



2006 ANNUAL REPORT



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KEY FIGURES AND OVERVIEW 2005/2006 (GROUP PRESENTATION IN ACCORDANCE WITH IFRSs)

KEY PERFORMANCE INDICATORS		2006	2005	CHANGE
REVENUE	€ THOUSAND	29,285	17,895	11,390
EBITDA	€ THOUSAND	7,201	2,730	4,471
EBITDA MARGIN	IN %	24.59	15.25	9.33
EBIT	€ THOUSAND	4,708	1,684	3,024
EBIT MARGIN	IN %	16.08	9.41	6.67
CONSOLIDATED PROFIT	€ THOUSAND	3,179	1,290	1,889
→ THEREOF MINORITY INTEREST	€ THOUSAND	287	233	54
NUMBER OF SHARES*	UNITS	5,049,851	259,358	4,790,493
EARNINGS PER SHARE (AFTER MINORITY INTEREST)**	€	0.63	0.40	0.23

* Number of shares after capital increase on December 18, 2006 (registered on January 31, 2007) : 5,477,021

** EPS in accordance with IFRSs – diluted EPS corresponds to basic EPS

KEY BALANCE SHEET FIGURES		2006	2005	CHANGE
INVESTMENTS	€ THOUSAND	10,699	6,157	4,542
DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	€ THOUSAND	4,292	1,047	1,445
TOTAL ASSETS	€ THOUSAND	61,139	29,533	31,606
EQUITY	€ THOUSAND	30,984	10,583	20,401
→ THEREOF MINORITY INTEREST	€ THOUSAND	533	242	291
EQUITY RATIO	IN %	50.68	35.83	14.85
RETURN ON EQUITY	IN %	15.30	19.13	-3.83
CASH AND CASH EQUIVALENTS AT END OF PERIOD	€ THOUSAND	12,341	7,521	4,820
CASH FLOWS FROM OPERATING ACTIVITIES	€ THOUSAND	-2,145	1,239	-3,384
DVFA / SG CASH FLOW	€ THOUSAND	5,716	2,337	3,379

KEY FIGURES

OTHER KEY FIGURES AND DATA	2006	2005	CHANGE
EMPLOYEES	294	168	126
→ OF WHICH HOURLY PAID WORKERS	171	89	82
YEAR OF FORMATION			2003
BASIS OF CONSOLIDATED ACCOUNTING			IFRSs
FISCAL YEAR			JANUARY 1 – DECEMBER 31

MANAGING BOARD

Michele Pes · CEO

SENIOR MANAGEMENT

Frank Holz · Head of Marketing and Sales
 Jürgen Reusswig · Head of Development
 Kay Krämer · Head of Internationalization
 Silvia Seibert · Head of Finance

SUPERVISORY BOARD

Dr. Markus Braun · Businessman
 Dr. Bastian Schmidt-Vollmer · Lawyer
 Paul Bauer-Schlichtegroll · Businessman

COMPANY PROFILE

Since its formation in 2003, 10TACLE STUDIOS AG has extremely rapidly become a leading independent international development and production company for high-quality computer and video games. The Company combines a trend- and market-oriented strategy with a corporate culture characterized by innovation, professionalism and reliability. This ideal combination of skills is the key factor in 10TACLE STUDIOS AG's international success. In an extremely short time, we have also used innovative fund models, our successful IPO and the interests acquired by prominent investors to strengthen the Company's position in a games market that is booming worldwide.

This success is based on the Company's clear positioning, the extensive expertise of the development and management teams, the outstanding and efficiently networked technology base of the individual studios and the systematic application of management, development and quality standards in all business areas. With six development studios in Europe and Asia, 10TACLE STUDIOS AG develops high-quality games for all relevant and high-growth segments of the games market. As of December 31, 2006, around 290 people worked for the Company at its locations in Darmstadt, Duisburg, Hanover, London, Charleroi, Bratislava and Singapore. Each development studio has a clear technological focus, allowing games to be produced that stand out in their particular genre. The studios support each other via networked structures, generating synergies and guaranteeing optimum utilization of all technical and creative resources.

10TACLE STUDIOS AG creates its own product brands and is pursuing a long-term international brand development strategy. It is one of the few development companies to have its own marketing team that prepares potential markets at an early stage for new releases and coordinates international brand building. This significantly enhances the visibility and value of the developments even before they are launched on the market. 10TACLE STUDIOS AG only allows leading games publishers and distributors to market its games internationally.

10TACLE STUDIOS AG is listed in the General Standard (Regulated Market) of the Frankfurt Stock Exchange (WKN: TACL10, ISIN: DE000TACL107).

COMPANY PROFILE · TABLE OF CONTENTS

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DISCLAIMER

This Annual Report is for informational purposes only and does not represent any offer to sell or any invitation to submit an offer to buy or to subscribe for shares of 10TACLE STUDIOS AG.

This Annual Report contains expressly or implicitly forward-looking statements concerning 10TACLE STUDIOS AG and its business activity. These statements incorporate certain known and unknown risks, uncertainties and other factors that may cause actual results, financial conditions, performance and achievements of 10TACLE STUDIOS AG to differ materially from those future results, performance and achievements of 10TACLE STUDIOS AG expressed or implied in these statements. 10TACLE STUDIOS AG is making these disclosures as of the date of publication of this Annual Report and does not assume any obligation to update any forward-looking statements contained therein as a result of new information, future events, or otherwise.

A public offer of 10TACLE STUDIOS AG's shares will be made only in and on the basis of the offering prospectus together with its supplements published and submitted to the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – Federal Financial Supervisory Authority). An investment decision regarding the publicly offered shares of 10TACLE STUDIOS AG should be made solely on the basis of the offering prospectus together with its supplements. The offering prospectus and the supplements approved by BaFin may be obtained free of charge from the Board of Admissions of the Frankfurt Stock Exchange, 10TACLE STUDIOS AG, Lang & Schwarz Wertpapierhandel AG, and on the Internet at www.10tacle.com.

Dear Shareholders,

2006 was an extremely successful and important year for our Company. 10TACLE STUDIOS AG continued its growth path, extending its position as one of the leading international development and production companies for high-quality computer and video games. This has brought the Company success: we exceeded all expectations and analyst forecasts with a revenue increase of over 62% to around €29 million and EBIT growth of 182.59%. We clearly exceeded the targets we set within our international Group, development, technology and portfolio structure.

Our IPO in June 2006 laid the foundations for the Company's further growth and internationalization. The attractiveness of our business model to the capital markets is reflected both in the positive performance of our share price – which increased by around 15% from June to December 2006 – and in the interests acquired by prominent investors in 10TACLE STUDIOS AG.

In addition to expanding its presence in the European market, 10TACLE STUDIOS AG dramatically strengthened its position in the Asian market and, together with attractive partners, is in the process of taking a leading role in this region's booming markets. However, we have also continued to strategically invest in our other locations and now have a presence in the fast-growing mobile games market with our new subsidiary 10T MOBILE GmbH. As a result of this and our extremely healthy product pipeline, our Company has laid the foundations for continuing its current success and growth in the coming years. We believe that we are only at the beginning of what is possible.

With kind regards,

A handwritten signature in black ink, appearing to read "Michele Pes".

Michele Pes
CEO

THE MANAGING BOARD

MICHELE PES (b. 1969)

The CEO founded 10TACLE STUDIOS GmbH together with Kay Krämer and Manfred Volz in August 2003.



MANAGEMENT

FRANK HOLZ (b. 1968)

The business engineering graduate has been head of sales and marketing at 10TACLE STUDIOS AG since July 2004. Previously, Holz was head of marketing in Germany at the prominent international games publisher ATARI for over 6 years.



JÜRGEN REUSSWIG (b. 1967)

The electrical engineering graduate with many years of industry expertise has been head of development at 10TACLE STUDIOS AG since July 2004, and managing director of 10tacle studios Slovakia s.r.o., Bratislava since August 2004.



KAY KRÄMER (b. 1959)

The business administration graduate founded 10TACLE STUDIOS AG together with Michele Pes and Manfred Volz in August 2003. He is head of internationalization and managing director of 10tacle studios Pte Ltd., Singapore.



SILVIA SEIBERT (b.1975)

The management consultant has worked for the Company since it was formed and became head of the finance and accounting department in November 2006.



MILESTONES IN 2006

Studios and markets

10TACLE STUDIOS AG continued to expand its studio capacity in fiscal year 2006. The formation of 10TACLE MOBILE GmbH (Duisburg) is enabling 10TACLE STUDIOS AG to tap into the fast growing market for mobile entertainment media, and provides an excellent basis for successfully implementing 10T brands on portable video game systems. The Company took another key step in expanding its presence in the Asian markets. In one of the industry's most important markets, 10TACLE STUDIOS AG gained a strategically valuable partner in the form of 9you, one of China's largest online entertainment providers. This will give the Company access to the fast growing Chinese games market. The cooperation comprises the sale and marketing of 10TACLE STUDIOS AG's products in China, the joint development of new multi-player games and the porting of existing concepts to the European market.

Funds and capital markets

As the exclusive development and marketing partner of the "Asia Games Development Private Equity Fund", 10TACLE STUDIOS AG has also created further opportunities to expand its international development resources. The fund, managed in Singapore, was launched by Sinotime Asset Management Ltd. (Hong Kong) in Q3 2006 and will invest systematically in the development of new computer and video games, primarily in Asia. The placement volume will be up to USD 50 million.

At 10TACLE STUDIOS AG, 2006 was of course also dominated by the capital markets, due to the Company's IPO. Since June 22, 2006, the Company has been listed in the Regulated Market (General Standard) of the Frankfurt Stock Exchange under TACL10. In addition, two prominent investors in the form of Avenue Capital Group and DAH Beteiligungs GmbH acquired interests in 10TACLE STUDIOS AG. However, the international game development group is also gaining attention outside the capital markets: due to its successful growth, 10TACLE STUDIOS AG was voted the number 1 German Rising Star in the Technology Fast 50 Awards.

Games

The Company also substantially expanded its product portfolio in 2006, acquiring the rights to the “War Front: Turning Point” (PC CDROM), “Panzer Tactics” (Nintendo DS™) and “Jack Keane” (PC CDROM) games in August.

In addition, 10TACLE STUDIOS AG entered into a licensing agreement with Ferrari to use Ferrari vehicles in games productions, and thus laid the foundations for further expanding its racing portfolio. This agreement enables the Company to produce games using the Ferrari product range and the legendary Ferrari brand. The design and implementation will be handled by 10TACLE STUDIOS AG’s subsidiary Blimey! Games Ltd. in London. The new game is planned for use on several hardware platforms and is expected to be launched worldwide in the fourth quarter of 2008. The development costs will be obtained via equity finance provided by the initiator AAA Capital Holding GmbH & Co. KG, based in Grünwald. AAA Capital Holding GmbH & Co. KG has already been involved in the design and placement of two game funds, with 10TACLE STUDIOS AG acting as the exclusive development partner. 10TACLE STUDIOS AG has thus not only secured the customer’s service fees, but also ensured the capacity utilization of its team of specialists for the next 24 months.

The Company also added a well-known iconic game to its portfolio by acquiring the license for the “Boulder Dash” dexterity puzzle game. “Boulder Dash” – which involves an underground search for diamonds – has been one of the most popular games since the early 1980s and thus since the beginning of the computer gaming industry. 10TACLE MOBILE GmbH has been entrusted with the development, and is producing the highly promising “Boulder Dash Rocks” for the handheld platforms Nintendo DS™ and Sony PSP™.



10TACLE STUDIOS AG again underlined its leading international position in racing simulations by successfully launching “GTR 2 – FIA GT Racing Game”, the follow-up to the globally award-winning “GTR – FIA GT Racing Game”.

“GTR 2 – FIA GT Racing Game” offers more realism than ever – with more than 140 cars from two FIA GT championship years that are reproduced with unbelievably true-to-original details. The game has received several awards from the international specialist press and was named the best PC sports/racing game of 2006 by many editorial teams.

BUSINESS MODEL

In 2006, the successful business model adopted by 10TACLE STUDIOS AG, with its positioning as an independent international development and production company for high-quality computer and video games, continued to be based on the three pillars presented below. These also represent its segments of activity as defined in IAS 14.31:

Publishing segment:

The Company commissions external development studios to produce computer and video games, handles project control and project management, and sells the finished products to distributors who are responsible for end customer sales. In fiscal year 2006, 10TACLE STUDIOS AG acquired all rights to the “War Front”, “Panzer Tactics” and “Jack Keane” games from Games Development and Distributions GmbH (GDD) in Munich. In addition, 10TACLE STUDIOS AG is planning to make further investments in this segment and expects high margins as a result.

Studio segment:

As of December 31, 2006, 10TACLE STUDIOS AG held significant interests in six development studios. These studios create computer and video games whose brands develop a market value over and above the individual game. Furthermore, they develop utilities and solutions that will be used in a large number of future developments. The studio model encompasses all internal developments that 10TACLE STUDIOS AG implements for its own account and on its own responsibility. Subsequent revenues from the sale of the games as well as cost savings due to the subsequent use of the utilities and solutions have a positive impact on earnings in this segment. These utilities and solutions can also be marketed independently and lead to additional revenue from licenses granted to third party development studios.

Service Provider segment:

10TACLE STUDIOS AG offers third parties services relating to the acquisition of computer and video games, project control and project management for the development of these games, and their subsequent sale. In particular, 10TACLE STUDIOS AG provided these services for three media funds as of December 31, 2006. In addition, 10TACLE STUDIOS AG had been commissioned by two private placements.

STUDIOS



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A DIVISION OF 10TACLE STUDIOS AG

10tacle studios Slovakia s.r.o.

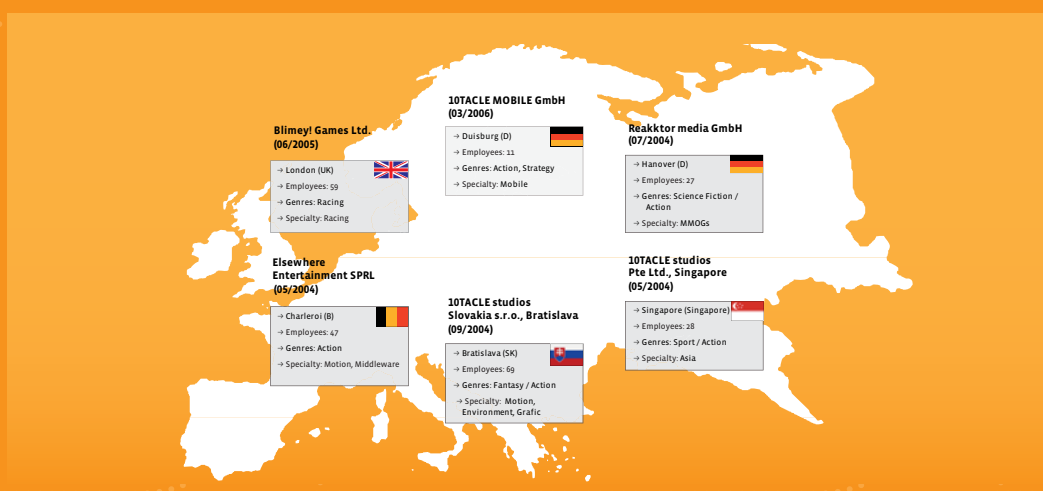
Domicile: Bratislava, Slovakia

The 10T competence center for next-generation productions is headed by Jürgen Reusswig and Slavo Hazucha. Jürgen Reusswig boasts over 12 years of industry experience including the development of Germany's most successful PC game series to date. Slavo Hazucha also has many years of experience as a creative leader in the games industry and played an important role in setting up the development studio. Work is currently proceeding at full steam on the implementation of the new fantasy-action title "Elveon", a high-quality production, particularly with respect to graphics and technology. Its unique design and atmospheric scenery are intended to create a striking impression. The elvish action epic is therefore already seen as a promising title and the next milestone in its genre.

Reakktor media GmbH

Domicile: Hanover, Germany

Reakktor media GmbH, domiciled in Hanover, Germany, is active at an international level in the development of massive multiplayer games. This subsidiary of 10TACLE STUDIOS AG is positioned within the group as the competence center for online games. The team, headed up by managing director Holger Nathrath, also offers international services for massive multiplayer games. These include support, server hosting and payment solutions. Reakktor media GmbH already has 15 years of experience in developing computer and video games that meet high international quality standards.



**Blimey! Games Ltd.**

Domicile: London, UK

The decentralized international development company Blimey! Games Ltd. has its headquarters in London. The team, led by Ian Bell, specializes in the development of strikingly realistic racing games and boasts a track record studded with such international prize winners as the racing simulations "GTR – FIA GT Racing Game", "GT Legends" and "GTR 2 – FIA GT Racing Game". In addition to the core team, which coordinates development from the British capital, staff scattered across Europe and the globe work from their home locations. This particularly location-independent structure allows Blimey! a high degree of flexibility and access to the best specialists in the area of racing games. Blimey! Games Ltd. will again revolutionize the market with its new next-generation productions.

**Elsewhere Entertainment SPRL**

Domicile: Charleroi, Belgium

Located in Charleroi, Elsewhere Entertainment SPRL works on leading-edge technology and titles offering revolutionary game design. Yves Grolet's team is therefore currently focused on the implementation of spectacular interaction features of game characters at the most advanced level of technological development. Elsewhere Entertainment SPRL is also working on a versatile cross-platform middleware solution that supports both current and future generations of consoles. Yves Grolet and numerous members of his team have already made a name for themselves through their collaboration on the "Outcast" PC game, which made history in 1999 with its innovative technical implementation and exciting, original game design.



10tacle studios Pte Ltd.

Domicile: Singapore

10tacle studios Pte Ltd., domiciled in Singapore, is 10TACLE STUDIOS AG's bridgehead in Asia. Focusing particularly on the local market, the company serves all areas of game development and marketing on-site. The 10tacle studios Pte Ltd. development team specializes particularly in the production of online games and also on adapting Western titles to the special characteristics of the Asian market, such as online distribution or value-added services for gamers. Its partner network covers all important markets such as Southeast Asia, Korea and China.

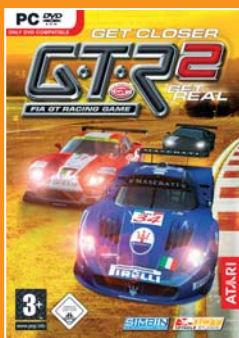


10TACLE MOBILE GmbH

Domicile: Duisburg, Germany

10TACLE MOBILE GmbH, domiciled in Duisburg, was founded in 2006 and covers the fast-growing market for mobile entertainment media with its products. The development studio ports games developed by 10TACLE STUDIOS AG to mobile video game systems such as Sony PlayStation Portable™ and Nintendo DS™, develops its own concepts and brands and works on co-publishing titles such as "Boulder Dash Rocks!". 10TACLE MOBILE GmbH is led by Alexandra Gerb.

GTR 2 – FIA Racing Game



Platform: PC DVD ROM

In 2006, “GTR 2 – FIA GT Racing Game” again set the bar for the racing game genre and was awarded several prizes by the specialist press as sports game of the year.

“GTR 2” is the official simulation of the FIA GT racing series. Over 140 race cars reproduced down to the tiniest detail and a choice of 34 different course designs and breathtaking graphics guarantee a run for the championship that’s never the same game twice.



With its enhanced driving physics, stunning graphics and a great deal of beginner-friendliness (thanks to the intuitive driving school) “GTR 2” offers the perfect introduction to the wide world of motor sports.

Media reviews:

GAMESTAR 10/2006:

“The driving feeling is so amazing that only a race with a real 600 hp Ferrari could really top this.”

PC GAMES 10/2006:

“The elaborate rain effects and roaring engines bring tears of joy to the eyes.”

War Front: Turning Point



Platform: PC DVD ROM

“War Front: Turning Point” is an action-packed real-time strategy spectacle that mixes elements of science fiction with the history of WWII.

During the Second World War, there is a surprising political change in Germany, leaving behind a power vacuum in which a powerful opponent attempts to seize control over Europe. In the name of world peace, new secret weapons systems are rolled out onto the battlefields of the newly erupted conflict.

In this unique scenario, the Allied, German and Russian armies battle for supremacy in Europe in an alternative timeline with extraordinary super-weapons. “War Front: Turning Point” offers two comprehensive single-player campaigns with over 70 minutes of video sequences, detailed characters and rapid-paced tactical gameplays. The perfect balance of powers in multiplayer mode makes for hours of gaming enjoyment at LAN events and on-line matches.

Media reviews:

PC POWERPLAY 02/2007:

“Fans of action-packed mass battles will love War Front, and not only in multiplayer mode.”

GAMESMANIA 02/2007

“Unending, gripping action.”

Jack Keane



Platform: PC-DVD-ROM

"Jack Keane" is a humorous, classical point 'n' click adventure that will win over beginners and genre insiders alike. The plot takes place in the early Colonial period and brings the sympathetic buckaroo Jack Keane to a variety of locations such as London, Cape Town and the Indian jungle. In London, he takes the Queen up on a risky offer: Jack must travel to a remote island and stop a mad scientist who has set his sights on ruling the world.

In the course of the story, Jack meets Amanda, the woman of his dreams, and with her help eventually gets to the bottom of Doctor T's plans and his man-eating plants. Will the two be able to foil the Doctor's plans and save the world?

Jack Keane captivates players with a huge number of clever characters, loads of scenes impressive enough for the silver screen and many references to famous films, videos and computer games. The cutting-edge 3D graphics create a unique adventure atmosphere.

Media reviews:

PC GAMES 12/2006:

"The makers of the first-class 'Ankh' have tasted blood: Jack Keane will be bigger, funnier and more exciting!"

Panzer Tactics



Platform: Nintendo DS™

"Panzer Tactics DS" is the first authentic, round-based WWII tactics game for the Nintendo DS™. Hand-held tactics and strategy have never been so realistic.

All missions are based on historic WWII battles, and all controllable units are based on their real counterparts.

"Panzer Tactics DS" offers different single-player modes, including the historically based campaign mode, which guides the player through increasingly difficult missions. The challenging and complex AI surprises even experienced players again and again.

The game is played on hex fields and allows for a wide variety of different control possibilities. Three exciting campaigns with 30 nerve-wracking missions and over 150 different units on the water, on land and in the air offer between 60 and 80 hours of playing enjoyment.

"Panzer Tactics DS" also offers full multiplayer support via a Nintendo™ Wi-Fi link or Nintendo DS™ wireless technology with an online ranking system.

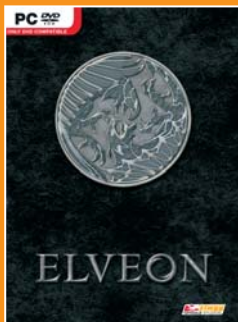
Media reviews:

N-ZONE 05/2007:

"Panzer Tactics is an absolute highlight for hobby strategists."



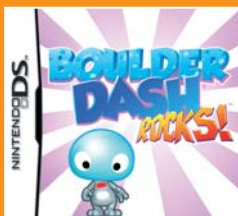
Elveon



Platform: Xbox 360™/PC-DVD-ROM

The action epic “Elveon” from 10TACLE STUDIOS AG draws players into the mythical world of elves. The sweeping saga recounts the rise of a heroic culture from the perspective of an experienced elite warrior. Following his calling, he endeavors to change the history of his people and liberate the lost city of Nimathar, the portal to the realms of the gods. A task actually meant for a god!

The awe-inspiring fight system used in the live action role play – marked by a spectacular, specially developed elvish combat style and ingenious AI opponents – the monumental architectural design, and the depiction of the elvish world of “Naon” with its living, organic environment all ensure a thrilling atmosphere and a cinematic gaming experience.



Boulder Dash Rocks!



Platform: Nintendo DS™/Sony PSP™

With its debut way back in 1984, the arcade game “Boulder Dash” is an institution in computer entertainment. Rockford, a charming extraterrestrial, must gather diamonds as fast as he can while dodging falling rocks and avoiding being killed by greedy opponents.

The ingenious combination of skill with the fun of solving a puzzle won the hearts of millions the world over. The skill required makes this game challenging for young and old.

Boulder Dash Rocks! offers loads of playing enjoyment with over 150 different levels and exclusive game modes for the Nintendo DS™ and Sony PlayStation Portable™ handheld platforms.

Media reviews:

PC GAMES 08/2006

“Few games offer such a detailed virtual world with an authentic physics engine.”

XBOX 360 MAGAZIN 06/2006

“It doesn’t take long to see that true professionals are at work in Bratislava.”

Codename: Panzers – Cold War



Platform: PC-DVD-ROM

“Codename: Panzers – Cold War” is the official sequel to the award-winning real-time strategy hit “Codename: Panzers”, whisking the player away to an era largely overlooked in computer game history to date.

The Second World War has just ended when a tragic accident over Berlin-Tempelhof causes it all to flare up again. NATO and the Eastern Bloc are at odds and a tragic duel takes its course between the giants: the Cold War begins.

The player experiences a breathtaking campaign immersed in strategy in a graphic cinematic quality never seen before. A brand new 3D physics engine brings remarkable realism to the terrain. Rough-and-tumble combat and colorful explosions are displayed in breathtaking quality. Equally revolutionary in the real-time strategy genre: for the first time, grueling hand-to-hand combat also takes place indoors.

“Codename: Panzers – Cold War” provides the player with a wide variety of tanks and weapons systems from the 50s and 60s, opening up completely new strategic options and freedoms. It also offers the e-sport community and clan players a range of new features unequalled in their genre. For example, the game offers a feature to personalize and customize units.

Badminton Tournament Online



Platform: Digital Distribution

“Badminton Tournament Online” (BTO) is a state-of-the-art online sports game for badminton fans and casual players.

With simple rules, a friendly atmosphere and rapid play, the enormously popular sport of badminton offers the right conditions for a unique gaming experience. In China alone, more than 165 million people enjoy playing badminton.

“Badminton Tournament Online” makes it possible for players to hold exciting multiplayer matches with up to four participants in a wide variety of locations. Breathtaking magical powers, unique items and countless modification possibilities give every avatar its own unique style.

In addition, the Badminton Online Community offers players the opportunity to meet other players around the world, to chat, and to challenge them to a match.



10TACLE STUDIOS AG'S SHARES

- **Share price climbs from €11.75 (issue price) to €13.49 in 2006**
- **Earnings per share: €0.63**
- **Substantial interest from prominent investors**
- **Shares liquidity increased significantly**

IPO and share price performance

10TACLE STUDIOS AG's IPO was successful despite the difficult environment following the correction on the stock markets in May 2006. The Company's shares were quoted for the first time in the General Standard of the German stock exchange in Frankfurt on June 22, 2006. As the stock markets were not receptive at this time, 778,151 of the up to 1,980,000 bearer no-par value shares – up to 1,800,000 of which resulted from a capital increase – were ultimately placed. 80% of the issue was acquired by institutional investors, with the remaining 20% going to private investors. The Company's share capital amounted to €5,049,851 at the time of the initial listing and was composed of the same number of shares.

On May 8, 2006, the Company's General Meeting resolved a capital increase from retained earnings that led to a 1:15 share split for each shareholder. The shareholders thus received 14 new shares for each existing share. To achieve this, the Company's capital was increased to €4,271,700.00 from retained earnings. The General Meeting also authorized the Managing Board, with the approval of the Supervisory Board, to increase the Company's share capital by up to €2,135,850.00 by issuing up to 2,135,850 new shares (Authorized Capital). In addition the Managing Board was authorized, with the approval of the Supervisory Board, to issue stock options from Contingent Capital in the amount of €385,000.00 to members of the Managing Board and employees of the Company and invested companies. To date, options on 80,500 shares have been issued from this option program. The amendments



to the Articles of Association were entered in the commercial register on May 17, 2006.

In May 2006, the Company submitted an offering prospectus for approval by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin – Federal Financial Supervisory Authority) and, after receiving approval, was admitted to the Regulated Market in the “General Standard” segment of the Frankfurt Stock Exchange. 778,151 new shares from a capital increase from the Authorized Capital resolved on May 24, 2006 were issued as part of the IPO. Trading commenced on June 22, 2006 with a share capital of €5,049,851.00. The placement generated income of €10.75 per share, i.e. a total of €8,365,123.25.

10TACLE STUDIOS AG resolved a capital increase amounting to €427,170 on December 18, 2006. The increase corresponds to around 7.8% of the new share capital of €5,477,021 and was entered in the commercial register on January 31, 2007. The capital increase from cash contributions, for which the shareholders’ pre-emptive subscription rights were disapplied, was subscribed for

in full by DAH Beteiligungsgesellschaft GmbH, Mannheim, a Daniel Hopp company.

Two designated sponsors, the syndicate bank Lang & Schwarz Wertpapierhandelsbank AG based in Düsseldorf, Germany and RG Securities AG Wertpapierhandelsbank based in Frankfurt am Main, Germany have been engaged since November 2006. This measure has led to a significant increase in the daily stock exchange turnover of 10TACLE STUDIOS AG’s shares.

The issue price of 10TACLE STUDIOS AG’s shares was €11.75. The Company’s share price on the last day of trading in 2006 was €13.49.

The lock-up period agreed with major shareholders before the IPO expired on December 31, 2006.

GROUP MANAGEMENT REPORT FOR FISCAL YEAR 2006

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1. THE 10TACLE STUDIOS AG GROUP

1.1. Business model

The 10TACLE STUDIOS AG Group (hereinafter also referred to as the “Company”, the “Group” or “10TACLE STUDIOS”) is an independent international development and production company for high-end computer and video games. In fiscal year 2006, the Company reinforced and expanded the positioning described in its management report for fiscal year 2005 and its first-half report for 2006. In 2006, the Company’s business model continued to be based on the three pillars presented below; these also represent its segments of activity as defined in IAS 14.31:

PUBLISHING SEGMENT: The Company commissions external development studios to produce computer and video games, handles project control and project management, and sells the finished products to distributors who are responsible for end customer sales. In fiscal year 2006, 10TACLE STUDIOS AG acquired all rights to the “War Front”, “Panzer Tactics” and “Jack Keane” games from Games Development and Distributions GmbH (GDD) in Munich, Germany. In addition, 10TACLE STUDIOS AG is planning to make further investments in this segment and expects high margins as a result.

STUDIO SEGMENT: As of December 31, 2006, 10TACLE STUDIOS AG held significant interest in six development studios. These studios create computer and video games whose brands develop a market value over and above the individual game. Furthermore, they develop utilities and solutions that will be used in a large number of future developments. The studio model encompasses all internal developments that 10TACLE STUDIOS AG implements for its own account and on its own responsibility. Subsequent revenues from the sale of the games as well as cost savings due to the subsequent use of the utilities and solutions have a positive impact on earnings in this segment. These utilities and solutions can also be marketed independently and lead to additional revenue from licenses granted to third party development studios.

SERVICE PROVIDER SEGMENT: 10TACLE STUDIOS AG offers third parties services relating to the acquisition of computer and video games, project control and project management for the development of these games, and their subsequent sale. In particular, 10TACLE STUDIOS AG provided these services for three media funds as of December 31, 2006. In addition, 10TACLE STUDIOS AG had been commissioned by two private placements.

1.2. Structure of the 10TACLE STUDIOS AG Group

10TACLE STUDIOS AG functions as a holding company and is active on behalf of the whole Group in the studio segment. 10TACLE STUDIOS AG will expand the proportion of internal development projects not involving third parties in the future. However, optimal cooperation of the individual development studios and related resource and usage planning and leveraging synergies between equity investments will remain an important function of the Company.

Please refer to the parent company’s management report published separately for 10TACLE STUDIOS AG’s legal structure and changes in the reporting period.

The key changes in the Group structure in 2006 were the formation and establishment of 10TACLE MOBILE GmbH in Duisburg, Germany, and the sale of 10tacle Game-Development & Production XIII GmbH to a number of private investors. 10TACLE MOBILE GmbH will focus on developing games for Sony™ and Nintendo mobile consoles within the Group and already employs 30 staff.

10TACLE STUDIOS AG has the following investees or subsidiaries as of December 31, 2006:

Company:	Share capital €	Interest %
reakktor media GmbH · Hanover, Germany	50,000.00	100
10tacle studios Slovakia s.r.o. · Bratislava, Slovakia	15,465.51	90
10tacle studios Pte Ltd. · Singapore	0.98	50
Elsewhere Entertainment SPRL · Charleroi, Belgium	33,606.00	91.8
Blimey! Games Ltd. · London, England	1,453.02	51
10tacle Publishing GmbH · Darmstadt, Germany	25,000.00	100
10tacle Game-Development & Production I-XII GmbH		
10tacle Game-Development & Production XIV - XVII GmbH		
Darmstadt, Germany	25,000.00 each	100
10T TRAVEL GmbH · Darmstadt, Germany	22,500.00	90
10TACLE RESEARCH & DEVELOPMENT GmbH		
Darmstadt, Germany	25,000.00	100
10TACLE MOBILE GmbH · Darmstadt, Germany	22,500.00	90

All investees are significant investments. There are no control or profit transfer agreements as of December 31, 2006.

In 2006, standard transfer prices were used for legal transactions with the companies in which 10TACLE STUDIOS AG has an interest. The Company was not disadvantaged by measures taken or not taken within the consolidated group structure.

A total of seven production companies were not included in consolidation because the control principle did not apply to these companies despite a 100% interest being held by the parent company, 10TACLE STUDIOS AG. Due to the conclusion of completion bonds in favor of the principal and the associated external control of the deployment of funds, the parent company has no power to govern the companies' financial or operating policies, to the extent that it has no additional means of exerting an influence.

2. OPERATING BUSINESS OF THE 10TACLE STUDIOS AG GROUP

2.1. Business developments

10TACLE STUDIOS AG achieved the goals set for fiscal year 2006. It continued its growth path, extending its position and raising its profile as one of the leading international development and production companies for high-quality computer and video games.

Operating business focused on the services for the media funds for which contracts were signed in 2004 and 2005, the acquisition of additional order volumes via private placements of around €13 million, enhancements to the NeoReality development software as well as the acquisition of important brand licenses.

10tacle studios Pte Ltd. in Singapore signed important cooperative agreements in the areas of government assistance, refinancing and development in 2006.

2.2. Key Group projects in 2006

In 2006, Elsewhere Entertainment SPRL (Charleroi, Belgium), Blimey! Games Ltd. (London, UK), Reakktor media GmbH (Hanover, Germany) and 10tacle studios Slovakia s.r.o. (Bratislava, Slovakia), were entrusted with the development of extensive titles for the media fund that closed in 2005. Thanks to this order, the studios are in the position to further expand their development capacities substantially. The total volume of the contract is around €12 million.

As previously mentioned, new orders of €13 million were also acquired, providing long-term financing for both existing and additional development resources. The contract to develop various games for the major Ferrari brand won by Blimey! Games Ltd. in London is particularly important.

In 2006, four of the Group's development studios started work on projects for the next generation of consoles. The resulting synergy effects will allow the entire Group to provide products for the newest generation of gaming devices within an extremely short period of time.

2.3. Key agreements

All important Group contracts were entered into via the parent company in 2006. They are presented in the parent company's management report.

2.4. Economic position

RESULTS OF OPERATIONS

Revenue in fiscal year 2006 came mainly from the Service Provider segment. A distinctive feature of the publishing and studio models is that investments are made upfront. The revenue in these segments will appear in the subsequent marketing phase.

Revenue for the year under review amounting to €29,285 thousand (previous year: €17,896 thousand) was generated primarily from production activities for fund games (€14,826 thousand), from service fees (€6,468 thousand), for the administration, management and supervision of game production, from the exploitation of licenses and the sale of games (€7,858 thousand) and from revenue from long-term production orders (calculated at €3,706 thousand in accordance with the percentage of completion method), which is included in production revenue.

Revenue was up 66% year-on-year, while personnel costs, purchased services and other operating expenses also rose as expected. €7,076 thousand (previous year: €6,882 thousand) of the cost of raw materials and consumables used and of goods purchased and held for resale of €10,245 thousand relates to additions to provisions set up by the GDP subsidiaries included in consolidation for outstanding production services, while €2,828 thousand relates to expenses for freelance employers in the development studios.

Other operating income of €873 thousand mainly comprises income from the reversal of provisions, the bulk of which is attributable to the Service Provider segment and the high level of booked business.

As of the end of the fiscal year, **EBITDA** amounted to €7,201 thousand (previous year: €2,730 thousand).

Due to cash inflows and the related repayment of all debt financing, the **FINANCIAL INCOME** improved significantly to a net €173 thousand (previous year: net finance costs of €-378 thousand).

In the past fiscal year, the Company generated **EBIT** of €4,708 thousand (previous year: €1,684 thousand).

At €3,179 thousand, **CONSOLIDATED PROFIT** was up 146% on the previous year's figure of €1,290 thousand.

The **COMPANY'S BASIC EARNINGS PER SHARE** (EPS) were €0.63 as of December 31, 2006, an increase of €0.23 year-on-year.

NET ASSETS

The **INCREASE IN TOTAL ASSETS** from €29,533 thousand in 2005 to €61,139 thousand in fiscal year 2006 is due in particular to the increase in equity in relation to the IPO and the other capital increases and the increase in current assets due to new production orders.

The positive change in **INTANGIBLE ASSETS** is mainly due to the capitalization of the NeoReality middle-ware engine as well as to the licenses and trademark rights. The changes in **PROPERTY, PLANT AND EQUIPMENT** arose from the increase in studio capacity and the expansion of resources at 10TACLE STUDIOS AG.

The increase in **CURRENT ASSETS** is the result of the rise in current trade receivables to €23,044 thousand (previous year: €5,528 thousand), which is related to the expansion of 10TACLE STUDIOS AG's operating business.

The increase in 10TACLE STUDIOS AG's **CASH AND CASH EQUIVALENTS** is based on the funds received in connection with the June 2006 IPO as well as to cash funds received from other corporate actions.

GROUP EQUITY before minority interest of €30,451 thousand (previous year: €10,341 thousand) rose in fiscal year 2006 as a result of the increase in share capital in connection with the IPO. Together with two other corporate actions, share capital rose to €5,050 thousand (previous year: €259 thousand).

The **EQUITY RATIO** for equity after minority interest amounted to 51% in fiscal year 2006 (previous year: 36%).

The **RETURN ON EQUITY** – calculated as the ratio of profit including minority interest to the average equity for the fiscal year (arithmetic mean) including minority interest – amounted to 15.30% in 2006 (previous year: 19.13%).

Due to the high level of investing activities in the Publishing and Studio segments, the **RATIO OF NON-CURRENT ASSETS TO TOTAL ASSETS** rose within the Group. The expansion of the technologies and brand pools was fully financed by equity. All noncurrent assets are therefore fully guaranteed by equity and the principle of matching the maturities of assets and liabilities has been more than complied with.

CASH FLOW

CASH FLOW FROM OPERATING ACTIVITIES was calculated using the indirect method by deriving net cash flows from operating activities from consolidated profit; they amounted to €2,145 thousand (previous year: €1,239 thousand). Changes in working capital led to significant cash outflows. Conversely, cash inflows were received from fund financing, the IPO in the year under review and additional corporate actions. The result is higher **CASH FLOW FROM FINANCING ACTIVITIES** of €17,169 thousand (previous year: €6,378 thousand) with €12,341 thousand (previous year: €7,521 thousand) in cash at the end of the period.

Cash flow from investing activities amounted to €10,494 thousand (previous year: €4,859 thousand). Payments for investments in intangible assets mainly related to the acquisition of licenses and production orders and the extension of the NeoReality engine in line with 10TACLE STUDIOS's future strategic orientation and expansion. Proceeds from the disposal of noncurrent assets were insignificant.

In the year under review, the cash ratio amounted to 26% (previous year: 41%). The decrease is due to a build-up of current receivables of €23,044 thousand (previous year: €5,528 thousand) due to orders placed shortly before the end of the year. These receivables will be reduced significantly in the first half of 2007. Accordingly, the current ratio amounted to 96% in the year under review (previous year: 99%).

3. MARKET ENVIRONMENT

3.1. Market development

THE GAMES MARKET

As expected, the market for computer and video games developed very positively in 2006. The fastest-growing segment of the media industry overtook revenue from film theaters long ago. This growth trend has remained unbroken for five years. According to a press release by the BIU (Bundesverband Interaktive Unterhaltungssoftware e.V., the German Association of Interactive Entertainment Software), revenue in Germany rose to around €1.2 billion in 2006, an increase of 7.4% year-on-year. The video game segment grew by a substantial 13% to 58% of the total market share. As a result, the market share of PC titles in Germany fell to 42% (BIU e.V.: "BIU publishes key market figures for 2006").

Experts expect further strong growth in the game market worldwide in coming years. In its "Global Entertainment and Media Outlook: 2006-2010", PricewaterhouseCoopers predicts that the international market volume for computer and video games will grow by around 11% annually until 2010. According to this study, Germany will retain its position as the second-strongest game market in Europe (PricewaterhouseCoopers: "Global Entertainment and Media Outlook: 2006-2010").

THE YEAR OF NEXT-GEN CONSOLES

At the end of 2005/beginning of 2006, Microsoft kicked off the race to become number one in next-gen consoles with its Xbox 360™. Among other things, Microsoft scored a hit with the console's powerful processor structure, strong HDTV-enabled graphics, internet connection and successful launch titles.

The last few months of this year belonged to the new Sony PlayStation 3 and Nintendo Wii™ consoles. While gamers in the US and Japan had the opportunity to experience the impressive performance of the PlayStation 3 in November of 2006, European gamers will not be able to enjoy the new console until March 2007.

Nintendo™ had long kept the release date of the Wii a secret, but managed to launch it simultaneously worldwide, on December 8, 2006. The console sold out quickly, with its innovative means of operation providing gamers with a consistently compelling experience. For the first time, hand movements can be incorporated directly into the game via a controller. This makes simple and intuitive gameplay possible. As a result, the Wii appeals to new target groups that were not previously interested in video games.

THE HANDHELD GROWTH MARKET

Without a doubt, portable video game systems (handhelds) are one of the largest growth markets in the industry, with this segment being dominated by the two industry giants Sony™ and Nintendo™.

According to a study by the NPD Group (a leading American market research firm), sales of Nintendo's DS handheld boosted growth of the American market substantially. This portable device is proving to be high flyer when it comes to hardware sales not just on its Japanese domestic market, but also in the US. (Gamesmarkt.de: "DS carries US market"). This trend can be seen in Germany, too. According to the BIU, the handheld games segment climbed 58% in 2006. What is more, the segment is expected to see further growth in 2007 (BIU e.V.: "BIU publishes key market figures for 2006"). The Nintendo DS™ Lite was launched in Japan in March of 2006. Since the introduction of this pocket console, the Nintendo DS™ has sold more than 35.6 million units (Nintendo Co., Ltd.: "Consolidated Financial Highlights").

Sony's PSP, which stands for PlayStation Portable™, is the PlayStation for on the go users, offering a compellingly elegant design, a high-quality finish and a wide range of functions. The PSP can play special DVDs and MP3 music files in addition to games. The PSP has been available in Japan since the end of 2004, while in Europe it has been on the shelves since September 2005. According to a Sony™ press release, the PSP has sold over 20 million units to date worldwide (Sony Computer Entertainment America Inc.: "PlayStation 3 Launches Next Generation of Entertainment in North America").

ONLINE GAMING ON THE ADVANCE

Online games – computer games and video games that are played primarily or exclusively via the Internet – are currently developing into a thriving and promising sector of industry. According to a recent Nielsen study, there are around 117 million active gamers in the US alone. Of these, 56% are avid online gamers and, in turn, 64% of this figure are female (Presstext.at: “Women outnumber men in online games”).

For developers, online games generate earning opportunities for medium-term revenue beyond the sale of the software thanks to their monthly payment system. The big names in the industry, for example Blizzard Studios with its online roleplaying game “World of Warcraft” (WoW), attract communities of gamers currently numbering eight million members. In addition to acquiring the gaming software, gamers contribute to provider revenues by paying a monthly subscription fee of ten euros on average.

The game called “Second Life” goes a step further and offers players a virtual parallel world – a permanent 3D environment that is created and developed completely by its inhabitants. In this powerful and fast-growing online world, you can create or become practically anything you can imagine. Thanks to the integrated content creation tools, there are no limits to the creativity of the players. And in fact, well-known branded goods manufacturers have now identified “Second Life” as a marketing and PR platform and are marketing their new products there.

TRENDS IN 2007

2007 will be characterized by the following key trends:

- Lavishly produced cineastic games with spectacular audiovisual effects. These productions will further drive hardware sales of PC and next-gen consoles.
- In addition, innovative game concepts will be the trend, opening up new target groups thanks to their simple and intuitive operation.
- The wish to play games on the go will further increase the importance of portable video game systems.
- The online market will be boosted worldwide by the increasing number of broadband connections and the topic of multiplayer gaming will become even more important than it already is.
- Media convergence will continue to progress in 2007. Games, the cinema, music and books will continue their integration.
- There will be further growth in the area of cell phone games as well. Thanks to the relatively sophisticated state of the technology today, cell phone games offer fun, a means of passing the time and entertainment, both at home and on the go. It is already clear that this trend will become more pronounced because the next generations of telephones and handhelds will be even more powerful and offer greater multimedia functionality.

3.2. Positioning

The 10TACLE STUDIOS AG Group is one of the leading independent international development and production companies for high-end computer and video games. Game development is spread out internationally, at the Hanover, Duisburg, London, Charleroi, Bratislava and Singapore locations. 10TACLE STUDIOS AG is positioned in all important international growth markets (next-gen consoles, handheld consoles, online content, massive multiplayer online gaming, Asia) and has key technologies. On the product side, 10TACLE STUDIOS AG has adopted multi-genre and multi-platform strategy to ensure the greatest possible diversification of risk.

3.3. Competitors

Despite the ongoing positive market environment, only a few European game developers have been able to maintain their independence from the large game publishers and hardware manufacturers such as Sony™, Microsoft™, or Nintendo™. In particular, the significantly higher costs entailed in developing video games for the new generation of consoles (Xbox 360, PS3, Wii) have led to a further shake-out among

competitors. Only a few remaining competitors have an internationally distributed and networked studio and technology structure like 10TACLE STUDIOS AG. The only company with a comparable structure is the Climax Group Limited, which is headquartered in the UK.

4. INTERNAL STRUCTURE OF THE PARENT COMPANY

4.1. Executive bodies

Michele Pes is the sole Managing Board member of the Company. In addition to its Chairman, Dr. Markus Braun, the Supervisory Board includes Paul Bauer-Schlichtegroll (Munich, Germany) and Dr. Bastian Schmidt-Vollmer (Hamburg, Germany).

4.2. Employees

The number of employees in the Group rose from 168 in the previous year to 294 in 2006. All departments were adapted equally to reflect the growing demands. Part of the salaries of 10TACLE STUDIOS AG Group employees are paid as variable, performance-related bonuses linked to the achievement of set targets. Middle and top management also receive bonuses. In addition, appraisals are held with employees at the end of the year in order to help them perform their duties in a more effective and goal-oriented way.

4.3. Risk management

The risk management methods introduced in previous years again proved their worth in 2006 and were further refined and optimized.

PROJECT CONTROL: Since the beginning of 2005, 10TACLE has had a clearly defined and structured project control function that provides a complete overview of the status of all developments at all times. The department is assigned to the general Financial Control function in the Finance and Accounting division and can thus work independently of the actual development department. In agreement with the development department, weekly reports on all ongoing game developments are provided, comparing current project progress with agreed schedules and budgets. Any problems identified are reconciled with the producer responsible for the development concerned or reported to the responsible divisional head.

PRODUCERS: 10TACLE STUDIOS AG also appoints a producer for every project. During the production phase, he or she provides expert support for the local day-to-day operations and teams and oversees project planning and targets.

FINANCIAL CONTROL OF STUDIO INVESTEEES: 10TACLE STUDIOS AG's investees submit monthly financial reports that are evaluated by Financial Control to ensure management of the revenue and cost structure and of liquidity.

LCM LEGAL CONTRACT MANAGEMENT: The Company had around 600 operational project agreements as of the reporting date. This is in addition to the administrative and staff agreements required. The various investees account for similar figures on top of this. To keep track of the large number of agreements and to guarantee seamless financial control of all overlaps and deadlines, management decided to roll out database software developed for this purpose across the Group.

The LCM software allows the entry of all key agreement parameters in a central database and manages these independently. The system sends e-mail reminders of expiring agreements or invoices to be written and makes it easier to access the respective agreement by providing intuitive menus. By awarding restricted read-permissions, the system ensures that each employee can only access the area of the database relevant for his or her division. External consultants can be granted access to the database via VPN encryption. Following appropriate training, all agreements at the subsidiaries are now being added to the central system.

5. CURRENT DEVELOPMENTS

5.1. Opportunities for future development

Own follow-up versions: The focus of the Company's business activities in 2006 was clearly on the performance of various services for the media funds. However, the rights to follow-up versions of the resulting brands are held by 10TACLE STUDIOS AG or its subsidiaries. This means that the profitability of the individual projects can be increased substantially via selective investments in successful media fund brands. Where standard bank third-party finance is used and completion bonds are taken out, in a substantial increase in marketing revenue can be achieved at virtually no operational risk.

Technology: Marketing NeoReality to external studios may become a highly profitable business area within a few years. Demand for such game engines will increase further with the rise of general development costs, as fewer studios will be in a financial position to develop their own engines. It is expected that the market will continue to be dominated by a small number of providers in the future. In terms of technology and timing, NeoReality has a good chance of becoming one of the top three providers.

Multi-user online worlds: Worldwide successes like "World of Warcraft" or "Second Life" demonstrate the enormous potential of these so-called virtual worlds. The expertise that our investees have already built up, existing experience with large projects and the ability to place even large budgets with investors give 10TACLE STUDIOS AG an ideal basis to quickly become successful in this market segment as well.

5.2. Risk report

The risks presented in the 2005 management report did not materialize in fiscal year 2006. From senior management's point of view, the following risk aspects must be considered:

The introduction of three new hardware platforms (Sony PS3™, Nintendo Wii™ and Microsoft Xbox 360™) has resulted in new technical opportunities and challenges. The reorganization of current development structures and the acquisition of the necessary experience could lead to delays in completing individual projects.

The Company will continue to grow rapidly to take advantage of these opportunities. The opportunities for organic growth are limited. The next level of growth can only be reached by making suitable acquisitions.

The total volume of current receivables already mentioned is substantially greater than the figure for the previous year, and a default would hurt the Company significantly. However, the figure for receivables is based on the reporting date of the annual financial statements and is therefore not very meaningful. Receivables will decline significantly in the first half of 2007.

5.3. Report on post-balance sheet date events

By way of contract dated February 28, 2007, 10tacle studios Pte Ltd. in Singapore commissioned Stereo Mode SPRL in France to develop the “Ready to Rumble 3” title on the Nintendo Wii™ platform. The game is due to appear in 2008 and is based on a globally well-known license.

5.4. Outlook for fiscal year 2007

10TACLE STUDIOS AG is planning to continue its growth path in fiscal year 2007. In order to have sufficient high-quality medium and long-term production resources, it will focus particularly on expanding its international studio structure. To do this, it will both selectively expand its existing studio structure and acquire new development studios.

Additional investments will also be made in 10TACLE STUDIOS AG’s technological resources. The Company’s own middleware technology, NeoReality, is of crucial technical and economic importance. It enables 10TACLE STUDIOS AG’s individual studios to work in a networked, cost-efficient, high-quality manner that is unique in the industry.

The booming Asian market for computer and video games in particular will play an even more important role in 10TACLE STUDIOS AG’s future international studio structure. 10tacle studios Pte Ltd., the subsidiary headquartered in Singapore, is being optimally positioned on the Asian market thanks to investments in development capacity, games specifically designed for regional demands and partnerships with regional partners. 10TACLE STUDIOS AG’s production capacity in Asia will match its capacity in Europe by 2008 at the latest.

10TACLE STUDIOS AG also has its sights on the primary growth market of online games (MMOGs) and is focusing on online games in the long term. This strategic decision is in line with market forecasts by renowned market research firms, which are predicting dynamic growth in the online gaming market in the coming years. A number of online games are currently in production at 10TACLE STUDIOS AG.

The development of our game portfolio is also continuing: two titles were published in 2006 and at least six will be launched internationally in 2007. 10TACLE STUDIOS AG places great importance on ensuring a balanced portfolio of promising platforms and genres. In particular, the Company is focusing on the extremely successful Nintendo Wii™ and Nintendo DS™ platforms.

After its IPO, 10TACLE STUDIOS AG will continue to use external investments to finance its activities in the future. Building on its successes with this attractive financing instrument so far, 10TACLE STUDIOS AG is planning to set up additional investments in Asia and Europe.

Darmstadt, March 2007



10TACLE STUDIOS AG
Michele Pes
CEO

CORPORATE GOVERNANCE REPORT

of 10TACLE STUDIOS AG

The Managing Board and Supervisory Board of 10TACLE STUDIOS AG welcome the principle of good and responsible corporate management promoted by the German Corporate Governance Code. The Company implements the recommendations and suggestions of the Code insofar as it deems them appropriate. By doing so, 10TACLE STUDIOS AG underlines that effective corporate governance is part of its self-image. The Managing Board and Supervisory Board issued their annual declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code as amended on June 12, 2006 in accordance with section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act) for the first time in December 2006. They also made the declaration permanently available to shareholders on the Company's website. The German Corporate Governance Code governs the following areas of corporate management and supervision:

- Shareholders and the General Meeting
- Communication and transparency
- Cooperation between the Managing Board and Supervisory Board
- Composition and remuneration of the Managing Board and Supervisory Board
- Financial reporting and auditing

Shareholder rights and transparency

10TACLE STUDIOS AG's shareholders provide the capital for the Company and thus bear the main burden of the entrepreneurial risk. The Managing Board therefore takes particular account of shareholders' interests by attaching great importance to transparency and to providing shareholders with information in a timely manner. Respect for shareholders' rights, systematic risk management, compliance with stock exchange rules, and the involvement of the shareholders in key Company decisions and in amendments to the Articles of Association, the issue of new shares and major structural changes are guaranteed in full.

The Company ensures the equal treatment of all shareholders by publishing all Company information, in particular ad hoc disclosures and press releases, on the Internet. Directors' dealings, all the Company's financial reports and the annual document in accordance with the *Wertpapierprospektgesetz* (WpPG – German Securities Prospectus Act) are also published on the Company's website at www.10tacle.com. The website also contains a financial calendar that informs shareholders of key dates.

Cooperation between the Managing Board and Supervisory Board

As a German *Aktiengesellschaft* (stock corporation), the Group parent 10TACLE STUDIOS AG has a dual executive and supervision system; this means that the Managing Board and Supervisory Board are strictly separated in terms of membership.

10TACLE STUDIOS AG's Managing Board consists of one member, Michele Pes. The Managing Board is responsible for managing 10TACLE STUDIOS AG's business and represents the Company in respect of third parties. The Managing Board's key tasks include defining the Company's strategic focus, managing the Group and monitoring risk management.

10TACLE STUDIOS AG's Supervisory Board consists of three members, Dr. Markus Braun (Chairman), Dr. Bastian Schmidt-Vollmer (Deputy Chairman) and Paul Bauer-Schlichtegroll. The Supervisory Board advises and supervises the Managing Board in respect of its corporate management activities. The Supervisory Board is also responsible for appointing the members of the Managing Board and stipulating the remuneration of the Managing Board, among other things.

The Managing Board cooperates closely with the Supervisory Board. It informs the Supervisory Board regularly, comprehensively and in a timely manner of all issues relating to planning, business development, the risk position and risk management that are relevant to 10TACLE STUDIOS AG and the Group. In doing so, the

Managing Board agrees the Company's strategic focus with the Supervisory Board and discusses strategy implementation at regular intervals.

The cooperation between the Managing Board and Supervisory Board is also laid down in their respective rules of procedure.

Remuneration of the Managing Board and Supervisory Board

In accordance with the German Corporate Governance Code, the total remuneration of the Managing Board member comprises both fixed and variable components. The variable remuneration in turn consists of one-time components that are granted by the Supervisory Board for extraordinary achievements, and of components that are based on the Group's results. The amount of these variable remuneration components is stipulated by the Supervisory Board.

In fiscal year 2006, the Managing Board member was granted a total of 10,000 stock options as a variable remuneration component with a long-term incentive effect on the basis of the stock option program resolved by the General Meeting of 10TACLE STUDIOS AG on June 8, 2006.

This stock option program provides for the issue of up to 389,025 stock options to employees and members of the management of 10TACLE STUDIOS AG and its affiliated companies. The stock options to be issued may be exercised at the earliest two years (vesting period) and at the latest five years after the grant date. The requirement for exercising the stock options is that the quoted market price of the Company's shares has exceeded the quoted market price at the date on which the stock options were granted by 15% on at least one day during the last twelve months of the vesting period.

The stock options granted to the Managing Board member entitle him to subscribe for 10,000 no-par value shares of the Company at a subscription price of €11.60.

Assuming that the Managing Board member's stock options had been exercisable at December 31, 2006, their intrinsic value adjusted for the subscription price would have totaled €18,900.00.

The remuneration of the Supervisory Board members is governed by Article 14 of 10TACLE STUDIOS AG's Articles of Association. In addition to the reimbursement of their expenses, the Supervisory Board members receive a fixed remuneration, with the Chairman of the Supervisory Board receiving one and a half times this fixed remuneration.

The following table shows the remuneration of the Managing Board and the Supervisory Board:

(€ thousand)	Fixed remuneration	Performance-related component	Other benefits	Total for 2006
Managing Board				
Michele Pes	147	100	5	252
Managing Board total	147	100	5	252
Supervisory Board				
Dr. Markus Braun	15	0	0	15
Dr. Bastian Schmidt-Vollmer	10	0	0	10
Paul Bauer-Schlichtegroll	7	0	0	7
Supervisory Board total	32	0	0	32
TOTAL FOR 2006	179	100	5	284

As of December 31, 2006, 10TACLE STUDIOS AG recorded a receivable from the Managing Board member amounting to €36,129.10 and bearing 5% interest.

No loans or advances were granted to the members of the Supervisory Board and no contingent liabilities were assumed on their behalf in 2006. No remuneration was granted to members of the Supervisory Board in the past fiscal year for services provided individually.

Shareholdings of the Managing Board and Supervisory Board

The Managing Board and Supervisory Board held the following interests in 10TACLE STUDIOS AG at December 31, 2006:

Managing Board: Michele Pes	139,180 no-par value shares	(approx. 2.76% of the share capital)
Supervisory Board	22,650 no-par value shares	(approx. 0.45% of the share capital)

Transactions in shares and rights (directors' dealings)

Neither the Managing Board member nor the Supervisory Board members conducted any reportable purchase or sale transactions in fiscal year 2006.

Conflicts of interest

No conflicts of interest occurred in the Managing Board or Supervisory Board in fiscal year 2006.

Financial reporting

In fiscal year 2006, the consolidated financial statements of the 10TACLE STUDIOS AG Group were prepared in accordance with International Financial Reporting Standards (IFRSs). The annual financial statements of 10TACLE STUDIOS AG for fiscal year 2006 comply with the German *Handelsgesetzbuch* (Commercial Code).

Declaration of conformity with the German Corporate Governance Code

The Managing Board and Supervisory Board of 10TACLE STUDIOS AG have declared that they conformed with the recommendations of the "Government Commission on the German Corporate Governance Code" in 2006 and will conform with the recommendations in 2007 with the following exceptions:

a. Deductible for D&O insurance (section 3.8)

Section 3.8 of the Code recommends that a suitable deductible be agreed when taking out liability insurance for members of the Company's Managing Board and Supervisory Board (D&O insurance). 10TACLE STUDIOS AG's D&O insurance for the Managing Board and Supervisory Board does not provide for any deductible payable by the members of the Managing Board or Supervisory Board.

b. Composition of the Managing Board (section 4.2.1)

Section 4.2.1 of the Code recommends that the Managing Board consist of several persons. 10TACLE STUDIOS AG's Managing Board currently comprises only one member. However, the Supervisory Board intends to appoint another Managing Board member in 2007.

c. Establishment of committees (section 5.3)

Section 5.3 of the Code recommends the establishment of an Audit Committee in addition to the establishment of committees with sufficient expertise, depending on the specifics of the company and the number of members of the Supervisory Board. As the Supervisory Board of 10TACLE STUDIOS AG consists of three members, the establishment of committees is not necessary.

d. Structure of the Supervisory Board's remuneration (section 5.4.7)

Section 5.4.7 of the Code recommends reflecting the offices of Chairman and Deputy Chairman of the Supervisory Board in the remuneration of the Supervisory Board members, and including both fixed and performance-related components in the remuneration of the Supervisory Board members. In contrast to this recommendation, 10TACLE STUDIOS AG only reflects the office of Chairman and not that of the Deputy Chairman of the Supervisory Board in the remuneration of the Supervisory Board members. Furthermore, in accordance with Article 14 of the Articles of Association, the Supervisory Board members receive fixed remuneration only, and no performance-related remuneration.

Darmstadt, April 2007

For the Managing Board
of 10TACLE STUDIOS AG:



Michele Pes
CEO

For the Supervisory Board
of 10TACLE STUDIOS AG:



Dr. Markus Braun
Chairman of the Supervisory Board

CONSOLIDATED BALANCE SHEET

10TACLE GROUP in accordance with IFRSs
for the period ended December 31, 2006

ASSETS

	Note	December 31, 2006 €	December 31, 2005 €
NONCURRENT ASSETS			
Intangible assets			
→ Internally developed intangible assets	E.1	7,228,151.56	1,713,166.42
→ Other intangible assets	E.1	7,882,499.62	5,942,521.39
		15,110,651.18	7,655,687.81
Property, plant and equipment	E.2	1,153,120.45	580,695.87
Noncurrent financial assets	E.3	180,000.00	205,000.00
Other noncurrent receivables		18,328.43	2,382,981.59
Deferred taxes	E.4	2,687,112.97	1,265,524.58
TOTAL NONCURRENT ASSETS		19,149,213.03	12,089,889.85
CURRENT ASSETS			
Securities		1,031,297.89	0.00
Inventories	E.5	27,430.75	17,525.52
Trade receivables	E.6	23,044,920.29	5,528,265.38
Current tax receivables	E.7	104,467.76	60,864.87
Other current receivables	E.8	6,157,690.45	4,314,738.11
Cash and cash equivalents	E.9	11,309,329.35	7,121,378.87
Other current assets		314,870.40	0.00
TOTAL CURRENT ASSETS		41,990,006.89	17,042,772.75
OTHER ASSETS			
TOTAL OTHER ASSETS		0.00	400,000.00
TOTAL ASSETS		61,139,219.92	29,532,662.60

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

		December 31, 2006	December 31, 2005
	Note	€	€
EQUITY			
Subscribed capital	E.10a	5,049,851.00	259,358.00
Capital reserves	E.10c	21,601,584.39	9,180,132.55
Other reserves			
Retained earnings	E.10d	3,797,551.25	901,846.67
Translation reserve	E.10e	2,171.67	0.00
		3,799,722.92	901,846.67
EQUITY BEFORE MINORITY INTEREST		30,451,158.31	10,341,337.22
MINORITY INTEREST	E.14	532,656.97	242,240.20
TOTAL EQUITY		30,983,815.28	10,583,577.42
NONCURRENT LIABILITIES			
Noncurrent interest-bearing borrowings		13,662.58	93,780.90
Other noncurrent liabilities		255,319.96	0.00
Deferred taxes	E.11	4,901,341.77	1,799,468.33
TOTAL NONCURRENT LIABILITIES		5,170,324.31	1,893,249.23
CURRENT LIABILITIES			
Other current provisions	E.12	14,802,757.68	6,899,198.69
Current tax payables		62,624.74	27,264.00
Current interest-bearing borrowings		75,868.82	2,474,629.26
Trade payables		4,385,360.34	2,612,917.63
Other current liabilities	E.13	5,658,468.75	5,041,826.37
TOTAL CURRENT LIABILITIES		24,985,080.33	17,055,835.95
TOTAL EQUITY AND LIABILITIES		61,139,219.92	29,532,662.60

CONSOLIDATED INCOME STATEMENT

10TACLE STUDIOS GROUP in accordance with IFRSs
for the period January 1 to December 31, 2006

	Note	January 1, 2006 – December 31, 2006 €	January 1, 2005 – December 31, 2005 €
Revenue	D.1	29,284,800.31	17,895,903.51
Other operating income	D.2	872,729.09	386,073.73
Changes in inventories of finished goods and work in progress		0.00	-67,273.33
Work performed and capitalized	D.3	4,663,292.21	782,221.74
Cost of raw materials and consumables used, and of goods purchased and held for resale	D.4	10,245,169.23	7,207,173.88
Employee expenses	D.5	4,674,591.15	2,367,645.82
Depreciation, amortization and impairment losses	D.6	2,491,770.57	1,046,704.11
Other operating expenses	D.7	12,700,482.59	6,691,616.82
Operating result		4,708,808.07	1,683,785.02
Finance costs	D.8	207,647.29	439,641.37
Other financial income	D.8	380,490.88	61,996.93
PROFIT BEFORE TAX		4,881,651.66	1,306,140.58
Income tax expense	D.9	1,702,364.36	15,858.39
PROFIT		3,179,287.30	1,290,282.19
Profit attributable to minority interest		287,916.77	232,874.62
Profit attributable to equity holders of the parent		2,891,370.53	1,057,407.57
Retained profits brought forward (previous year: accumulated losses brought forward)		901,846.67	-155,560.90
NET RETAINED PROFITS		3,793,217.20	901,846.67
EARNINGS PER SHARE			
Basic earnings per share	D.11	0.63	0.40
Diluted earnings per share		0.63	0.40

INCOME STATEMENT · CASH FLOW STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

for the period January 1, 2006 to December 31, 2006

	Note	2006 € thousand	2005 € thousand
Profit		2,891	1,057
+ Depreciation, amortization and impairment losses	D.6	2,492	1,047
- Reversal of impairment losses on noncurrent assets	D.6	0	0
+/- Other noncash income/expense	F.2, D.5	49	69
+/- Increase/decrease in provisions, including deferred taxes	F.2, E.12	11,005	5,082
-/+ Gain / loss on disposal of noncurrent assets	F.2	2	0
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities including deferred tax assets	F.2, E.5-8	-18,785	-8,549
+/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	F.2, E.13	201	2,533
CASH FLOWS FROM OPERATING ACTIVITIES		-2,145	1,239
-/+ Payments to acquire/proceeds from disposal of property, plant and equipment/intangible assets	F.3, E.1-2	-10,519	-4,759
-/+ Payments to acquire/proceeds from disposal of noncurrent financial assets	F.3, E.3	25	-100
CASH FLOWS FROM INVESTING ACTIVITIES		-10,494	-4,859
-/+ Payments to acquire/proceeds from disposal of current financial instruments	F.1	0	0
- Distributions to shareholders		0	0
+ Capital increases	F.4, E.10a	17,167	6,378
+ Changes in translation reserve	F.4, E.10e	2	0
CASH FLOWS FROM FINANCING ACTIVITIES		17,169	6,378
CHANGE IN MINORITY INTEREST	E.14	290	242
NET CHANGE IN CASH AND CASH EQUIVALENTS		4,820	3,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	F.1	7,521	4,521
CASH AND CASH EQUIVALENTS AT END OF PERIOD	F.1	12,341	7,521

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for fiscal year 2006 (IFRSs)

SUBSCRIBED CAPITAL

	Note	Number of no-par value shares issued	Par value (notional) €
BALANCE AT JANUARY 1, 2004		25,000.00	25,000.00
Loss for the period			
Capital transactions		113,000.00	113,000.00
BALANCE AT DECEMBER 31, 2004		138,000.00	138,000.00
Profit for the period			
Capital transactions		121,358.00	121,358.00
BALANCE AT DECEMBER 31, 2005		259,358.00	259,358.00
Profit for the period		0.00	0.00
Currency translation differences	E.10e	0.00	0.00
Capital transactions		0.00	0.00
Cash capital increase (resolution by Managing and Supervisory Boards on Feb. 23, 2006)	E10b,c	25,422.00	25,422.00
Equity transaction costs	E.10b	0.00	0.00
Capital increase from capital reserves (resolution by AGM on May 8, 2006)	E10b,c	3,986,920.00	3,986,920.00
Cash capital increase (resolution by Managing and Supervisory Boards on June 20, 2006)	E10b,c	778,151.00	778,151.00
Equity transaction costs	E.10b	0.00	0.00
Cash capital increase (resolution by Managing and Supervisory Boards on Dec. 31, 2006)	E.10b	0.00	0.00
Equity transaction costs	E.10b	0.00	0.00
Share-based payments	D.5	0.00	0.00
BALANCE AT DECEMBER 31, 2006		5,049,851.00	5,049,851.00

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Capital reserves	Contributions made to implement the capital increase	Retained earnings	Other reserves	Total consolidated equity
€	€	€	€	€
0.00	0.00	-69,977.67	0.00	44,977.67
0.00		-85,583.23	0.00	-85,583.23
2,923,218.72	0.00	0.00	0.00	3,036,218.72
2,923,218.72	0.00	-155,560.90	0.00	2,905,657.82
1,057,407.57	0.00	0.00	0.00	1,057,407.57
6,256,913.83	0.00	0.00	0.00	6,378,271.83
9,180,132.55	0.00	901,846.67	0.00	10,341,337.22
0.00	0.00	2,895,704.58	0.00	2,895,704.58
0.00	0.00	0.00	2,171.67	2,171.67
0.00	0.00	0.00	0.00	0.00
4,398,006.00	0.00	0.00	0.00	4,423,428.00
-184,596.00	0.00	0.00	0.00	-184,596.00
-3,986,920.00	0.00	0.00	0.00	0.00
8,365,123.25	0.00	0.00	0.00	9,143,274.25
-567,984.00	0.00	0.00	0.00	-567,984.00
0.00	4,532,273.70	0.00	0.00	4,532,273.70
0.00	-179,506.81	0.00	0.00	-179,506.81
45,055.70	0.00	0.00	0.00	45,055.70
17,248,817.50	4,352,766.89	3,797,551.25	2,171.67	30,451,158.31

CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

10TACLE STUDIOS AG, Darmstadt, for fiscal year 2006

COST						
	January 1, 2006 €	Additions €	Translation adjustments €	Disposals €	Transfers €	Dec. 31, 2006 €
A. NONCURRENT ASSETS						
I. INTANGIBLE ASSETS						
1. Concessions, industrial and similar rights and assets, and licenses in such rights and assets	4,945,418.53	7,443,382.66	26,966.02	132,048.79	1,090,761.29	13,374,479.71
2. Goodwill	2,857,908.58	0.00	0.00	0.00	0.00	2,857,908.58
3. Prepayments	1,083,967.35	2,180,038.47	0.00	0.00	-1,083,620.29	2,180,385.53
Intangible assets	8,887,294.46	9,623,421.13	26,966.02	132,048.79	7,141.00	18,412,773.82
II. PROPERTY, PLANT AND EQUIPMENT						
1. Other equipment, operating and office equipment	854,580.78	1,050,880.06	31,546.91	87,214.66	-7,141.00	1,842,652.10
Property, plant and equipment	854,580.78	1,050,880.06	31,546.91	87,214.66	-7,141.00	1,842,652.10
III. NONCURRENT FINANCIAL ASSETS						
1. Equity investments	205,000.00	25,000.00	0.00	50,000.00	0.00	180,000.00
Noncurrent financial assets	205,000.00	25,000.00	0.00	50,000.00	0.00	180,000.00
	9,946,875.24	10,699,301.19	58,512.93	269,263.44	0.00	20,435,425.92

CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

CUMULATIVE DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES						CARRYING AMOUNTS		DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES IN THE FISCAL YEAR
January 1, 2006 €	Additions €	Translation adjustment €	Releases €	Transfers €	Dec. 31, 2006 €	Dec. 31, 2006 €	Dec. 31, 2005 €	€
1,231,606.66	2,049,608.39	20,312.59	0.00	595.00	3,302,122.64	10,072,357.07	3,713,811.87	2,049,608.39
0.00	0.00	0.00	0.00	0.00	0.00	2,857,908.58	2,857,908.58	0.00
0.00	0.00	0.00	0.00	0.00	0.00	2,180,385.53	1,083,967.35	0.00
1,231,606.66	2,049,608.39	20,312.59	0.00	595.00	3,302,122.64	15,110,651.18	7,655,687.80	2,049,608.39
274,035.59	442,162.19	31,383.52	57,273.19	-595.00	689,531.65	1,153,120.45	580,695.87	442,162.19
274,035.59	442,162.19	31,383.52	57,273.19	-595.00	689,531.65	1,153,120.45	580,695.87	442,162.19
0.00	0.00	0.00	0.00	0.00	0.00	180,000.00	205,000.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	180,000.00	205,000.00	0.00
1,505,642.25	2,491,770.57	51,696.11	57,273.19	0.00	3,991,654.29	16,443,771.63	8,441,383.67	2,491,770.57

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the period ended December 31, 2006

A GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS, BASIS OF CONSOLIDATION AND CONSOLIDATION METHODS

1. Consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs)

The bearer shares of 10TACLE STUDIOS AG, Goebelstrasse 21, 64293 Darmstadt, Germany are admitted to trading on the Frankfurt Stock Exchange. As the parent company, 10TACLE STUDIOS AG has therefore prepared consolidated financial statements in accordance with International Accounting Standards pursuant to Regulation (EC) No. 1606/2002 dated July 19, 2002. This means that, in accordance with section 315a (1) of the *Handelsgesetzbuch* (*HGB* - German Commercial Code), the Company is exempted from preparing *HGB* consolidated financial statements.

The consolidated financial statements of the “10TACLE STUDIOS AG Group” (hereinafter referred to as “10TACLE STUDIOS AG”) were prepared in compliance with the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) adopted and published by the IASB, and reflect all the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretations Committee (SIC). The requirements of the Standards applied were met in full and allow the Group to provide a true and fair view of its net assets, financial position and results of operations.

The additional requirements of the *HGB* to be observed as set out in section 315a(1) of the *HGB* were applied where relevant.

2. Group structure

a) Parent company

The Group's parent company is 10TACLE STUDIOS AG, Goebelstrasse 21, 64293 Darmstadt, Germany, which is entered in the commercial register of Darmstadt Local Court under no. HRB 9145.

b) Basis of consolidation

The basis of consolidation was defined in accordance with IAS 27 in conjunction with Standing Interpretations Committee (SIC) Interpretation 12. It therefore comprises all German and foreign subsidiaries over which the Company can exercise control as defined in IAS 27.6 in conjunction with IAS 27.12.

The following overview shows the individual subsidiaries included in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company:	Share capital €	Equity interest %	Profit/loss for FY 2006 €	Equity as of Dec. 31, 2006 €
Reakktor media GmbH, Hanover	50,000.00	100.00	385,743.22	665,301.46
10tacle Publishing GmbH, Darmstadt	25,000.00	100.00	54,713.77	2,537.16
10tacle GDP III GmbH, Darmstadt	25,000.00	100.00	-2,742.92	21,698.86
10tacle GDP VI GmbH, Darmstadt	25,000.00	100.00	-4,796.56	-17,885.99
10tacle GDP VII GmbH, Darmstadt	25,000.00	100.00	-2,143.74	13,640.49
10tacle GDP IX GmbH, Darmstadt	25,000.00	100.00	10,974.76	29,869.37
10TACLE MOBILE GmbH (formerly 10tacle GDP XII GmbH), Darmstadt	25,000.00	100.00	5,440.36	28,392.44
10TACLE RES. AND DEVELOPM. GmbH (formerly 10tacle GDP XIII GmbH)	25,000.00	90.00	-11,575.53	11,376.55
10T TRAVEL GmbH (formerly 10tacle GDP XIV GmbH)	25,000.00	90.00	-67,679.11	-43,960.53
10tacle GDP XII GmbH, Darmstadt	25,000.00	100.00	-34,961.78	-9,961.78
10tacle GDP XIV GmbH, Darmstadt	25,000.00	100.00	-7,712.12	17,287.88
10tacle GDP XV GmbH, Darmstadt	25,000.00	100.00	-5,899.98	19,100.02
10tacle GDP XVI GmbH, Darmstadt	25,000.00	100.00	-1,770.21	23,229.79
10tacle GDP XVII GmbH, Darmstadt	25,000.00	100.00	-1,769.98	23,230.02
10tacle studios Slovakia s.r.o., Bratislava	15,465.51	90.00	-111,208.27	127,762.65
10tacle studios Pte Ltd., Singapore	0.98	50.00	-117,078.03	289,113.54
Elsewhere Entertainment SPRL, Charleroi, Belgium	33,606.00	91.80	796,392.24	1,147,552.05
Blimey! Games Ltd., London, UK	1,453.02	51.00	699,230.01	704,103.50

The basis of consolidation does not include special purpose entities in which the Company holds a majority interest but over which it does not exercise control based on the existing contractual arrangements in accordance with IAS 27.12 in conjunction with SIC 12.10(b). This applies to seven special purpose entities. As there is no possibility of exercising control over the financial and business policy of these entities, including them in the basis of consolidation would lead to an incorrect presentation from an economic perspective. The equity investments in the companies concerned are reported as investments or financial assets in accordance with IAS 39 and IAS 1.68d.

They relate to the following companies:

Company	Share capital €	Profit/loss for FY 2005 €	Profit/loss for FY 2006 €	Equity as of Dec. 31, 2006 €
10tacle GDP I GmbH, Darmstadt	25,000	-213.23	-7,661.63	11,408.64
10tacle GDP II GmbH, Darmstadt	25,000	-5,564.11	-1,713.57	13,004.82
10tacle GDP IV GmbH, Darmstadt	25,000	-1,154.55	-8,660.10	10,196.90
10tacle GDP V GmbH, Darmstadt	25,000	620.13	79.56	20,206.74
10tacle GDP VIII GmbH, Darmstadt	25,000	-6,055.42	11,518.11	30,462.69
10tacle GDP X GmbH, Darmstadt	25,000	-6,055.40	6,816.32	25,760.92
10tacle GDP XI GmbH Darmstadt	25,000	-6,055.40	10,355.44	29,300.04

c) Changes in the basis of consolidation

The subsidiaries that were already included in the basis of consolidation as of December 31, 2005 – 10tacle GDP XII GmbH, 10tacle GDP XIII GmbH and 10tacle GDP XIV GmbH – were renamed 10TACLE MOBILE GmbH (previously 10tacle GDP XII GmbH), 10TACLE RESEARCH & DEVELOPMENT GmbH (previously 10tacle GDP XIII GmbH) and 10T TRAVEL GmbH (previously 10tacle GDP XIV GmbH) in the period under review. The “10tacle Game-Development & Production GmbHs” will be abbreviated to “GDPs” in this section.

Five new subsidiaries were included in the basis of consolidation. These are the GDPs XII, XIV, XV, XVI and XVII. GDP XIII, another new subsidiary set up at the beginning of the fiscal year, was sold on December 14, 2006 at its notional value (€25,000) and deconsolidated with effect from this date. As GDP XIII did not develop any significant business activities during its period of consolidation, the disclosure and measurement requirements of IFRS 5 “Discontinued Operations” are not relevant. The Group generated income of €2,850.53 from the sale as the difference between the carrying amount of equity and the purchase price.

Ten percent of the nominal capital of 10TACLE MOBILE GmbH and 10T TRAVEL GmbH was transferred at the notional value to the respective management bodies. The interest in 10T TRAVEL GmbH was bought back as of December 21, 2006 for a price of €1. The liquidation of 10T TRAVEL GmbH was also resolved on December 21, 2006. During the period of its inclusion in the basis of consolidation, 10T TRAVEL GmbH did not develop any significant business activities. This entity’s main function was to look after the Group’s travel arrangements. In the future, these activities will be carried out locally once more. The liquidation did not lead to any divestitures. Consequently, there are no discontinued operations as defined by IFRS 5. In fiscal 2006, 10T TRAVEL GmbH incurred a loss of €63 thousand net of the revenue of €2,499 from the sale of the interest at notional value (€2,500) and its repurchase for €1, which is recognized under other operating income. The changes in the basis of consolidation described above did not lead to the adjustment of prior-year figures.

All subsidiaries included were fully consolidated in accordance with IAS 27. There were no jointly controlled entities in accordance with IAS 31 that must be consolidated proportionately, nor were there any associates in accordance with IAS 28 that must be accounted for at equity if significant influence is exercised.

d) Consolidated balance sheet date

In accordance with IAS 27.26, the uniform consolidated balance sheet date is the closing date of the parent company 10TACLE STUDIOS AG, December 31, 2006. The single-entity balance sheets of all consolidated subsidiaries were included at the consolidated balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

e) Consolidation methods

The financial statements of the companies to be included in the consolidated financial statements were prepared using uniform accounting policies. To do so, locally applicable accounting policies of the subsidiaries were modified or added to where necessary so as to ensure uniform application of the Company's accounting policies at Group level.

The consolidated financial statements were based on 10TACLE STUDIOS AG's *HGB* annual financial statements prepared and audited as of December 31, 2006. The companies "Blimey! Games Ltd. (10tacle UK)", "10tacle studios Pte Ltd., Singapore", "Elsewhere Entertainment SPRL, Charleroi (10tacle Belgium)" and "10tacle studios Slovakia s.r.o., Bratislava" each prepared annual financial statements as of December 31, 2006 that were audited in accordance with local law and issued with an audit certificate. Corresponding compilation reports for fiscal year 2006 were available for the other companies. During the preparation of the consolidated financial statements, the single-entity financial statements of the subsidiaries prepared in accordance with local GAAP and those of the Company were reconciled to adjusted IFRSs single-entity financial statements in accordance with uniform Group accounting policies.

Acquisition accounting uses the purchase method in accordance with IFRS 3.14, under which the cost of the investment in the subsidiary is eliminated against the acquirer's share of equity at the acquisition date and is allocated to the net fair value of the identifiable assets and liabilities. In accordance with IAS 12, deferred taxes are recognized for positive and negative fair value increments recognized after the above-mentioned measurement. Any difference remaining after the measurement of the acquiree's net assets at fair value is recognized as goodwill. In accordance with IAS 12.66, no deferred taxes are recognized for goodwill at the date of initial consolidation.

Recognized positive and negative fair value increments attributable to assets and liabilities are depreciated or amortized in subsequent periods according to the treatment of the corresponding assets and liabilities.

All intercompany profits and losses, revenue, income and expenses as well as receivables and liabilities or provisions relating to transactions between consolidated companies are eliminated. Where necessary, deferred taxes are recognized in accordance with IAS 12.

In accordance with IAS 27.33, minority interest in profit or loss is reported separately in the income statement and minority interest is presented as a separate item in equity.

B. SIGNIFICANT MANAGEMENT JUDGMENT AND ESTIMATES

The preparation of consolidated financial statements in accordance with IFRSs requires management to make assumptions and estimates concerning specific situations as well as the effects of these on the assets, liabilities, income and expenses reported in the annual financial statements and on contingent liabilities that have not been recognized. Actual events may differ from such assumptions and estimates. The principal situations whose presentation in the annual financial statements is subject to substantial management judgment are outlined below.

1. Management judgment

The basis of consolidation does not include special purpose entities in which the Company holds a majority interest but over which it does not exercise control based on the existing contractual arrangements in accordance with IAS 27.12 in conjunction with SIC 12.10(b). As there is no possibility of exercising control over the financial and business policy of these entities, the Group's management believes that including them in the basis of consolidation would lead to an incorrect presentation from an economic perspective.

2. Estimates

Assumptions and estimates mainly relate to the useful lives of intangible assets, the measurement of long-term development contracts, the measurement of provisions for production services, the measurement of provisions for sales guarantees and the likelihood of tax charges being imposed in future periods.

a) Intangible assets

Intangible assets include rights to purchased and internally developed games software that are reduced by straight-line amortization over the estimated product life. As the product life of a game involves various marketing phases, the game is tested for impairment at each balance sheet date by comparing the amortized cost with the recoverable amount or the value in use. On the basis of an estimate of the revenue to be generated from the “GTR - FIA GT Racing Game” during the third marketing phase, a value in use lower than the amortized cost was determined as the present value of the expected cash flows from marketing activities. This resulted in the game being written down for impairment (€223 thousand) to the value in use (approx. €200 thousand).

In its studios, the Company develops middleware called “NeoReality” for games production. The first generation of NeoReality was completed in the year under review and the cost of production for the Group reported under internally developed intangible assets. The first generation relates to the production of games for PCs and Xbox 360™, and Group management estimates that this generation will have a useful life of five years. At the end of the fiscal year, 10TACLE STUDIOS AG tested this intangible asset for impairment on the basis of the present value of the license payments saved (relief from royalty method) for the projects already planned on the basis of this technology, as well as expected license payments from use at companies outside the Group. A risk-adjusted discount rate deemed appropriate by management was used to determine the present value. This impairment test did not indicate a need for impairment.

Development of the second generation of NeoReality started in the past fiscal year. The focus for this generation, which is scheduled to be completed in 2008, is on the production of games on other platforms. An estimate of the expected future cash flows from third-party marketing of NeoReality from 2008 onwards results in a value in use that is higher than the production cost already incurred by the Group and calculated for the future. This is determined by discounting revenue using a risk-adjusted discount rate deemed appropriate by Group management. There were no indications of impairment.

b) Construction contracts

As a service provider, 10TACLE STUDIOS AG produces and develops computer games for third parties on the basis of its service provider model. Such development contracts generally extend over more than one reporting period. Development contracts usually contain a fixed price contract based on a development cost budget calculated by the Company. The percentage of completion method in accordance with IAS 11 is used to report these contracts. The stage of completion is determined using the cost-to-cost method as set out in IAS 11.31, under which the costs already incurred are compared with the total estimated contract costs and controlled on the basis of set milestones being reached. In the accompanying financial statements, the percentage of completion method is used to recognize the development contracts for the games “Elveon” for the Microsoft Xbox, Sony Playstation 3 and Personal Computer (PC) platforms by the Group’s subsidiary 10tacle studios Slovakia and “The Race” for the Microsoft Xbox 360™ and PC platforms by Blimey! Games Ltd. London, England. A review of the expected future cost of developing these games did not indicate a need to adjust the original calculations and estimates.

c) Provisions

Development contracts by investment companies for games involving a consolidated special purpose entity are generally financed by a contribution to the production cost based on a cost estimate calculated by 10TACLE STUDIOS AG. The costs expected to be incurred up until the development contracts in question have been completed provide the basis for the provisions for production and production services reported in the balance sheet. A buffer is provided in the form of an overrun reserve that can be drawn on in the event that costs exceed original estimates. If there is no need to draw on the overrun reserve, this is generally used for product marketing for the client's benefit. Overrun reserves are therefore also carried as provisions in their full amount. A review of production progress in existing development contracts at the balance sheet date showed that in two cases the production costs to be incurred before completion of the project fell short of the original cost calculation, requiring a partial reversal of the provisions concerned.

d) Deferred taxes on tax loss carryforwards

The Company has tax loss carryforwards as a consequence of the Group's development in the past, which is largely attributable to 10TACLE STUDIOS AG, and related expenses. Even without including dividend payments by subsidiaries, 95% of which are ultimately tax free at the parent company in accordance with section 8b of the *Körperschaftsteuergesetz* (KStG – German Corporate Income Tax Act), Group management is expecting tax gains at the parent company in the coming years that will allow the tax loss carryforwards to be used. For this reason, deferred tax assets have been recognized for the tax loss carryforwards in the amount of the anticipated future tax relief.

e) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. In the accompanying financial statements, such possible or present obligations are recognized as provisions on the face of the balance sheet if Group management believes it is more likely than not that there will be an outflow of resources.

The matters for which an outflow of resources is not sufficiently probable for the recognition of a provision, but whose utilization cannot be ruled out completely are described in detail under other contingent liabilities.

C. ACCOUNTING POLICIES, BASIS OF MEASUREMENT

1. Currency translation

The Group's reporting currency is the euro. The translation of the financial statements of foreign operations included in consolidation uses the functional currency principle in accordance with IAS 21. The functional currencies are currently the local currencies of the Company's subsidiaries in Slovakia, Singapore and the United Kingdom, as the companies concerned operate independently in the local currency in financial, commercial and organizational terms. Accordingly, assets and liabilities are translated at the closing rate, and income and expense are translated at the annual average rate. Differences compared with the prior-year translation are eliminated against equity.

Transactions by the individual Group companies in foreign currencies are translated at the relevant spot rate. Non-monetary items that were measured at historical cost in a foreign currency are translated at the exchange rate at the transaction date. Expenses and income arising from currency translation differences are recognized in the Group companies' profit or loss and recorded under finance cost or other financial income.

2. Recognition of income and expense

Revenue and other operating income are recognized at the time the goods are delivered or the service is rendered, or at the time of transfer of risk of accidental destruction. Operating expenses are recognized in profit or loss when the service is utilized or at the date they are constructively incurred. Interest is accrued.

3. Intangible assets

Intangible assets are capitalized when they are identifiable, their cost can be reliably measured and the Group expects to derive future economic benefits from their use. Purchased intangible assets are carried at cost. Internally developed intangible assets are carried at cost and reduced by straight-line amortization over their useful lives of between two and five years. Cost includes all direct and indirect costs directly attributable to the production process in accordance with IAS 38.66. Borrowing costs within the meaning of IAS 23 are not included in the cost of intangible assets. The amortization period commences in accordance with IAS 38.97, which states that amortization begins when the internally developed intangible asset is available for use and is in the condition necessary for it to be capable of operating in the manner intended by management. In accordance with IFRS 3 and IAS 36, goodwill arising from consolidation is not amortized.

Software is amortized over a three-year useful life.

The carrying amounts of intangible assets are reduced by straight-line amortization only.

Impairment losses are recognized if there are indications of impairment in accordance with an impairment test under IAS 36, or if there are indications that the recoverable amount or the value in use of intangible assets or goodwill is lower than their carrying amount. In the accompanying financial statements, the software for the "GTR - FIA Racing Game" was written down for impairment (€223 thousand) to the value in use (approx. €200 thousand), which is lower than the amortized cost.

There was no negative goodwill from acquisition accounting required to be deducted directly from goodwill in accordance with IAS 22.

4. Property, plant and equipment

Items of property, plant and equipment with a useful life in excess of one year are carried at cost less depreciation. Cost includes all direct and indirect costs directly attributable to the production process. Borrowing costs are not included in the cost of assets. The assumed useful lives correspond to the expected actual useful lives of the assets in the Group; useful lives based solely on tax rules are not applied. The useful life of items of operating and office equipment is up to ten years. Only the straight-line method of depreciation is applied.

5. Impairment losses

Intangible assets and items of property, plant and equipment are written down for impairment if an impairment test indicates that the recoverable amount of the asset is lower than its carrying amount. The recoverable amount of an asset is the higher of its net selling price and the present value of the future cash flows expected to be derived from the asset (value in use). The accompanying financial statements take account of the need to charge impairment losses in the amount of €223 thousand on the game software "GTR - FIA Racing Game", which is recognized as an intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Leases

In accordance with IAS 17, leased assets are accounted for by the Company if substantially all the risks and rewards incidental to ownership are transferred to the relevant Group company (finance leases). In the accompanying financial statements, however, all existing leases are classified as operating leases. Such leases mainly relate to the rental of office and production space and to the leasing of vehicles and operating and office equipment.

7. Noncurrent financial assets

Investments in associates are accounted for using the equity method in accordance with IAS 28. Investments in companies on whose operating and financial policies the Company does not exercise any significant influence are carried at cost or the lower fair value in accordance with IAS 39. In the accompanying financial statements, this relates to majority equity interests not included in the consolidated financial statements because they are not controlled by the Company.

8. Inventories

Inventories are carried at purchase or production cost. Cost includes all direct and indirect costs directly attributable to the production process. Borrowing costs are not included in the cost of inventories. Inventories are measured at the reporting date at the lower of cost or net selling price.

9. Construction contracts

Construction contracts are accounted for using the percentage of completion (PoC) method. The stage of completion is determined using the cost-to-cost method, under which the costs already incurred are compared with the total estimated contract costs. Where the stage of completion exceeds prepayments received, contract revenue is recognized as a receivable, with prepayments recognized as liabilities. In the accompanying financial statements, prepayments of €2,323 thousand for construction contracts recognized using the PoC method are contained in other current liabilities. Provisions are recognized for any onerous contracts.

There were no indications of onerous contracts in the accompanying financial statements.

10. Receivables and other assets

Unless held for trading, receivables and other assets are carried at amortized cost at the balance sheet date net of specific appropriate valuation allowances.

11. Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances and current financial assets with an original maturity of less than three months. Where overdraft facilities are drawn on, these are reported under current liabilities. The cash and cash equivalents carried in the consolidated cash flow statement include cash and bank balances and marketable securities and funds as defined above.

12. Provisions

Provisions are recognized for an obligation to third parties arising from a past event when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If no provision is recognized because at least one of these conditions is not met, the obligation is disclosed as a contingent liability.

13. Liabilities

Liabilities are carried at their repayment amounts.

14. Deferred taxes

In accordance with IAS 12, deferred taxes are recognized for measurement differences between the carrying amounts of assets and liabilities in the IFRSs consolidated financial statements and their tax base at the individual companies provided that these differences are temporary. Provisions for taxes are recognized and reversed to profit or loss to reflect the underlying transaction: Deferred taxes are recognized in profit or loss if the temporary difference in the carrying amount of the item to which the deferred tax relates is also recognized in profit or loss. Deferred taxes are recognized directly in equity if the underlying temporary difference is also recognized directly in equity. Deferred taxes on hidden reserves and liabilities from acquisition accounting at the time of the initial inclusion of subsidiaries are eliminated against equity. Tax loss carryforwards that are expected to be utilized in future periods are recognized in the amount of the resulting deferred tax asset. Deferred tax assets and liabilities are recognized independently of the time of their reversal. Deferred taxes are measured or calculated using the expected tax rate for the period of translation on the basis of existing tax law. The deferred tax assets and liabilities are reported under noncurrent assets or noncurrent liabilities. They are not discounted.

15. Consolidation adjustments with a material effect on profit or loss

Intragroup consolidation adjustments and the initial consolidation of companies had the following material effects on consolidated profit or loss:

	Effect on profit or loss in 2006 € thousand	Effect on profit or loss in 2005 € thousand
1. Group-related adjustments of provisions	3,435	1,248
2. Adjustment of measurement of the provisions for future intragroup production services	865	1,343
3. Adjustment of amortization of intangible assets to reflect the single-entity financial statements of foreign operations	421	41
4. Recognition of tax loss carryforwards (deferred tax assets)	150	1,171
5. Adjustment of measurement of the provisions for future intragroup production costs	0	440
6. Consolidation adjustments recognized as an expense	-265	-5
7. Minority interest in profit or loss	-288	-233
8. Deferred tax liabilities (for adjustments made in accordance with 1 to 3 and 6 above)	-2,066	-1,212
	2,252	2,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The adjustments with regard to the measurement of provisions relate to provisions in the single-entity financial statements of game development subsidiaries for services to be provided. The provisions in the single-entity financial statements were measured in accordance with the service contracts agreed with the sister companies (development studios) in the amount of the future expected invoices. Where contribution margins and profit margins from the development studios or assets that are capitalizable from the Group's perspective have been included in the budget calculations, no provisions may be recognized by the Group. The same applies to the provisions for future production services.

D. INCOME STATEMENT DISCLOSURES

1. Revenue

	2006	2005
	€ thousand	€ thousand
Revenue from production activities	14,826	10,235
Revenue from production services	6,468	1,887
Revenue from the marketing of games	6,126	4,037
Revenue from the sale of rights	1,732	0
Revenue from preproduction	0	1,025
Other	133	711
TOTAL REVENUE	29,285	17,896

Production revenue includes revenue from long-term development contracts calculated using the percentage of completion method and amounting to a total of €3,706 thousand (previous year: €1,349 thousand). Expenses from construction contracts amount to €3,477 thousand (previous year: €1,030 thousand) and are recognized in the individual expense accounts. The costs of the period correspond to the cumulative cost-to-date of contracts in progress at the reporting date. Cumulative profit from such contracts amounts to €492 thousand (previous year: €319 thousand). Profit from the completion of such construction contracts in the past fiscal year totaled €56 thousand. It was not necessary to adjust the estimates for the costs expected up until the expected date of completion.

2. Other operating income

Other operating income (€873 thousand; previous year: €386 thousand) includes income of €710 thousand (previous year: €118 thousand) from the reversal of provisions recognized as a result of an updated calculation of the anticipated costs for the production of games and the provision of after-sales services.

3. Work performed and capitalized

Work performed and capitalized relates to the internally developed middleware NeoReality and other technologies for game development as well as to the development of games such as "The Race" for the PS3 platform.

4. Cost of raw materials and consumables used, and of goods purchased and held for resale

At €10,245 thousand, the cost of raw materials and consumables used comprises additions to provisions in the consolidated GDP subsidiaries for production services to be rendered amounting to €7,076 thousand (previous year: €6,882 thousand) and expenses for freelance employees in the development studios amounting to €2,828 thousand.

5. Employee expenses

	2006 € thousand	2005 € thousand
Wages and salaries	3,735	1,951
Social security	895	417
Stock options (fair value)	45	0
	4,675	2,368

Share-based payments

10TACLE STUDIOS AG has a stock option program. On the basis of the authorization by the General Meeting on June 8, 2006, the Company issued a total of 80,500 stock options to employees and Managing Board members. The stock options mature in five years. The vesting period is (a minimum of) two years in accordance with section 193(2) no. 3 of the *Aktengesetz* (AktG – German Stock Corporation Act). The exercise of the options is contingent on a profit target being reached, i.e. an increase of 15% in the share price compared with the price on the option grant date within the last twelve months prior to the exercise date. Each stock option entitles the holder to subscribe for one share for a price of €11.60 on expiry of the vesting period.

The fair value of the stock options was determined using an option pricing model in accordance with IFRS 2. The options were measured based on the following assumptions:

Risk-free interest rate	3.04%
Volatility	30%
Expected term of the option	2 years
Expected employee turnover in 2 years	20%
Exercise price of the option	€11.60
Expected yield	0%
Overall term of the stock option plan	5 years

The fair value of the options issued in 2006 is €180,223. This value is recognized as an expense over the period until the options can be exercised for the first time. In 2006, €45,055 was recognized as an expense and transferred to the capital reserves.

As there was no historical company data, volatility was calculated based on the volatilities of comparable companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Depreciation, amortization and impairment losses

€2,050 thousand (previous year: €883 thousand) of the depreciation, amortization and impairment losses (€2,492 thousand; previous year: €1,047 thousand) relates to intangible assets, and €442 thousand (previous year: €164 thousand) to property, plant and equipment. Amortization of intangible assets includes impairment losses of €233 thousand incurred in relation to the racing game “GTR - FIA Racing Game”.

7. Other operating expenses

	2006 € thousand	2005 € thousand
Production and license costs	3,495	2,540
Marketing and advertising costs	1,852	1,263
Administrative expenses (occupancy and office expenses, etc.)	1,509	653
Other legal and advisory costs (Germany)	1,010	255
Vehicle costs, travel expenses	988	751
Costs in connection with acquisition of rights/fund placements	860	0
IPO costs (excl. costs of finance)	556	0
Other legal and advisory costs (international)	471	129
Warranty costs	294	214
Bad debt losses, write-downs of receivables	220	201
Year-end closing costs	210	177
Management consulting (general)	201	89
Investor relations	132	0
Accounting costs	124	86
Audit costs (Germany and international)	107	77
Monetary transaction costs	91	139
Miscellaneous	580	118
	12,700	6,692

Production and license costs mainly comprise the cost of producing CD ROMs and packaging, as well as the cost of licenses for the three fund games “GT Legends”, “GTR II” and “Black Buccaneer” paid to AAA Capital Game Production and Sales GmbH & Co. Fonds Nr. 1 KG.

8. Finance costs, financial income

Finance costs (€208 thousand; previous year: €440 thousand) include accrued interest and similar expenses. Finance costs and financial income mainly comprise currency translation differences (expenses: €120 thousand; income: €135 thousand) from foreign development studios (in particular from 10tacle studios Slovakia s.r.o., Bratislava).

The costs of equity transactions were deducted directly from the capital reserves in accordance with IAS 32.37.

9. Income tax expense

Income taxes are composed of the following items:

	2006 €	2005 €
Income taxes, tax expense (-), tax income (+)		
Income taxes: current year and prior periods	-22,083	29,237
Deferred tax expenses	-3,101,873	1,310,620
Deferred tax income from recognition of loss carryforwards	1,421,592	1,265,525
	-1,702,364	-15,858

In 2006 and 2005, the corporate income tax rate in Germany was 25% plus the solidarity surcharge of 5.5% on corporate income tax. The effective trade tax rate is 17.53%, reflecting the multiplier in Darmstadt (425%). The fact that trade tax is deductible on its own tax base and on the base for corporate income tax resulted in an overall tax rate of 39.2% for Darmstadt and 40.2% for Hanover. The other tax rates of relevance here are 34% for Belgium, 19% for the United Kingdom, 20% for Slovakia and 0% for Singapore on account of 10tacle's exemption from income tax thanks to its pioneer status.

In accordance with IAS 12.86, the average effective tax rate for the Group is the ratio of the tax expense (income) to the IFRSs accounting profit. Income taxes comprise the current and deferred tax expense and/or tax income. Based on the IFRS profit or loss before tax of €4,881 thousand (previous year: €1,306 thousand), this leads to an expected tax expense of €1,914 thousand (previous year: €512 thousand), an increase of €212 thousand (previous year: €528 thousand) on the current tax expense of €1,702 thousand (previous year: €-6 thousand). In the following table, the expected tax expense based on the tax rate for the parent company is reconciled to the current tax expense.

	2006 € thousand	2005 € thousand
Reconciliation to current tax expense		
Profit before income tax	4,882	1,306
Income tax rate for 10TACLE STUDIOS AG	39.2%	39.2%
Expected tax expense	1,914	512
Discrepancy in taxation due to differences between local tax rates and the hypothetical tax rate	-181	-114
Reductions due to tax-free income less tax increases on account of non-deductible expenses	-31	-414
Current tax expense (+), tax income (-)	1,702	-16
Effective tax rate	34.9%	-1.2%

10. Segment reporting

In accordance with IAS 14.31, an entity's segments are defined on the basis of the internal organizational structure. A business segment is a unit of an entity that is engaged in providing products or services and that is subject to risks and returns that are homogeneous per se but different from those of other business segments. In its primary reporting, the Group's activities are divided into three segments: the Service Provider segment, the Studio segment and the Publishing segment.

Service Provider segment

As a service provider, 10TACLE STUDIOS AG offers third parties (e.g. media funds) services in the area of development, production and marketing of computer and video games. Revenue in this segment is generated from related service fees for development and production, net of expenses amounting to the actual cost. Most of the revenue 10TACLE STUDIOS AG generates from product marketing is first passed onto the relevant clients. However, 10TACLE STUDIOS AG does benefit from this marketing revenue when defined revenue targets are reached. The marketing revenue is reduced in particular by expenses for marketing and advertising which, similar to revenue, are partially oncharged the clients.

Studio segment

The Studio segment is responsible for the in-house development of computer and video games plus related development technologies such as the "NeoReality" middleware technology used to develop games. This segment therefore invests heavily in the development of games and technologies, as well as in trademark rights and licenses. Revenue is usually not generated until after the investment phase, and its amount depends on the market situation. Expenses, primarily for ongoing service costs and amortization of the investments, are deducted from this revenue.

Publishing segment

10TACLE STUDIOS AG commissions external development studios with the production of computer and video games, takes responsibility for project control and project management, and licenses the finished products to distributors. Sales revenue is shown net of marketing expenses and external development expenses.

Secondary reporting focuses on geographical areas and reflects country- or region-specific risks.

	Service Provider	Studio	Publishing	Elimination/ unallocated items	Group
2006 segment information	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
External revenue	27,966	1,053	266		29,285
Intersegment revenue	8,490	520	2		9,012
Total revenue	36,456	1,573	268	-9,012	29,285
Germany	20,278	820	37		21,135
Belgium	430	123	0		553
Slovakia	1,553	0	0		1,553
United Kingdom	1,444	0	-24		1,420
Asia	405	0	28		433
Other, including United States	3,856	110	225		4,191
Segment depreciation, amortization and impairment losses	1,073	720	874	-175	2,492
Non-cash expense	20,493	0	0	-6,635	13,858
Segment result	7,555	-146	-1,072	-1,628	4,709
Net finance costs					173
Profit/loss before tax					4,882
Taxes					-1,702
Consolidated net profit/loss					3,179
Segment assets	30,950	5,046	2,937		38,932
Unallocated assets				22,207	22,207
Segment liabilities	33,324	163	752		34,239
Unallocated liabilities				26,900	26,900
Segment investments	7,349	3,733	1,822		12,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Service Provider	Studio	Publishing	Elimination/ unallocated items	Group
2005 segment information	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Revenue	16,841	175	880		17,896
Intersegment revenue	3,414	0	0		3,414
External revenue	20,255	175	880	-3,413	17,896
Germany	14,677	140	0		14,817
Belgium	385	0	0		385
Slovakia	1,297	0	0		1,297
United Kingdom	1,189	0	0		1,189
Asia	545	0	0		545
Other, including United States	2,162	35	880		3,077
Segment depreciation, amortization and impairment losses	162	50	722	835	1,769
Non-cash expense	11,334	639	1,039	-473	12,539
Segment result	3,070	-652	-881	-86	1,451
Net finance costs					-378
Profit/loss before tax					1,073
Taxes					16
Consolidated net profit/loss					1,057
Segment assets	15,802	1,817	1,877		19,496
Unallocated assets				10,036	10,036
Segment liabilities	14,976	0	1,070		16,046
Unallocated liabilities				13,487	13,487
Segment investments	811	1,273	184	5,191	7,459

11. Earnings per share

The Company's basic earnings per share (EPS) were €0.63 as of December 31, 2006. This was calculated by dividing the profit attributable to equity holders of the parent (after deduction of minority interests in profit) by the weighted average number of ordinary shares outstanding during the period (IAS 33.10).

In the calculation of the number of shares outstanding in 2006, the cash capital increases on March 30, June 21 and December 19, 2006 were taken into account on the exact date with the due date for each payment to determine the weighted average number of shares outstanding in fiscal year 2006. The capital increase from capital reserves (conversion of part of the capital reserves) on May 8, 2006 was also taken into account. Each shareholder was granted 14 new shares (without a cash call) in the course of this capital increase. This leads to a retrospective adjustment of the outstanding shares to the beginning of the periods presented in these financial statements (IAS 33.64). As a result, the basic earnings per share as of December 31, 2005 need to be adjusted accordingly and now amount to €0.40 per share.

On July 1, 2006, the Company's Managing Board and Supervisory Board issued a total of 80,500 stock option rights to employees of the Company and its affiliates, to members of management of affiliated companies and to the member of the Company's Managing Board. As the condition for the conversion of employee stock options (15% increase in the share price compared with the share price on the option grant date) was not satisfied at the balance sheet date, the issue of the stock options did not dilute earnings per share as of December 31, 2006. There were no other situations that would have resulted in a dilution of earnings per share in the periods presented in these financial statements.

Earnings per share (EPS) in 2006

Date	Days	From	By	To	Weighted average number of shares outstanding	Profit/loss after tax and minority interest	EPS
		(no.)	(no.)	(no.)		€	€
Basic EPS							
January 1, 2006				3,890,370	937,952		
March 30, 2006 Cash capital increase	88	3,890,370	381,330	4,271,700	456,428		
May 8, 2006 Capital increase from capital reserves	39	4,271,700	0	4,271,700	514,945		
June 21, 2006 Cash capital increase (IPO)	44	4,271,700	778,151	5,049,851	2,504,173		
December 19, 2006 Cash capital increase	181	5,049,851	427,170	5,477,021	195,072		
December 31, 2006	13						
Basic EPS as of December 31, 2006	365				4,608,570	2,893,871	0.63

Earnings per share (EPS) in 2005

Date	Days	From	By	To	Weighted average number of shares outstanding	Profit/loss after tax and minority interest	EPS
		(no.)	(no.)	(no.)		€	€
Basic EPS							
January 1, 2005				2,070,000	1,293,041		
August 17, 2005 Cash capital increase	228	2,070,000	1,552,500	3,622,500	1,111,562		
December 7, 2005 Cash capital increase	112	3,622,500	267,870	3,890,370	266,464		
December 31, 2005	25						
Basic EPS as of December 31, 2005	365				2,671,066	1,057,408	0.40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

E. DISCLOSURES ON MATERIAL BALANCE SHEET ITEMS

1. Intangible assets

	2006 € thousand	2005 € thousand
Internally developed intangible assets		
“NeoReality” middleware engine	3,124	1,713
Other internally developed intangible assets – technologies and games	4,105	0
	7,228	1,713
Other intangible assets		
Software	606	748
Licenses for software games and other licenses	2,238	1,253
Goodwill	2,858	2,858
Prepayments on intangible assets	2,180	1,084
	7,882	5,943
	15,110	7,656

Internally developed intangible assets relate in part to the first and second generations of the “NeoReality” middleware in the amount of €3,124 thousand. The first generation for the PC and Xbox 360™ platforms was completed in 2006. This item, which has a useful life of five years, will be amortized starting in 2006; the amortization charge for three month of 2006 is €91 thousand. Internally developed intangible assets also comprise other rights and licenses to games and the capitalized production cost of internally developed games in the amount of €2,075 thousand as well as other internally developed technologies amounting to €2,030 thousand.

At €606 thousand, software is amortized over a useful life of a maximum of three years.

The goodwill shown above (€2,858 thousand) results from acquisition accounting in the previous year in accordance with IFRS 3 and is not amortized. There are no indications of impairment.

Other intangible assets relate to licenses for the games “GTR - FIA GT Racing Game”, “Michael Schumacher World Kart Tour” and “Oktoberfest”, the production right to the “Totems” game and licenses for the Ferrari and Boulder Dash brands. The licenses to games software and the production right are generally amortized over a useful life of two and three years respectively. GTR - FIA GT Racing Game was impaired by €223 thousand in the year under review. The brand licenses are being amortized over a maximum of five years in accordance with the contractual terms of the license agreements.

Prepayments on intangible assets mainly comprise production costs for games and for preproduction studios outside the Group totaling €2,180 thousand (previous year: €1,084 thousand).

Intangible assets changed as follows:

	2006 €	2005 €
Acquisition cost		
Balance at January 1	8,887	4,708
Additions	9,623	5,477
Disposals	132	1,298
Transfers	7	0
Translation adjustments	27	0
Balance at December 31	18,412	8,887

Cumulative amortization and impairment losses

Balance at January 1	1,232	349
Additions	2,050	883
Disposals	0	0
Translation adjustments	20	0
Balance at December 31	3,302	1,232

Carrying amounts

December 31	15,111	7,656
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Amortization and impairment losses in fiscal year

2,050	883
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2. Property, plant and equipment

Property, plant and equipment is depreciated over a useful life of between three and ten years. Changes in property, plant and equipment and noncurrent financial assets on the basis of historical cost, as well as depreciation and impairment losses in the fiscal year and cumulative depreciation and impairment losses, are presented in the consolidated statement of changes in noncurrent assets (page 40).

3. Noncurrent financial assets

Noncurrent financial assets include shares in seven (previous year: eight) special purpose entities. These special purpose entities are not controlled within the meaning of IAS 27 and are therefore presented as noncurrent financial assets in accordance with IAS 39. Noncurrent financial assets also include a minority interest in a general partner GmbH on whose operating and financial policies the Company does not exercise any significant influence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Deferred tax assets

Deferred tax assets relate to deferred tax assets from tax loss carryforwards. €111 thousand relates to Belgian income taxes and €2,576 thousand to German income taxes. Income taxes in Germany include trade tax, corporate income tax and the solidarity surcharge. The aggregate tax rate in Germany is therefore between 39.2% and 40.2%, depending on the trade tax multiplier. The applicable tax rate in Belgium is 34%. A tax loss was incurred in Singapore in 2006. 10tacle studios Pte Ltd, Singapore has “pioneer status”, which means that the tax loss in 2006 represents a form of initial measurement base for future tax charges. With pioneer status, this company’s future business activities conducted in accordance with the conditions defined in the pioneer service certificate will be tax-exempt over the next ten years, so no tax benefits are expected on the tax loss incurred in 2006.

5. Inventories

Inventories comprise computer games that are held for sale.

6. Trade receivables

All trade receivables have less than six months to maturity and are composed of the following items:

	December 31, 2006 € thousand	December 31, 2005 € thousand
Receivables from		
Production services agreements	16,612	2,887
Sale/marketing of games	6,264	1,076
Services rendered	169	1,474
Miscellaneous	0	91
	23,045	5,528

7. Current tax receivables

Current tax receivables relate to overpayments of tax and to claims for refunds of withholding taxes withheld.

8. Other current receivables

Other current receivables include payments amounting to €2,702 thousand from the escrow account for the “Totems” game productions that became due in the course of the year under the contractual agreements. This item also includes the collecting agent’s share of the escrow account attributable to 10tacle Publishing GmbH of €1,452 thousand, loan receivables from business partners of €721 thousand, prepaid expenses of €130 thousand, and receivables from former shareholders, creditors with debit balances, security deposits paid, receivables from shareholders and miscellaneous receivables totaling €1,152 thousand.

Prepaid expenses relate to expenditures prior to the reporting date that represent expenses for a certain period after the reporting date.

9. Cash and cash equivalents

Cash and bank balances are carried at their nominal amounts.

10. Equity

a) Subscribed capital

The subscribed capital is carried at par. At December 31, 2006, it amounted to €5,049,851 (previous year: €259,358) and is composed of 5,049,851 no-par value bearer shares with a notional value of €1.00 per share. The subscribed capital was fully paid up at the reporting date.

b) Changes in capitalization

By way of a resolution by the Managing Board on February 23, 2006, the capital was increased by a nominal €25,422.00 to €284,780 through the issue of new shares. The issue price for the new shares was €174.00 each and included a premium of €173.00 per share that was transferred to the capital reserves (€4,398,006). The capital increase was entered in the commercial register on May 4, 2006.

On the basis of a resolution by the General Meeting on May 8, 2006, the subscribed capital was increased by €3,986,920 from €284,780 to €4,271,700 by way of a capital increase from capital reserves through the conversion of capital reserves. In the course of this capital increase, 3,986,920 new no-par value shares were issued to shareholders at a ratio of 1:14. At the same time, the authorized capital in existence up until then was reversed and new authorized capital of €2,135,850 was resolved. The capital increase and the authorized capital were entered in the commercial register on May 17, 2006.

By way of a resolution by the Managing Board on May 24, 2006, the share capital of 10TACLE STUDIOS AG was increased through the partial utilization of the existing authorized capital against cash contributions by up to €1,800,000 through the issue of up to 1,800,000 new no-par value bearer shares. The issue price was €1 per share. Lang & Schwarz Wertpapierhandel AG was authorized to subscribe for the shares on condition that they would be offered for sale to potential investors on the occasion of the initial public offering and that any surplus over and above the issue price would be transferred to 10TACLE STUDIOS AG. A total of 778,151 shares were subscribed. On June 20, 2006, the Supervisory Board resolved to increase the subscribed capital accordingly by €778,151 from €4,271,700 to €5,049,851. The placement generated income of €10.75 per share, i.e. a total of €8,365,123.25. Authorized capital now amounts to €1,357,699. The implementation of the capital increase for the IPO was entered in the commercial register on June 21, 2006.

The costs of financing the IPO of €567,984 were taken directly to equity and eliminated against the capital reserves in accordance with IAS 32.37.

By resolution of the Managing Board of 10TACLE STUDIOS AG on December 18, 2006 to implement a cash capital increase and to exclude of shareholders' pre-emptive rights, the subscribed capital was increased by €427,170 from €5,049,851 to €5,477,021 through the issue of 427,170 new no-par value bearer shares from authorized capital. The issue price for the new shares was €10.61. The issue price of €4,532,273.70 was paid into the equity of 10TACLE STUDIOS AG on December 21, 2006 in addition to other contributions of €2 thousand (€1,858.19). The capital increase was entered in the commercial register on January 31, 2007.

The requirement for the recognition of the capital increase as equity is generally its entry in the commercial register with constitutive effect, which as an event after the balance sheet date in accordance with IAS 10.10 cannot be adjusted to the balance sheet date. This means that the contribution made must, as a rule, be reported under financial liabilities. The subscriber of the new shares had, however, already confirmed prior to the balance sheet date that the contribution made to implement the capital increase will remain in the Company even if the capital increase is not registered, so as to boost the Company's equity. In the accompanying financial statements, the contribution made to implement the capital increase is therefore reported under equity. The costs of equity transactions amounting to €181,365 were deducted from this item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

c) Capital reserves

The capital reserves changed as follows:

	Premium from issue of shares € thousand	Other contributions € thousand	Miscellaneous € thousand	Total € thousand
Balance at January 1, 2006	8,914	528	-262	9,180
Capital increase on February 23, 2006	4,398	0	-184	4,214
Capital increase from capital reserves	-3,987	0	0	-3,987
Capital increase on June 20, 2006	8,365	0	-568	7,797
Capital increase on December 18, 2006	4,532	2	-181	4,353
Share-based payments	45	0	0	45
	22,267	530	-1,195	21,602

The other changes in the capital reserves relate to the cost of equity transactions deducted directly from the capital reserves. Please refer to pages 38-39 for information on changes in consolidated equity.

d) Retained earnings

Retained earnings principally comprise net retained profits of €3,793 thousand and the legal reserve of €5 thousand.

e) Currency translation reserve

The currency translation differences from the translation of the subsidiaries' single-entity financial statements are transferred to the currency translation reserve on the basis of the functional currency principle in accordance with IAS 21. Accordingly, assets and liabilities are translated at the closing rate, and income and expense are translated at the annual average rate.

The following exchange rates were used for translation:

Country	Exchange rate	Prior-year closing rate	Closing rate	Average rate
Slovakia	SKK/EUR	0.02641	0.02907	0.0256
United Kingdom	GBP/EUR	1.45302	1.45571	1.4336
Singapore	SGD/EUR	0.50705	0.49425	0.4794

The translation of the single-entity financial statements gave rise to the following currency translation differences:

10tacle studios Slovakia s.r.o.	€	18,187.12
Blimey! Games Ltd., United Kingdom	€	-7,102.41
10tacle studios Pte Ltd., Singapore	€	-8,913.04
Change in reserves	€	2,171.67

11. Deferred taxes

Deferred tax liabilities are composed of the following items:

	Temporary difference	Deferred taxes	Deferred taxes: previous year	Recognized in profit or loss	Taken directly to equity
	€ thousand	€	€	€	€
Assets					
Internally developed intangible assets	3,334	1,343,711	480,628	863,083	0
Other intangible assets	413	159,129	34,000	125,129	0
Deferred taxes from PoC construction contracts	1,133	376,026	72,624	303,402	0
		1,878,866	587,252	1,291,614	0
Liabilities					
Provisions for non-cash obligations	-7,028	3,022,475	1,212,216	1,810,259	0
		4,901,341	1,799,468	3,101,873	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Other current provisions

	Balance at Jan. 1, 2006 € thousand	Additions € thousand	Utilized € thousand	Reversals € thousand	Balance at Dec. 31, 2006 € thousand
Provisions for					
Production and license costs	4,181	8,612	2,415	457	9,921
Production services	1,016	2,273	1,184	244	1,861
Production cost reserve	148	857	0	0	1,005
Outstanding invoices	96	812	90	6	812
Warranties	214	246	142	0	318
Marketing costs	0	215	0	0	215
Year-end closing/audit costs	121	159	118	3	159
Sales guarantee	924	0	924	0	0
Miscellaneous	199	520	207	0	512
	6,899	13,694	5,080	710	14,803

Additions to production cost provisions result from outstanding license payments from the Publishing segment amounting to €3,710 thousand ("GTR 2", "GT Legends", "Black Buccaneer") for the production of fund games from GDP XIV, GDP XII and GDP XV totaling €4,902 thousand. Additions to production service provisions relate to actual Group costs for services provided in connection with the production of fund games. The warranty provisions were recognized by 10TACLE STUDIOS AG and 10tacle Publishing GmbH for returns from games sold ("GTR FIA GT Racing Game", "GT Legends", "GTR 2").

13. Other current liabilities

The other current liabilities are composed of the following items:

	December 31, 2006 €	December 31, 2005 €
Prepayments received	2,326,671.82	528,751.00
VAT liability	1,682,040.11	1,473,911.85
Liabilities from short-term loans	741,862.17	1,818,954.12
Debtors with credit balances	382,301.50	192,340.63
Money held in escrow accounts	257,304.00	257,304.00
Payroll tax and church tax liabilities	65,988.03	34,994.08
Payroll liabilities	37,250.00	151,494.41
Deferred income	34,405.12	443,989.55
Social security liabilities	14,443.25	51,274.73
Miscellaneous	116,202.75	88,812.00
	5,658,468.75	5,041,826.37

Liabilities from short-term loans relate to interest-bearing shareholder loans in the amount of €609 thousand. The loans will be repaid in full in calendar year 2007. The prepayments received include prepayments from net liabilities resulting from application of the percentage of completion method.

14. Minority interest in equity

Minority interest changed as follows:

	December 31, 2006	December 31, 2005
	€	€
Balance at January 1	242,079.08	0.52
Additions from initial consolidation	0.00	9,203.94
Additions from the sale of shares/deconsolidation	2,500.00	0.00
Minority interest in		
profit	416,054.73	232,874.62
loss	127,976.84	0.00
BALANCE AT DECEMBER 31, 2006	532,656.97	242,079.08

Minority interest in profit or loss was adjusted for the interest in the profit/loss of the former partner and managing director of 10T TRAVEL GmbH, which is carried under other operating income at a net €3,752 on account of the repurchase of the interest by 10TACLE STUDIOS AG.

The minority interests are held by the members of the management bodies of the subsidiaries concerned.

F. CASH FLOW DISCLOSURES

The cash flows are derived in accordance with IAS 7 and show the sources and application of cash and cash equivalents. Cash flows are classified by their sources and application into cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

1. Cash and cash equivalents

Cash and cash equivalents (€12,341 thousand; previous year: €7,521 thousand (adjusted)) comprise cash, checks and bank balances as well as securities due on demand (€1,032 thousand; previous year: €400 thousand) in accordance with IAS 7. In 2005, current financial assets were not included under cash and cash equivalents: rather, the change in the item was included in the calculation of cash flows from financing activities.

The items are presented after adjustments for currency translation effects and changes in the basis of consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Cash flows from operating activities

Cash flows from operating activities were calculated using the indirect method by deriving net cash flows from operating activities from consolidated profit or loss:

Cash flows from operating activities	December 31, 2006 € thousand	December 31, 2005 € thousand
Profit	2,891	1,057
+ Depreciation, amortization and impairment losses	2,492	1,047
+/- Other noncash income/expense	49	69
-/+ Gain/loss on disposal of noncurrent assets	2	0
+/- Increase/decrease in provisions including deferred tax liabilities	11,005	5,082
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities including deferred tax assets.	-18,785	-8,549
+/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	201	2,533
CASH FLOWS FROM OPERATING ACTIVITIES	-2,145	1,239

The profit shown is the consolidated profit after deduction of minority interest (€288 thousand; previous year: €233 thousand).

At €45 thousand, other noncash expenses relate to the fair value of the options issued in 2006 where these were recorded as an expense in the fiscal year and transferred to the capital reserves. The net increase in provisions is presented in the preceding notes to selected balance sheet items.

The decrease in inventories (+) and the increase (-) in receivables attributable to operating activities are composed of the following items:

Net increase (-)/decrease (+) in inventories and receivables attributable to operating activities	December 31, 2006 € thousand	December 31, 2005 € thousand
- Increase in trade receivables	-17,517	-1,155
- Increase in other current receivables	-1,843	-3,800
- Increase in deferred tax assets	-1,422	-1,265
- Increase in other current assets	-315	0
- Increase in current tax receivables	-44	-46
- Increase in inventories	-10	98
+ Decrease in other noncurrent receivables	2,365	-2,381
	-18,785	-8,549

The increase (+)/decrease (-) in liabilities attributable to operating activities is composed of the following items:

Net increase (+)/decrease (-) in liabilities attributable to operating activities	December 31, 2006 € thousand	December 31, 2005 € thousand
+ Increase in other current liabilities	617	1,638
+ Increase in trade payables	1,772	714
+/- Increase/decrease in current interest-bearing borrowings	-2,399	215
+/- Increase/decrease in noncurrent interest-bearing borrowings and other noncurrent liabilities	176	0
+/- Increase/decrease in current tax payables	35	-34
	201	2,533

3. Cash flows from investing activities

Cash flows from investing activities are composed of payments to acquire noncurrent assets and proceeds from the disposal of noncurrent assets (divestitures).

Cash flows from investing activities	December 31, 2006 € thousand	December 31, 2005 € thousand
- Payments to acquire intangible assets	-9,443	-4,180
- Payments to acquire property, plant and equipment	-1,051	-579
+ Proceeds from disposal of noncurrent financial assets	25	0
- Payments to acquire noncurrent financial assets	-25	-100
CASH FLOWS FROM INVESTING ACTIVITIES	-10,494	-4,859

The investments in intangible assets are presented in the notes to selected balance sheet items.

In the 2005 financial statements, investments also included payments to acquire current financial assets amounting to €400 thousand. These assets were allocated to cash and cash equivalents in the accompanying financial statements. The above presentation was therefore adjusted accordingly for 2005 as well.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Cash flows from financing activities

Cash flows from financing activities (€17,169 thousand; previous year: €6,378 thousand) result from proceeds from the issuance of equity instruments (€18,101 thousand; previous year: €6,518 thousand) less the related equity transaction costs (€932 thousand; previous year: €140 thousand). This includes the capital increase resolved on December 21, 2006 with the issue of 427,170 shares at a price of €10.61 per share, totaling €4,532 thousand, which was entered in the commercial register on January 31, 2007.

Of the total net cash flows from the issuance of equity instruments, €1,231 thousand (previous year: €121 thousand) is attributable to share capital and €15,936 thousand (previous year: €6,257 thousand) to capital reserves, including the contributions made to implement the capital increase (share capital: €427 thousand; capital reserves: €4,105 thousand).

Cash flows from financing activities also include the change in the currency translation reserve of €2 thousand, presented in detail in the notes to balance sheet items.

5. Development of cash flows

	December 31, 2006	December 31, 2005
	€ thousand	€ thousand
Summary of cash flows		
Cash flows from operating activities	-2,143	1,239
Cash flows from investing activities	-10,494	-4,859
Cash flows from financing activities	17,169	6,378
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,532	2,758
Change in minority interest	288	242
Cash and cash equivalents at beginning of period	7,521	4,521
CASH AND CASH EQUIVALENTS AT END OF PERIOD	12,341	7,521

G. OTHER FINANCIAL OBLIGATIONS

In addition to liabilities, provisions and contingent liabilities, there are other financial obligations under rental and lease agreements for office space, office equipment, vehicles, and other operating and office equipment. The agreements have terms of up to seven years. A number of them contain purchase or renewal options. In some cases, the agreements contain sliding scales for lease payments. Payments of €482 thousand (previous year: €258 thousand) for rental and lease agreements were expensed in the current fiscal year.

The future minimum obligations from noncancelable operating leases and rental agreements are as follows:

(in €)	due in 2007	due in 2008-2011	due after 2012	Total
Rent of office furniture	470,283	740,586	0	1,210,870
Rent of operating and office equipment	2,556	10,224	0	12,780
Vehicle leasing	146,609	148,647	0	295,256
Leasing of office furniture/operating and office equipment/other	82,385	182,071	472	264,929
TOTAL FOR 2006	701,834	1,081,529	472	1,783,835

H. OTHER CONTINGENT LIABILITIES:

The Group's contingent liabilities in the form of liabilities from warranty agreements in respect of minimum purchase guarantees granted by 10TACLE STUDIOS AG to individual funds amounted to €25,358 thousand as of December 31, 2006 (previous year: €20,853 thousand).

On the basis of the fund games completed to date, past development of business, the underlying projections and the current negotiations with distributors, there are no risks of recourse from the guarantees to be assumed by 10TACLE STUDIOS AG in respect of the minimum guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. MANAGING BOARD AND SUPERVISORY BOARD

The members of the Company's Managing Board are or were in the period under review:

→ Michele Pes, journalist, Hohen Eichen 25, 22946 Grossensee, Germany

The following advances and loans were granted to members of the Managing Board and the following contingent liabilities were assumed on their behalf:

Settlement account Michele Pes: balance of receivable from Michele Pes as of the reporting date: €36,129.10; interest 5%; settlement account may be repaid at any time.

The members of the Supervisory Board in the period under review were:

→ Dr. Markus Braun, businessman, Munich, Germany, Chairman of the Supervisory Board

→ Dr. Bastian Schmidt-Vollmer, lawyer, Hamburg, Germany, member of the Supervisory Board

→ Helge Schaare, businessman, Hamburg, Germany, member of the Supervisory Board (until May 8, 2006)

→ Paul Bauer-Schlichtegroll, businessman, Icking, Germany, member of the Supervisory Board (from May 8, 2006)

No loans or advances were granted to the members of the Supervisory Board and no contingent liabilities were assumed on their behalf.

The members of the Managing Board and the Supervisory Board received the following remuneration for the fiscal year:

(€ thousand)	Fixed salary	Performance-related component	Other benefits	Total for 2006
Managing Board				
Michele Pes	147	100	12	259
Managing Board total	147	100	12	259
Supervisory Board				
Dr. Markus Braun	15	0	0	15
Helge Schaare	0	0	0	0
Dr. Bastian Schmidt-Vollmer	10	0	0	10
Paul Bauer-Schlichtegroll	7	0	0	7
Supervisory Board total	32	0	0	32
TOTAL FOR 2006	179	100	12	291

Other benefits to the Managing Board include 10,000 stock options under the stock option plan amounting to €7 thousand and measured at fair value. This measurement is explained in section D 5.

Remuneration paid in the previous year was as follows:

(€ thousand)	Fixed salary	Performance-related component	Other benefits	Total for 2005
Managing Board				
Michele Pes	130	50	11	191
Managing Board total	130	50	11	191
Supervisory Board				
Dr. Markus Braun	0	0	0	0
Helge Schaare	0	0	0	0
Hauke Bruhn	0	0	0	0
Dr. Bastian Schmidt-Vollmer	0	0	0	0
Supervisory Board total	0	0	0	0
TOTAL FOR 2005	130	50	11	191

All Managing Board and Supervisory Board remuneration is short-term.

Performance-related remuneration of €100 thousand was paid to the Managing Board for the 2006 fiscal year.

The members of the Managing Board do not receive any compensation for their membership of executive bodies of subsidiaries.

The following member of the Supervisory Board left the Board during the 2006 fiscal year: the appointment of Helge Schaare was ended by way of a resolution on May 8, 2006 with effect from the same date. Paul Bauer was appointed a further member of the Supervisory Board for the period up to the 2008 General Meeting with effect from May 8, 2006.

J. OTHER DISCLOSURES

1. Number of employees

The following table shows the average number of employees, classified by function:

	2006	2005
Production/Development	86	38
Marketing/Sales	13	6
Administration	34	19
TOTAL	133	63

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Significant shareholders

Patrio Plus AG holds 21.72% of the share capital, Bertram Rickmers 11.5% and GL Europe Luxembourg S.A.R.L. 8.22%.

Following the entry of the capital increase resolved on December 21, 2006 in the commercial register on January 31, 2007, Patrio Plus AG held a share of 20.03%, Bertram Rickmers 10.19%, GL Europe Luxembourg S.A.R.L. 7.58% and DAH Beteiligungs GmbH 7.80%.

3. Related party disclosures

In addition to the consolidated subsidiaries, 10TACLE STUDIOS AG has direct or indirect relationships with a wide range of affiliated unconsolidated companies in the course of its ordinary business activities. In the course of these activities, all transactions for the provision of goods and services entered into with the unconsolidated companies and natural persons were conducted on an arm's length basis.

10TACLE STUDIOS AG reports on business transactions with related parties and their family members in accordance with IAS 24. The table below also shows the relationship to Patrio Plus AG, which held an interest of over 20% in 10TACLE STUDIOS AG during fiscal years 2006 and 2005.

Information on the remuneration paid to members of the Managing Board and Supervisory Board is presented separately in this report in section I.

2006 (Figures in € thousand)

Parties*/ transactions	Controlling parties*	Parties* with significant influence	Associates	Subsidiaries	Joint ventures	Key management personnel	Other related parties*
Goods transactions							
Services		30		2,021			613
Financing							
→ Amount	119	16					
→ Interest rate	–	–					
→ Term	Short-term	Short-term					
→ Guarantees							
Guarantees issued							
Guarantees received							
Payments for third parties							
Payments by third parties							
Write-downs of receivables							

* "Parties" refers to both legal entities and natural persons.

2005 (Figures in € thousand)

Parties*/ transactions	Controlling parties*	Parties* with significant influence	Associates	Subsidiaries	Joint ventures	Key management personnel	Other related parties*
Goods transactions							
Services							
				1,321			239
Financing							
→ Amount	153	35					
→ Interest rate	–	–					
→ Term	Long-term	Long-term					
→ Guarantees	–	–					
Guarantees issued							
Guarantees received							
Payments for third parties							
Payments by third parties							
Write-downs of receivables							

* “Parties” refers to both legal entities and natural persons.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Auditor's fees

The following fees were paid to the auditors of the financial statements of 10TACLE STUDIOS AG in fiscal year 2006 and recorded as expenses:

	in € thousand
Audit fees	58
Fees for other assurance and valuation services	56
Other fees	9
TOTAL:	123

Audit fees include in particular fees for the statutory audit of the annual financial statements. Fees for other assurance and valuation services principally comprise fees for the review of the interim financial statements and activities relating to the IPO of 10TACLE STUDIOS AG.

5. Significant events after the balance sheet date

On January 31, 2007, the capital increase of a nominal €427,170 resolved on December 18, 2006 was entered in the commercial register.

6. Corporate Governance Code

As a listed company, 10TACLE STUDIOS AG has submitted the mandatory declaration of conformity with the German Corporate Governance Code by its Managing Board and Supervisory Board pursuant to section 161 of the AktG and made it permanently available to shareholders on the Company's website.

Darmstadt, March 29, 2007



Michele Pes
The Managing Board

AUDITOR'S REPORT

Report on the audit of the consolidated financial statements and the Group management report as of December 31, 2006 for fiscal year 2006 of 10TACLE STUDIOS AG

Auditor's report

To 10TACLE STUDIOS AG:

We have audited the consolidated financial statements – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes – as well as the group management report prepared by 10TACLE STUDIOS AG, Darmstadt, for the fiscal year January 1 to December 31, 2006. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a(1) of the *Handelsgesetzbuch* (*HGB* – German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the *HGB* and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), and in accordance with the International Standards on Auditing (ISAs). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting standards and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Without qualifying this report, we wish to draw attention to the fact that guarantee obligations were assumed by 10TACLE STUDIOS AG regarding the revenue of AAA Capital Games Production and Sales GmbH & Co. Fonds Nr. 1 KG, AAA Capital Games Production and Sales GmbH & Co. Fonds Nr. 2 KG and AVALANCHE Videospiel Herstellungs- und Vertriebs GmbH & Co. KG relating to revenue from the games marketed there. According to management estimates, the projections presented for the audit and the statements submitted for the games already developed regarding the volume of production costs, the guarantees assumed by the Company and the sales guarantees issued to the Company by the distributors (all of which significantly exceed the guarantees assumed by the Company), 10TACLE STUDIOS AG is not expected to face any claims under these guarantee obligations. In the light of the minimum guarantees contractually assumed by the Company and despite the fact that significantly higher sales guarantees were obtained for the completed fund products to date than were required for the assumed minimum guarantee, it cannot be ruled out that the Company might incur a liability for the obligation in the future, although as things stand today there are no indications of this. However, the projections presented by the Managing Board and the comparisons between the minimum guarantee and the sales guarantee made for the fund products already produced can be viewed as plausible and reasonable in the light of the economic and legal circumstances. To this extent, preparation of the consolidated financial statements on the assumption of a going concern basis is reasonable.

Munich, April 30, 2007



Control5H GmbH Wirtschaftsprüfungsgesellschaft

Roland Weigl · Wirtschaftsprüfer

Our prior written consent is required in the event that the annual financial statements and the management report are published or made available to third parties in a form other than the version for which we have issued our auditor's report (including translation into other languages) and our auditor's report is cited or reference is made to our audit; we refer in particular to section 328 of the *HGB* (German Commercial Code).

EXPLANATORY REPORT OF THE MANAGING BOARD

on the disclosures required in accordance with section 289(4) and section 315(4) of the *Handelsgesetzbuch* (HGB – German Commercial Code):

The provisions of section 120(3) sentence 2 and section 171(2) sentence 2 of the *Aktiengesetz* (AktG – German Stock Corporation Act) were modified after the *Zweites Gesetz zur Änderung des Umwandlungsgesetzes* (Second Act on the Amendment of the German Transformation Act) came into force on April 25, 2007. Under these changes, the Managing Board is now required to explain the disclosures contained in the management report and group management report in accordance with section 289(4) and section 315(4) of the HGB in a separate report.

Therefore, the Managing Board of 10TACLE STUDIOS AG has prepared the following explanatory report for fiscal year 2006 on the disclosures required by section 289(4) and section 315(4) of the HGB:

The subscribed capital of the Company was €5,049,851.00 as of December 31, 2006 (compared with €259,358.00 as of December 31, 2005) and was composed of 5,049,851 no-par value bearer shares with a notional value of €1.00 each. For information regarding the development of the subscribed capital in fiscal year 2006, please refer to the detailed presentation in the Company's management report. All 5,049,851 no-par value shares are ordinary shares. The Company has only one class of shares. All 5,049,851 no-par value bearer shares of the Company are admitted to trading on the Regulated Market (General Standard) of the Frankfurt Stock Exchange.

After the reporting date of December 31, 2006, a capital increase from Authorized Capital of €427,170.00 to €5,477,021.00 was entered in the commercial register on January 31, 2007 after being resolved by the Managing Board on December 18, 2006 and approved by the Supervisory Board. The capital increase from Authorized Capital of up to €670,529.00 to up to €6,147,550.00 resolved on April 10, 2007 by the Managing Board and approved by the Supervisory Board was implemented in full. However, this has not yet been entered in the commercial register.

The undertaking by major shareholders to sell their shares only with the consent of Lang & Schwarz Wertpapierhandel AG expired as of December 31, 2006. To the best of the Managing Board's knowledge, there are no more limitations that affect the transfer of the Company's shares.

As of the reporting date of December 31, 2006, two shareholders held an interest in the Company of more than 10% each: Patrio Plus AG (21.72%), Hamburg, and Bertram Rickmers (18.36%), Hamburg. Patrio Plus AG holds its interest directly. Mr. Rickmers holds 18.06% of the voting shares directly. A further 0.3% is attributable to him via ATLANTIC Gesellschaft zur Vermittlung internationaler Investitionen mbH & Co. KG, Hamburg, a company that he controls.

The statutory provisions (sections 84, 85 of the AktG) apply to the appointment and dismissal of members of the Managing Board. The Supervisory Board therefore generally resolves appointments and dismissals and determines the number of Managing Board members.

The statutory provisions (sections 133, 179 of the AktG) also apply to amendments to the Articles of Association. Therefore, resolutions of the General Meeting regarding amendments to the Articles of Association require a simple majority of the votes cast plus a three-quarters majority of the share capital represented at the vote on the resolution.

The Company's Authorized Capital was originally created by a resolution of the General Meeting dated May 8, 2006 in the amount of €2,135,850.00 and entered in the Company's commercial register on May 17, 2006. The Managing Board was authorized accordingly to increase the Company's share capital up to April 30, 2011, with the approval of the Supervisory Board, by up to a total of €2,135,850.00 against cash and/or non-cash contributions by issuing up to 2,135,850 new no-par value bearer shares on one or several occasions and thereby to determine a commencement date for profit sharing that differs from that stipulated in the law. With the approval of the Supervisory Board, the Managing Board was authorized to disapply shareholders' statutory pre-emptive subscription rights (i) for fractions, (ii) if the capital increase is implemented against cash contributions and the total proportionate amount of the share capital attributable to the new shares for which the pre-emptive subscription rights are disapplied does not exceed 10% of the existing share capital at the time the new shares are issued and the issue price of the new shares does not,

EXPLANATORY REPORT OF THE MANAGING BOARD

within the meaning of section 203(1) and (2) and section 186(3) sentence 4 of the *AktG*, fall significantly below the quoted market price of the listed shares of the same class of listed shares carrying the same rights at the time of the final determination of the issue price by the Managing Board, (iii) in the case of capital increases against non-cash contributions to grant shares for the purpose of acquiring companies, portions of companies, or interests in companies, (iv) in the case of capital increases against cash contributions in order to place the new shares as part of an IPO of the company, and (v) to fulfill a greenshoe option agreed upon with underwriting banks at the time of the IPO of the Company. After the utilization of Authorized Capital as part of the IPO of the Company in the amount of €778,151.00, the Company still had Authorized Capital of €1,357,699.00. On December 18, 2006, the Managing Board again made use of this authorization in fiscal year 2006 and, with the approval of the Supervisory Board, resolved a cash capital increase from Authorized Capital of €427,170.00 including the disapplication of shareholders' pre-emptive subscription rights. However, this capital increase was not entered in the Company's commercial register until January 31, 2007, so the Company's Authorized Capital was still €1,357,699.00 as of the reporting date of December 31, 2006. In the current fiscal year 2007, the Managing Board again utilized Authorized Capital, with the approval of the Supervisory Board, by way of a resolution dated April 10, 2007 and resolved a capital increase against cash contributions of up to €670,529.00, while granting an indirect pre-emptive subscription right to the Company's shareholders. The capital increase was implemented in full. However, it had not yet been entered in the Company's commercial register at the time this report was prepared.


In addition, the Company had Contingent Capital of €389,025.00 as of December 31, 2006. The Contingent Capital was created in connection with the authorization to issue subscription rights (stock options) to employees and members of the management of the Company or its affiliated companies in accordance with the General Meeting resolution dated May 8, 2006 and will only be implemented insofar as the bearers of stock options exercise their subscription rights and the Company does not grant own shares or a cash settlement to fulfill the options granted. As of December 31, 2006, stock options on 80,500 shares had been issued. Because of the vesting period of at least two years, no stock options have yet been exercised.

The Company has entered into the following key agreements that contain arrangements in case of a change of control (change of control clauses):

- The contract with the licensor for a publishing license grants the licensor the right to terminate the contract immediately in the case, among other things, of a change of control of the Company due to the sale, transfer, or surrender of the Company's shares without the prior written consent of the licensor.
- A contract for a further publishing license grants the licensor the right to terminate the contract if the Company enters into a partnership with a competitor of the licensor or acquires more than 50% of the shares of a competitor of the licensor. The same applies to a partnership with, or more than 50% interest in, a company that has violated agreements with the licensor.
- In accordance with the contractual agreement with a licensor relating to the use of trademark rights, the Company is obligated to inform the licensor of a change of control. The licensor would then have the right to terminate the contract within 130 days.

Where 10TACLE STUDIOS AG's management report and group management report for fiscal year 2006 contain no disclosures on the individual matters that are reportable under sections 289(4) and 315(4) of the *HGB*, then these matters did not arise in fiscal year 2006 or the legal provisions apply.

Darmstadt, May 2007



Michele Pes
Managing Board

REPORT BY THE SUPERVISORY BOARD

for fiscal year 2006

As in previous years, 2006 was characterized by strong growth in all business areas. Particular highlights were the Company's successful IPO in June 2006, which was executed in a challenging market environment, as well as the expansion of the Company's business activities in Asia.

In 2006, the Supervisory Board was composed of

1. Dr. Markus Braun, Chairman
2. Helge Schaare (until May 8, 2006)
3. Paul Bauer-Schlichtegroll (from May 8, 2006)
4. Dr. Bastian Schmidt-Vollmer

In fiscal year 2006, the Supervisory Board was informed of and discussed of the current economic development and the position of the Group companies, of key individual measures and of strategic questions at a total of six meetings and numerous conference calls. All members of the Supervisory Board and the Managing Board attended the meetings. Business requiring approval in accordance with the Articles of Association and the by-laws was discussed and approved by the Supervisory Board.

In addition to reporting at the meetings, the Managing Board regularly informed the Supervisory Board both verbally and in writing about the development of key market and corporate data and about significant business events.

The Chairman of the Supervisory Board provided support in strategic decisions, significant new transactions and new directions for the Group.

REPORT BY THE SUPERVISORY BOARD

The Supervisory Board was presented with the annual financial statements of 10TACLE STUDIOS AG, the consolidated financial statements, the management reports, and the auditor's reports on the audit of the annual financial statements and the consolidated financial statements for fiscal year 2006. At its meeting today, it discussed them with the Managing Board and the auditor, who reported on the key results of his audit.

The annual financial statements, the consolidated financial statements and the management reports of 10TACLE STUDIOS AG and the Group for fiscal year 2006 were prepared by the Managing Board and audited by Control5H Wirtschaftsprüfungsgesellschaft, Munich, Germany, the auditor elected by the General Meeting. The audit showed that the annual financial statements and the consolidated financial statements are in accordance with German accepted accounting principles and give a true and fair view of the net assets, financial position and results of operation of the Company and the Group. On the whole, the report on the position of the Company and the Group gives a suitable presentation of the business situation and development and suitably presents the risks of future activities. The auditor issued an unqualified audit opinion on the annual financial statements, the consolidated financial statements and the management reports.

The Supervisory Board made no objections on completion of its examination. It approved the annual financial statements and the consolidated financial statements prepared by the Managing Board for fiscal year 2006. The annual financial statements are thus adopted in accordance with section 172 of the *Aktiengesetz* (*AktG* – German Stock Corporation Act).

The Supervisory Board would like to thank all Group employees, the management and the Managing Board for their hard work and particular dedication in fiscal year 2006.

Darmstadt, March 23, 2007



The Supervisory Board
Dr. Markus Braun, Chairman

Acquisition phase

Phase in which the Company develops its own game idea up to the point of producing preliminary specifications, or reviews the existing preliminary specifications produced by an internal or external development studio. In this phase, in the case of external development studios to be commissioned, the legal and business framework and the structure and working methods of the development studio are examined. The phase ends with commissioning pre-production or rejecting the implementation of the project.

Add-on

Optional module that expands a computer game that is already released with new content.

Artificial intelligence

Artificial intelligence (AI) is an area of information science that deals with the automation of intelligent behavior.

Blu-ray Disc

In addition to the HD-DVD, the designated successor to the DVD. The technology and the peripherals used for it are designed for private consumers. The rewritable Blu-ray Disc uses phase-change technology.

Cartridge

A module of a certain size that is used in electronic devices and enclosed in a solid case. Until about the mid-1990s, electronic data media for game consoles were frequently designed as cartridges. Also called game modules.

Cash flow

The balance of cash proceeds and payments.

Clearing system

System for central settlement of reciprocal liabilities in banking. In the case of net clearing, only the differences (balance) are credited to or debited or from each participant; in the case of gross clearing, nothing is offset. Actual physical transfer of the securities is not required.

Code name

Working title of a game.

Consolidated profit or loss

Consolidated profit or loss attributable to the shareholders of the parent plus the consolidated profit or loss that is attributable to minority interests.

Contract production, pseudo

Customer bears all business risk of the service ordered and its success.

D&O insurance

Directors and officers insurance is liability insurance against consequential loss taken out by a company for its executive bodies and senior management staff.

Deferred taxes

Asset and/or liability items in the balance sheet used to report the difference between the tax liability actually assessed and the economic tax liability that corresponds to the amount recognized in the IFRS financial statements. The basis for calculating deferred taxes is the difference between the carrying amount of assets and liabilities in the IFRSs balance sheet and the local tax base.

Design document

Content and design of a game.

Development engine

Basic framework of most computer games. It consists of a program library that provides computer game developers with frequently used tools.

Development phase

Phase building on the technical, content-related and structural results of pre-production. The individual elements of the game are developed and combined in accordance with the content and technical specifications. The Company appoints a person responsible for each development who, while not a member of the actual development team, is charged with supporting the development team from an external perspective (known as the producer). The producer is also charged with coordinating the interests of the Company, the Group, the distribution partners and, if necessary, other parties (e.g. banks, insurance companies) and to incorporate these interests into the development team.

Distributor

A wholesaler or dealer. Distribution generally describes the process of routing goods from the production facility to the consumer.

EBIT

Acronym for "Earnings before Interest and Taxes". For IFRSs, it is calculated as the operating profit plus net income from associates plus other net investment income.

EBITDA

Acronym for "Earnings before Interest, Taxes, Depreciation and (goodwill) Amortization". Calculation: EBIT plus goodwill amortization (impairment).

EMEA region

Abbreviation for the economic area of Europe (consisting of Western and Eastern Europe), the Middle East and Africa.

Equity

Consists of funds made available to the Company by the owners through payments and/or contributions and from retained earnings, and of minority interests in equity.

Equity ratio

Ratio of balance sheet equity to total assets. The higher this figure, the lower the level of debt.

Escrow agreement

Agreement allowing the source code to be examined in certain circumstances (especially bankruptcy) without the software provider having to hand over the source code to the user. This objective is achieved by depositing the source code and documentation with an independent company or notary, who is instructed to release the materials to the user in the above-mentioned cases.

First-person shooter

Category of computer game in which a freely accessible, three-dimensional game world is represented from the first-person point of view of a human or humanoid game character and play is centered around combat with various firearms against a large number of different opponents.

Game Boy

Handheld game console from Nintendo™ that first appeared in 1989. In 1999, the Game Boy was replaced by the Game Boy Color, which had a color display. In 2001, the Game Boy Advance was released with an enhanced color display.

IFRSs

Abbreviation for “International Financial Reporting Standards”. The goal of these standards is the international standardization of corporate accounting in order to achieve comparability and transparency in corporate financial statements.

Joint venture

A cooperative effort between companies resulting in the establishment of a new, legally independent business entity in which both founding companies invest capital. In addition to the capital, the founding companies usually supply significant resources consisting of technology, industrial property rights, technical or marketing expertise, and/or operating equipment.

Marketing phase

Phase in which the Company supports the distribution partner by providing marketing and PR services, and coordinates the international marketing and the brand development of the game.

Minority interests

General term for associates and other equity investments in which an interest of less than 50% is held.

MMOG

Abbreviation for “massive multiplayer online game”. Type of computer game that offers players a virtual, permanent world and can be played online simultaneously by a very large number of players.

Net investment income

Contains the following items: income from investments, gains and losses on the disposal of investments, and write-downs of investments.

Nintendo DS™

Abbreviation for “Nintendo Dual Screen”. Portable video game console from Nintendo™ that has two screens and a wide range of other technical innovations.

Nintendo GameCube

Video game console from Nintendo™ that belongs to the same console generation as the Sony PlayStation 2 and Microsoft Xbox.

Nintendo Wii™

Game console from Nintendo™ released at the end of 2006. The previous working title was Nintendo Revolution.

Nokia N-Gage

A mobile phone developed by Nokia with a built-in game console.

Noncurrent assets

Assets that are intended to serve the operating activities of a company in the long term. They are composed of intangible assets, property, plant and equipment, and noncurrent financial assets. Noncurrent assets and current assets constitute the assets on the balance sheet, together with prepaid expenses.

Online game

Computer game that is played on the Internet.

PlayStation

PS game console from Sony™ that was first sold in 1994. Production was finally discontinued in 2006 after a sales run lasting eleven years.

PlayStation 2 (PS 2)

Game console from Sony™ and the successor to PlayStation (PS) and the PlayStation One (PSOne) developed later. The game console is largely backward-compatible with the PlayStation and PSOne (less than 1% of published PlayStation software titles cannot be played on it). It is also capable of playing DVD movies and audio CDs.

Playstation 3 (PS 3)

Game console from Sony™. Intended as the successor to PlayStation 2, it is slated for simultaneous worldwide release in Japan, the US and Europe in early November 2006.

PlayStation Portable™ (PSP)

Abbreviation for “Sony PlayStation Portable™”. Handheld game console from Sony™.

PoC

Abbreviation for “percentage of completion”.

PoC method

Abbreviation for “percentage of completion method”. Accounting requirement under IAS 11, under which contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit that can be attributed to the proportion of work completed. This method provides useful information on the level of contract activity and performance during a period.

Post-production phase

Comprises the development of demo versions of the game and customer support. Changes to the game needed after its release, as well as agreed improvements and upgrades, are developed and released as updates or add-ons.

Pre-production

Phase in which the existing preliminary specifications are fine-tuned. A budget detailing the resources necessary for implementing the development is also prepared at this time.

Producer

Person responsible for the development of a game who, while not part of the actual development team, supports the development team from the outside.

Profit from operations

EBIT plus other financial income less other finance costs.

Project plan

A schedule of time and resources for a game.

Prototype

First executable version of a game.

Publishing model, also Publishing segment

The Company commissions an external development studio to produce games, assumes responsibility for project control and project management, and licenses the finished products to distributors, who are responsible for selling them to end customers.

Service provider model, also Service Provider segment

The Company offers third parties services relating to the acquisition of games, project control and project management for their development, as well as their distribution at a later date. The Company generates its profits from the difference between the actual cost on the one hand and ongoing and revenue-based payments on the other.

Source code

Also known as program code. In information science, the text of a computer program written in a human-readable programming language.

SPE

Abbreviation for “special purpose entity”.

Strategy game

Category of computer game that requires players to develop a strategy that encompasses as much of the progression of the game as possible. Unlike a game of pure tactics, it is not simply a matter of including the previous move or the next move in the player's thinking, for example, but to think several moves ahead. In the case of strategy games, luck or random chance play hardly any role, if at all.

Studio model, also Studio segment

The Company acts as the producer and financing source in developing games on its own behalf. In most cases, this refers to further developments of games already released or those still under development for which the company has acquired the rights, brands and technology above and beyond the individual game in the course of its previous development work.

Technical design document

Detailed description of and plan for the technical implementation of a game.

UMD

Abbreviation for “Universal Media Disc”. A storage medium developed by Sony™ exclusively for the PlayStation Portable™ (PSP) for the purpose of playing games, movies and music on the PSP.

Update

New version of system software that corrects programming errors or contains minor improvements to the program.

USK

Abbreviation for “Unterhaltungssoftware-Selbstkontrolle” (German for “Entertainment Software-Self-Regulation”). German agency responsible for rating computer and video games for different age groups.

VR

Abbreviation for „virtual reality”; refers to the representation and simultaneous perception of reality and its physical attributes in a real-time, computer-generated virtual environment.

Xbox/Xbox 360™

A game console developed by Microsoft based mainly on easily modified PC components.

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PHOTOS

10TACLE STUDIOS AG