensitivity Value per Share (€)	Terminal Growth
Present values 2019e	Debt ratio 10.00%	WACC 2.25% 2.50% 2.75%	3.00% 3.25% 3.50% 3.75%
Terminal Value	Costs of Debt 6.8%	13.29%	13.22 13.34 13.46 13.60 13.74 13.88 14.04
Liabilities	Market return 9.00%	12.79%	14.05 14.20 14.34 14.50 14.66 14.83 15.02
Liquidity	Risk free rate 3.45%	12.54%	14.51 14.66 14.82 14.99 15.17 15.35 15.55
<b>Equity Value</b>		12.29%	14.99 15.15 15.33 <b>15.51</b> 15.70 15.91 16.12
	Beta 1.75	12.04%	15.49 15.67 15.86 16.06 16.27 16.49 16.73
Number of shares (mln)	WACC 12.29%	11.79%	16.03 16.22 16.43 16.64 16.87 17.12 17.38
<b>Value per share (€)</b>	Terminal Growth 3.00%	11.29%	17.20 17.43 17.67 17.93 18.21 18.50 18.81

Table 4; Source: SES Research

### Conservative long-term assumptions

What is striking about our forecast is the fact that we only assume very moderate growth rates for the years 2009 and beyond. This assumption should take account of the fact that the games market is undergoing a fundamental change.

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	<b>Valuation</b>	Ratios
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The forecast long-term debt ratio of 10% is another important assumption of our DCF model.

Even on the basis of these conservative assumptions and a very high discount factor, a DCF value of € 15.50 per share results. As a result of the parameters used, it is also not surprising that the DCF model yields a value far below the level indicated by the peer group valuation.

### Peer group

Should the planned major titles of 10TACLE prove successful in 2007, valuation in line with the peer group would be realistic. 10TACLE is compared with the listed companies of the sector in the following peer group comparison. It shows that these companies differ considerably in terms of size and profitability:

Basis data peer group analysis							
Company in million €	Share Price (local currency)	EPS (in local currency)			Sales (in million, local currency)		
		05	06e	07e	05	06e	07e
Activision	11,35	0,10	0,14	0,49	1.412,36	1.059,66	1.616,68
EA Electronics Arts	41,02	0,92	0,52	1,36	2.890,20	2.877,75	4.228,02
Frogster	10,35	0,45	0,70	0,92	4,24	8,30	11,70
Infogrames	0,55	-0,09	-0,06	-0,06	430,09	460,85	456,14
Shanda	13,15	1,45	0,36	0,69	245,12	183,07	244,60
Take 2	13,05	0,54	0,00	0,77	1.188,71	1.192,43	1.392,89
The 9	22,15	0,25	1,36	1,95	55,67	127,74	184,49
THQ	21,64	0,55	0,93	1,15	804,24	927,99	1.028,71
Ubisoft	38,20	1,03	1,12	1,57	544,88	587,97	666,32
10tacle	11,00	0,21	0,39	0,98	17,90	20,13	44,65
	EV (in million, local currency)	EBIT (in million, local currency)			Market- cap.	Debt	Liquid funds
		05	06e	07e			
Activision	2.193,79	7,69	32,95	191,88	3.138,8	0,0	945,0
EA Electronics Arts	10.041,67	288,63	461,93	745,00	12.461,7	12,0	2.432,0
Frogster	9,72	0,40	0,80	1,50	10,1	0,2	0,6
Infogrames	405,65	-26,19	-6,33	6,72	104,3	337,6	36,3
Shanda	777,78	94,85	9,79	29,09	937,6	284,9	444,7
Take 2	790,50	42,14	-12,91	80,78	933,4	0,0	142,9
The 9	528,48	8,18	27,88	45,79	535,7	0,0	7,2
THQ	1.071,24	38,48	81,73	104,77	1.381,2	61,7	371,6
Ubisoft	812,40	3,59	22,21	47,63	728,2	286,0	201,7
10tacle	45,93	1,68	4,14	7,57	55,5	6,5	16,1

Table 5; Source: SES Research, Bloomberg

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	<b>Valuation</b>	Ratios
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The basis data displayed yield the following multiples:

Peer-Group 10TACLE						
Company	Price/Sales			PER		
	05	06e	07e	05	06e	07e
Activision	2,22	2,96	1,94	114,65	84,07	23,40
EA Electronics Arts	4,31	4,33	2,95	44,39	79,04	30,27
Frogster	2,38	1,22	0,86	23,00	14,79	11,25
Infogrames	0,24	0,23	0,23	neg.	neg.	neg.
Shanda	3,83	5,12	3,83	9,08	36,23	19,06
Take 2	0,79	0,78	0,67	24,08	neg.	16,93
The 9	5,63	7,54	5,65	88,60	16,30	11,34
THQ	0,61	0,61	0,52	39,20	23,27	18,82
Ubisoft	0,61	0,61	0,52	36,98	33,99	24,39
<b>Average</b>	<b>2,29</b>	<b>2,60</b>	<b>1,91</b>	<b>47,50</b>	<b>41,10</b>	<b>19,43</b>
<b>Average (excl. Extreme values)</b>	<b>2,11</b>	<b>2,23</b>	<b>1,61</b>	<b>47,05</b>	<b>37,76</b>	<b>18,99</b>
<b>10TACLE</b>	<b>3,10</b>	<b>2,76</b>	<b>1,24</b>	<b>52,53</b>	<b>27,97</b>	<b>11,22</b>

Enterprise Value analysis							
Company	EV (€m, local currency)	EV / Sales			EV / EBIT		
		05	06e	07e	05	06e	07e
Activision	2193,79	1,55	2,07	1,36	285,39	66,58	11,43
EA Electronics Arts	10041,67	3,47	3,49	2,38	34,79	21,74	13,48
Frogster	9,72	2,30	1,17	0,83	24,30	12,15	6,48
Infogrames	405,65	0,94	0,88	0,89	neg.	neg.	60,36
Shanda	777,78	3,17	4,25	3,18	8,20	79,41	26,74
Take 2	790,50	0,67	0,66	0,57	18,76	neg.	9,79
The 9	528,48	2,16	2,89	2,16	64,58	18,96	11,54
THQ	1071,24	4,37	5,85	4,38	27,84	13,11	10,22
Ubisoft	812,40	0,68	0,68	0,58	226,42	36,58	17,06
<b>Average</b>		<b>2,15</b>	<b>2,44</b>	<b>1,81</b>	<b>86,29</b>	<b>35,50</b>	<b>18,57</b>
<b>Average (excl. Extreme values)</b>		<b>2,04</b>	<b>2,20</b>	<b>1,62</b>	<b>66,12</b>	<b>31,39</b>	<b>14,32</b>
<b>10TACLE</b>	<b>45,93</b>	<b>2,57</b>	<b>2,28</b>	<b>1,03</b>	<b>27,28</b>	<b>11,09</b>	<b>6,07</b>

Table 6; Source: SES Research, Bloomberg

### Undervalued compared to the peer group

The multiples indicate that 10TACLE's valuation is moderate compared to the peer group (reference: EV/EBIT). A massive undervaluation is derived on the basis of 2007 earnings multiples.

However, the stock already has significant potential compared to the average of the peer group on the basis of the 2006 fiscal year, which is marked by our conservative assumptions.

### Conclusion

The following table provides an overview of the valuation of 10TACLE on the basis of the different valuation models:



Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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### Valuation range of the different approaches:

#### DCF-Model

Per share (€): 15.5

#### Multiplier valuation

in €m, per share data in €

EV/EBIT:	EBIT	x EV/EBIT	= EV	+ Net liquidity	= Value	per share
2005	1.7	69.4	116.8	9.6	126.4	25.0
2006	4.1	34.5	142.8	9.6	152.4	30.2
2007	7.6	15.8	119.9	9.6	129.5	25.6

Table 7; Source: SES Research

We see the company's enterprise value at € 78.3 m (DCF model). This yields a fair value of € 15.50 per share on the basis of 5.05 m shares. However, here we would like to point out that this valuation is also a result of the high discount factor applied. The low valuation according to multiples therefore yields upside potential even beyond this value.

Chances & Risks	Company Profile	Equity Story	Market Environment	Financials	Valuation	Ratios
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### Key Figures 10TACLE Studios

P&L (€m)	2005	2006e	2007e	2008e	Price Data	
Sales	17.9	20.1	44.7	64.0	Price (€)	11.00
Total operating performance	19.0	23.4	51.4	71.1	Marketcap. (€m)	56
Purchases	7.2	2.6	2.7	4.5	Enterprise Value (€m)	46
Gross Profit	11.8	20.8	48.7	66.7		
Personnel costs	2.4	5.2	6.3	8.3	<b>Share Key Data</b>	
Other operating expenses	17.3	19.2	43.8	62.8	Earnings per share (€)	0.21 0.39 0.98 1.08
EBITDA	2.7	5.4	9.9	12.9	Sales per share (€)	3.54 3.99 8.84 12.68
Depreciation	1.1	1.2	2.4	4.5	Free-Cash-Flow per share (€)	0.04 0.17 -0.83 -0.23
- thereof amortisation of goodwill	0.0	0.0	0.0	0.0	Dividend per share (€)	0.00 0.00 0.00 0.00
EBIT	1.7	4.1	7.6	8.4	<b>Valuation Key Data</b>	
Financial result	-0.4	0.1	0.6	0.6	P/E	52.53 27.97 11.22 10.19
Extraordinary result	0.0	0.0	0.0	0.0	P/SALES	3.10 2.76 1.24 0.87
EBT	1.3	4.2	8.2	9.0	EV/SALES	2.57 2.28 1.03 0.72
Taxes	0.0	1.8	2.5	2.6	EV/EBITDA	16.82 8.54 4.63 3.57
Net result before minorities	1.3	2.4	5.7	6.4	EV/EBIT	27.28 11.09 6.07 5.47
Net profit	1.1	2.0	5.0	5.5	P/Bookvalue	5.25 1.73 1.53 1.36
Profit distribution	0.0	0.0	0.0	0.0	Dividend yield	0.0% 0.0% 0.0% 0.0%
<b>Cash-Flow</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>	<b>No. of shares (million)</b>	<b>2005 2006e 2007e 2008e</b>
Operativer Cash-Flow	2.1	3.2	7.3	9.9	Ordinary shares out	5.05 5.05 5.05 5.05
Free-Cash-Flow	0.2	0.9	-4.2	-1.2		
Investitionen	4.9	4.0	6.7	9.6		
<b>Balance sheet (€m)</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>	<b>Profitability</b>	<b>2005 2006e 2007e 2008e</b>
Fixed assets	0.6	0.8	1.1	1.4	EBITDA / Sales	15.3% 26.7% 22.2% 20.1%
Intangible assets	7.7	10.2	14.3	19.1	EBIT / Sales	9.4% 20.6% 17.0% 13.1%
Net working capital	2.9	1.6	3.7	4.0	EBT / Sales	7.3% 21.0% 18.3% 14.0%
Current assets	19.8	38.9	36.1	34.3	Net profit / Sales	5.9% 9.9% 11.1% 8.5%
Liquid funds	7.5	31.4	28.8	27.2	EC yield	10.0% 6.2% 13.6% 13.4%
Equity capital	10.6	32.1	36.3	40.9	SC yield	8.0% 6.0% 11.9% 11.2%
Provisions	6.9	6.9	4.0	2.5	ROCE	15.1% 32.8% 39.8% 34.2%
Financial Liabilities	2.6	2.6	2.6	2.6		
Net liquidity	5.0	28.8	26.2	24.6	<b>Company profile</b>	
Balance total	15.4	36.2	43.0	50.5	The Group is a development and production company for computer and video games. On-demand productions for media funds are currently the most important sales sources. 10TACLE Studios GmbH was founded in Darmstadt in August 2003 by Michele Pes, Kay Krämer and Manfred Volz. The company was converted into a joint stock company on 14 May 2004. 10T participates in several development studios and special purpose entities that administer games productions for third parties.	
Reporting standard	IFRS	IFRS	IFRS	IFRS		
Fiscal year end	31.12.2005	31.12.2006	31.12.2007	31.12.2008		
<b>Growth rates</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>	<b>Management</b>	
Sales	113.4%	12.5%	121.8%	43.4%	Michele Pes (CEO)	
EBITDA	308.1%	96.9%	84.6%	29.7%		
EBIT	362.1%	146.0%	82.8%	10.8%		
EBT	n.m.	223.2%	93.5%	9.5%		
Net profit	n.m.	87.8%	149.3%	10.2%		
Dividend	n.a.	n.a.	n.a.	n.a.		
<b>Cost intensities</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>	<b>Shareholders</b>	
Purchases / Sales	40.3%	12.8%	6.0%	7.0%	Patrio Plus AG	39%
Personnel costs / Sales	13.2%	25.9%	14.1%	13.0%	Bertram Rickmers	21%
					Management	7%
					ETB GmbH	5%
					Other	28%
<b>Segments</b>	<b>2005</b>	<b>2006e</b>	<b>2007e</b>	<b>2008e</b>		
Sales proceeds from fund games	2,3	5,5	27,5	40,0		
Services and productions for funds	13,1	10,4	9,2	11,1		
Own productions and others	2,5	4,2	7,9	12,9		

Table 8; Sources: Companies (reported data), SES Research (forecasts and ratios)

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