HYPOPORT
THE FINANCE INTEGRATOR

Hypoport AG annual report for 2007

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Key performance indicators

Financial performance (€'000)	2007	2006	Change
Revenue	41,714	26,286	59 %
Gross revenue for the year	45,047	28,928	56 %
One-off items	-1,580	878	
EBITDA excl. one-off items	8,877	5,625	58 %
EBITDA incl. one-off items	7,297	6,503	12 %
EBIT excl. one-off items	5,540	3,742	48 %
EBIT margin excl. one-off items (%)	13.3	14.2	-7 %
EBIT incl. one-off items	3,960	4,620	-14 %
EBIT margin incl. one-off items (%)	9.5	17.6	-46 %
Net profit for the year	4,259	4,081	4 %
Basic earnings per share (€)	0.69	0.65	6 %
Diluted earnings per share (€)	0.68	0.64	6 %
Financial position (€'000)	**31 Dec 2007**	**31 Dec 2006**	
Current assets	20.161	17,958	12 %
Non-current assets	28.070	26,238	7 %
Equity	22.930	18,820	22 %
Equity ratio (%)	45,8	42.6	8 %
Total assets	48,231	44,196	9 %

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1 Letter to shareholders

Dear Shareholder,

2007 was the best year in the Company's history. HYPOPORT delivered an outstanding performance in what was generally a challenging market environment, significantly enhancing its position in its most important strategic markets. The 59 per cent increase in its revenue bears testimony to its ability to generate strong growth. HYPOPORT now employs over 400 people who are all working to realise your visions. Supported by our superior business models, these highly qualified and motivated professionals form the mainstay of the Company's current and future success.

Alongside Hypoport's excellent performance, the other outstanding event of 2007 was without doubt the Company's initial public offering (IPO) at the end of October. This represented a quantum leap for HYPOPORT, as it means that we are now aiming to continue our corporate success story – which has been evolving over the past eight years or so – in the full glare of the financial media.

We would like to thank you, our shareholders, for placing your confidence in us by investing in Hypoport's shares. We regard this as both a recognition of our outstanding track record and an obligation to sustain this performance. Writing the next chapter in Hypoport's success story will continue to drive our efforts in 2008.

Prof. Dr. Thomas Kretschmar
Sprecher des Vorstands, Co-CEO

Ronald Slabke
Sprecher des Vorstands, Co-CEO

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2 Report of the Supervisory Board

As part of its statutory remit, the Management Board provided the Supervisory Board with continuous written and oral reports on strategic planning and budgeting, the performance of the Company's business, and important transactions. The Supervisory Board regularly reviewed the Company's financial situation. It was closely involved in plans relating to the Hypoport Group's development and, given the pace of the Company's growth, helped put in place and expand the necessary internal structures. Decisions of fundamental importance were discussed with and submitted to the Supervisory Board for approval.

In 2007 the Company held a total of five Supervisory Board meetings on 2 March, 20 April, 1 June, 10 August and 14 December. In addition, the Supervisory Board discussed six resolutions by telephone and adopted these resolutions on 17 January, 7 April, 30 August, 4 September, 11 October and 7 November.

The Management Board submitted to the Supervisory Board the single-entity and consolidated financial statements it had prepared for 2007, both management reports, its proposal for the appropriation of profits, and the corresponding independent auditors' reports.

COUNSEL TREUHAND GmbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, the auditors appointed by the Company, audited its single-entity financial statements, the consolidated financial statements and both management reports for the year ended 31 December 2007 and issued an unqualified opinion. As required by section 171 AktG, the Supervisory Board examined the single-entity and consolidated financial statements for 2007, both management reports and the Management Board's proposal for the appropriation of profits. The auditors reported to the Supervisory Board in person at the meeting held on 31 March 2008 to discuss the Company's financial statements. The Supervisory Board noted the findings of this meeting and did not raise any objections; it approved the Company's single-entity and consolidated financial statements for 2007. The single-entity financial statements have thus been adopted. The Supervisory Board agreed with the Management Board's proposal for the appropriation of profits.

The Supervisory Board would like to thank the Management Board and all employees for their hard work and valuable support.

Berlin, 31 March 2008

Dr. Ottheinz Jung-Senssfelder
Chairman of the Supervisory Board

3 Corporate Governance

Section 161 of the German Stock Corporation Act (AktG) states that the management boards and supervisory boards of listed companies must issue an annual declaration stating that the recommendations made by the German government commission on the German Corporate Governance Code, which are published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been – and are being – complied with or, if this is not the case, stating which recommendations have not been – or are not being – applied. The declaration must be made permanently available to all shareholders.

The Management Board and the Supervisory Board of Hypoport AG hereby declare that the recommendations made by the German government commission on the German Corporate Governance Code (as amended on 14 June 2007), which are published by the Federal Ministry of Justice in the official section of the Federal Gazette, have been – and are being – complied with by Hypoport AG with the exception of the following recommendations:

1. Paragraph 3.8 of the German Corporate Governance Code recommends that the Company, when concluding directors' and officers' (D&O) insurance, should agree an appropriate excess. The D&O insurance concluded by Hypoport AG does not specify any excess for either the Management Board or the Supervisory Board.

2. Paragraph 4.2.1 of the German Corporate Governance Code recommends that the Management Board should consist of several persons and have a chairman or spokesman. The Management Board of Hypoport AG has two spokesmen.

3. Paragraph 5.1.2 of the German Corporate Governance Code recommends, among other things, that an age limit should be specified for members of the Management Board. No age limit has been specified for members of the Management Board of Hypoport AG.

4. Paragraph 5.3.1 of the German Corporate Governance Code recommends that supervisory boards should set up properly qualified committees in line with the specific circumstances of the company concerned and the number of persons on its supervisory board. The Supervisory Board of Hypoport AG has not set up any committees.

Hypoport AG believes that the recommendations with which it does not comply are either not practicable or are detrimental to the Company.

Berlin, January 2008

The Supervisory Board | The Management Board

4 Hypoport's shares

Hypoport's shares are more than just investments that can be traded on the stock market. They enable their owners to participate in one of the most important changes to take place in the German financial services market since its inception in the 19th century. More than virtually any other company, HYPOPORT combines the phenomenal power of the internet with a revolutionary business model based on the independent distribution of financial products.

Since the Company's shares were listed in the Prime Standard segment of the Frankfurt Stock Exchange in October last year, anyone can now buy a share of this success.

As the volume of trading in its stock remained low, unfortunately, the Company's share price failed to make much headway in 2007. After commencing trading at €15.25 at the end of October, it had reached €15.00 by the close of trading on 31 December, which was a respectable performance given the general market conditions.

Hypoport's main shareholders are still its management and Deutsche Postbank AG. Its free float, according to the definition used by Deutsche Börse AG, was 33.09 per cent on 31 December.

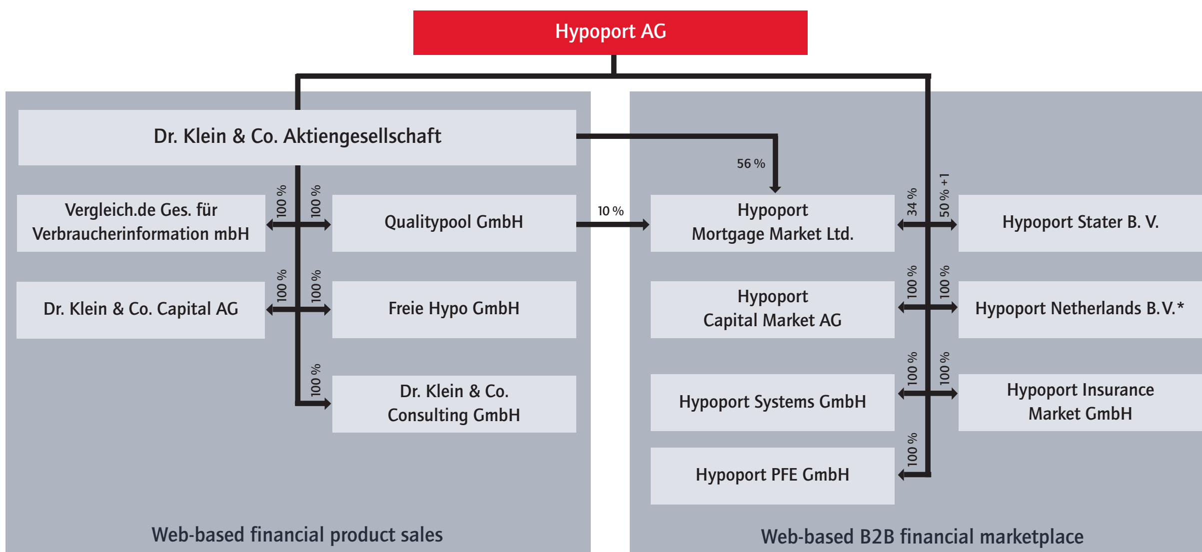
Our public relations activities in 2008 will focus on continuing to raise Hypoport AG's profile among investors, thereby further enhancing the liquidity of its shares on the back of the Company's consistently strong performance.

5 Management Report

Business and economic conditions

Business model and strategy

The Hypoport Group is an internet-based financial service provider that offers a full range of financial products. Its parent company is Hypoport AG, which is head-quartered in Berlin, Germany. Its business model is based on two mutually supporting pillars: the Financial Product Sales and B2B Financial Marketplaces divisions.



* 100% participation Prommise Technology B.V. in liquidation

Operating through its wholly owned subsidiary Dr. Klein & Co. AG and the latter's subsidiaries Vergleich.de Gesellschaft für Verbraucherinformation mbH, Freie Hypo GmbH and Qualitypool GmbH (hereinafter also referred to jointly as 'Dr. Klein'), the Hypoport Group offers private clients internet-based banking and financial products (providing advice, if requested, either by telephone or face to face) ranging from current accounts and insurance to mortgage finance. Dr. Klein selects the best products for its clients from a wide offering of over 100 leading banks and insurance companies. By using web-based processes, it generates cost advantages that it passes on to its private clients. This usually enables Dr. Klein to offer much better terms and lower prices than local banks and insurance agents. According to its own surveys, Dr. Klein is also a market leader in the financing of municipal and cooperative housing companies in its Corporate Real Estate Clients business, which has been running since 1954.

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With its EUROPACE B2B financial marketplace, the Hypoport Group uses Germany's largest online transaction platform to sell financial products. A fully integrated system links a number of banks with several thousand financial advisers, thereby enabling products to be sold swiftly and directly. The highly automated processes used on this platform enable significant cost advantages to be generated. EUROPACE is now used to process several hundred financing transactions every day. It is also used as an information platform for asset-backed securities (ABS) transactions in Europe.

The growing acceptance of the internet, the superiority of our independent model for selling financial products, and the unique combination of financial product distribution and process-related and IT expertise in a single business model lead us to believe that this model will continue to perform well in 2008.

Economic conditions

The global economy again grew at an above-average rate of 5.2 per cent in 2007. The economy in the European Union also proved to be highly resilient last year, with its aggregate gross domestic product (GDP) growing by 2.9 per cent. Germany reported encouraging GDP growth of 2.6 per cent in 2007.

The dampening effects of Germany's VAT increase coupled with the general nervousness resulting from what had turned into a full-blown financial market crisis in the summer were largely offset by the underlying strength of the economy. The main growth drivers were a sharp rise in spending on capital equipment and the persistently strong demand from abroad. By contrast, consumer spending stagnated owing to the huge VAT hike and the rising prices of energy and basic food-stuffs.

The labour market continued to improve in 2007. The average number of unemployed for the year is likely to have fallen by at least 0.7 million.

The savings ratio rose by 0.4 percentage points to 10.9 per cent of disposable income owing to consumers' considerable reticence to spend. The sharp growth in the sale of state-subsidised pension products – i.e. 'Riester', 'Rürup' and occupational pension schemes – suggests that a considerable proportion of the rise in incomes was initially invested in pensions.

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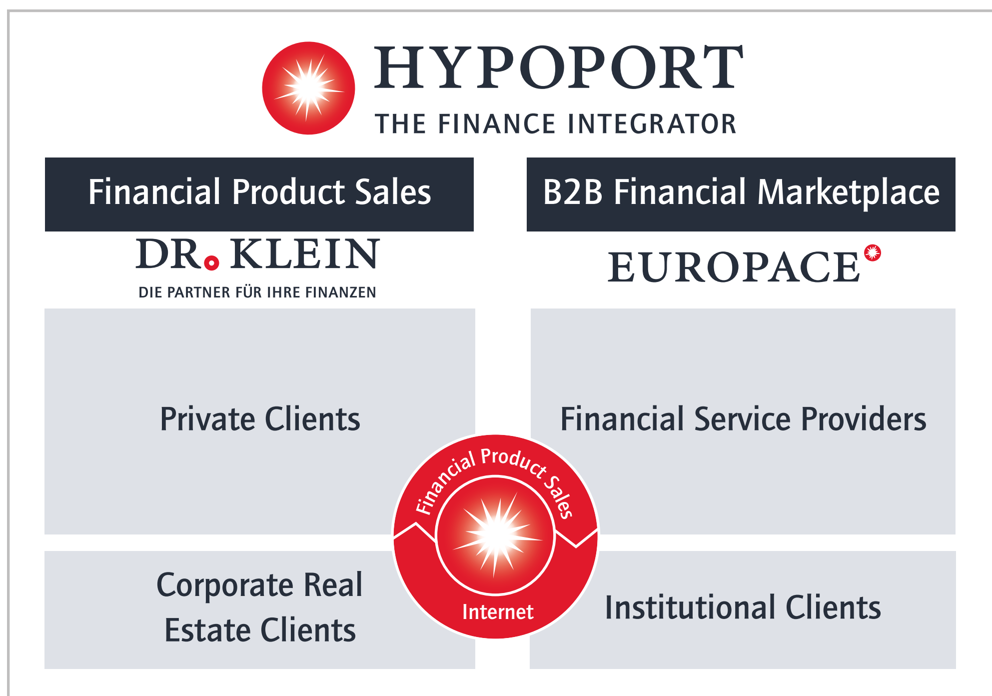
Business units and sectoral performance

The Hypoport Group operates as an internet-based distributor of financial products in its Private Clients and Corporate Real Estate Clients business units and as a provider of B2B financial marketplaces in its Financial Service Providers and Institutional Clients business units.



Within the Hypoport Group, Hypoport AG performs the functions of a strategic and management holding company and includes the central Information Technology unit, which carries out software development for all Group companies as well as IT project management for internal and external clients. Most business operations are conducted by a total of 14 German and international subsidiaries.

Financial Product Sales – Private Clients

The trend for clients to seek advice from independent financial product distributors such as Dr. Klein before purchasing financial products continued in the market in 2007. Private clients are becoming increasingly aware of the benefits of independent advice and products. According to our estimates, independent providers of home loans continued to perform well in 2007, winning market share from regional banks. The same applies to the distribution of insurance and investment products.

Dr. Klein used the internet, its primary sales channel, as well as its three secondary distribution channels (telephone sales, branch-based sales and agent sales) to expand its market position. The Hypoport Group's EUROPACE transaction platform is one of the key drivers of this trend.

The sale of financial products through our primary distribution channel continues to benefit from the growing acceptance of the internet. Clients can look up information at their leisure whenever they wish and initially remain anonymous. More and more customers are overcoming their inhibitions about new technology and are increasingly using the internet to enquire about products (and subsequently seek advice either over the telephone or face to face) and to purchase them directly online, especially in the case of simple, standardised products. Dr. Klein has benefited enormously from this trend.

The volume of new property finance business in 2007 (€ 181.8 billion) was slightly down on the corresponding figure for 2006 (€ 188.0 billion), which was partly attributable to the nervousness in the market caused by the US subprime mortgage crisis. The market in which independent providers of property finance operate continues to be highly competitive. In an attempt to counter the fierce competition from independent distributors, the established market participants (regional banks, public sector savings and loan associations, and building societies) are significantly increasing their marketing and communications budgets.

The ongoing debate in Germany about pension insurance reform and the resultant emphasis on private provision again generated strong demand for long-term pension products in 2007. The introduction of the German Retirement Income Act (AltEinkG) placed a large proportion of the responsibility for retirement pensions in private hands. There is therefore strong demand for additional pension provision. The German system of private and occupational pensions is also being fundamentally reorganised.

The changes made to the system of statutory and private health insurance are also generating greater need for advice and are boosting client demand in this area. This trend too has had a positive impact on Dr. Klein's level of new business.

Fund assets under management continued to perform well overall in 2007, achieving a new record volume of € 1,423 billion (2006: € 1,240 billion). Of this total, € 731 billion (2006: € 571 billion) was attributable to retail funds and € 692 billion (2006: € 669 billion) to specialised funds.

Financial Product Sales – Corporate Real Estate Clients

The main target group of this business unit, which forms part of both Dr. Klein & Co. AG and Dr. Klein & Co. Consulting GmbH, consists of municipal and cooperative housing companies. This sector is characterised by a high degree of continuity. The level of housing starts in Germany has remained low for years. Much activity is now focused on modernising the existing housing stock. Germany's persistently low interest rates and rents do not offer sufficient incentive to take on the risk of building residential property.

Most investment was spent on improving the existing housing stock. The volume of finance requested was therefore primarily used to optimise existing loan portfolios through debt rescheduling and to carry out modernisation work. The proportion of conventional first mortgages continues to decline and is being replaced by more complex financing that is structured accordingly prior to its actual placement. Interest in forward loans and long-term fixed-rate finance remains strong owing to the relatively low level of interest rates.

The longstanding trend in the banking sector with respect to the terms and prices offered against the background of Basle II (credit ratings) and banks' increasingly risk-conscious lending policies again caused many housing companies to consider optimising their collateral and loan portfolios. This is generating growing demand for the EUROPACE WoWi portfolio management platform jointly developed in recent years by Dr. Klein & Co. Consulting GmbH and Hypoport AG.

The sale of insurance services in the housing sector is highly fragmented. This means that the individual agents operating in this market are not very specialised, which prevents the best-possible advice from being provided and the optimum insurance from being purchased. Decision-makers at municipal and cooperative housing companies are becoming increasingly aware of the issue of ancillary costs increasingly being seen as a form of 'second rent' and, consequently, as a unique selling point in a competitive market. Insurance premiums form a substantial part of ancillary rental costs. The optimisation of insurance services can reduce ancillary rental costs (thereby reducing the total rent) while lowering housing companies' risk costs. 2007 was the first year in which Dr. Klein & Co. AG managed to position itself in this market by offering the appropriate specialist advisory services.

B2B Financial Marketplaces – Financial Service Providers

With its EUROPACE platform, the Hypoport Group provides the central marketplace that is used to process financing for private clients between independent financial product distributors and product suppliers.

The success of this marketplace is therefore largely determined by the market in mortgages and personal loans as well as independent distributors' market share over time. Consequently, please refer to the comments made in the section Financial Product Sales – Private Clients for an account of the general sectoral trends.

The market's development towards an 'open architecture' (where one distributor collaborates with a number of product suppliers) and away from a singlelender model (where the products of only one supplier are sold, e. g. through regional public-sector savings and loan associations, cooperative banks or the branches of major banks) is continuing and is extremely beneficial for the development of the EUROPACE platform.

Independent distributors (such as Dr. Klein) advise their clients without any regard to the interests of specific product suppliers and, by consulting with their clients, select the best product from a wide range offered by various suppliers. This distribution model, which is highly beneficial for clients, places greater demands on the technology and processes used by the financial product distributor. Because several thousand financial advisers throughout the sector use the EUROPACE marketplace to perform these functions, this creates valuable synergies for the partners involved. Apart from the considerable benefits for the financial product dis-tributors participating, EUROPACE consistently benefits – when looking for new product suppliers to expand the product range – from the strong appeal exerted by the thousands of active financial advisers at the financial product distributors operating on EUROPACE. A number of new product suppliers were successfully acquired for this business in 2007.

As a result of this trend, whose effect was similar to that of a network, the total volume of transactions (excluding cancellations) processed on EUROPACE grew by 37 per cent to € 12.5 billion in 2007 (2006: € 9.1 billion). This consolidated EUROPACE's leading position as the central marketplace for processing financing transactions.

EUROPACE currently occupies a prominent position in the mortgage market, which should ensure that it continues to achieve strong growth. Although still at a low level, the personal-loans business also generated strong growth that comfortably outperformed the market. As far as many independent financial advisers are concerned, personal loans were still a niche product in 2007. Although they are only slowly leaving this niche, they are gradually becoming more popular because of the growing competition in other financial products.

B2B Financial Marketplaces – Institutional Clients

Although the European securitisation market continued to grow in 2007, the US subprime mortgage crisis limited this growth to only 3.3 per cent (2006: 47.1 per cent). The fourth quarter in particular generated a much lower volume of securitisations than in the corresponding period of 2006. The continuous reporting of such transactions is increasingly becoming a key issue for both issuers of securitisations and investors in securitisation tranches. The growing number of transactions that need to be constantly monitored (each transaction usually runs for many years and must be analysed every quarter) increases the cost and amount of reporting required of both parties. Furthermore, national regulators are systematically placing increasing demands on both the quality and depth of analysis of these reports. Nonetheless, there are still no uniform standards for the reporting of securitisations.

With EUROPACE for issuers and EUROPACE for investors, Hypoport Capital Market AG and Hypoport Netherlands B.V. offer customised solutions for these two groups of providers. These systems use automation and information aggregation to add considerable value, which enables issuers and investors to achieve greater efficiency, reliability and depth of analysis.

However, the heightened state of nervousness triggered by the US subprime mortgage crisis curbed market participants' willingness to provide urgently needed investment in the securitisation market for information-related and technology projects. This is making it particularly difficult for new providers such as HYPOPORT to generate growth. Furthermore, although there are now a large number of solutions providers competing in this highly promising market, they often only address certain aspects of problems. None of Hypoport's competitors offers an independent platform for the entire market coupled with a high degree of technological integration. HYPOPORT is one of the true pioneers in this fledgling market. Despite the current crisis in this market we believe that over the next few years it offers significant growth potential that will benefit our company.

Revenue

The Hypoport Group continued to demonstrate the strength of its growth in 2007. Its revenue jumped by 59 per cent from €26.3 million to €41.7 million.

Despite a stagnant market, the Private Clients business unit raised its revenue by 58 per cent to €24.5 million (2006: €15.5 million). Despite generally weaker demand for home loans, the mortgage finance product segment contributed to this encouraging trend, increasing both its volumes and revenue.

Mortgage Finance	2007	2006
Number of loans brokered	10,129	9,000
Volumes of loans brokered (€ million)	1,572	1,430
Revenue (€ million)	12.1	10.2
Marge (%)	0.77	0.71

The 'other financial products' segment in particular continued the very strong performance it had delivered in previous quarters.

Other financial products	2007	2006
Number of loans brokered	7,614	2,751
Revenue (€ million)	12.4	5.2

Consequently, the share of the business unit's revenue generated by other financial products rose to 51 per cent (2006: 34 per cent). This clearly shows that the Hypoport Group is continuing to diversify the range of financial products and services it sells to private clients without restricting the growth of individual product segments.

The number of advisers working in the various distribution channels of the Private Clients business unit was systematically increased during the period under review and had reached a new high by 31 December 2007.

Distribution channels	2007	2006
Telephone sales staff	38	39
Advisers in branch-based sales	147	97
Branches run by franchisees	104	79
Independent financial advisers acting as agents	1,278	920

The number of leads acquired – the key performance indicator for this business – also hit a new record of roughly 2.5 million in 2007 (2006: 0.9 million). Most of this growth was attributable to the growing demand for other financial products.

Financial Service Providers, the second-largest business unit, increased its revenue by 55 per cent from €5.8 million to €9.0 million in 2007. The key growth driver here was the mortgage finance product segment. The volume of transactions processed using EUROPACE in this product segment rose by 37 per cent year on year.

Europace	2007	2006
Volume of transactions (€ billion)	12.5	9.1
Revenue (€ million)	9.0	5.8

The number of distribution organisations actively using the marketplace as at 31 December 2007 had increased to 34 compared with 30 distributors as at 31 December 2006.

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In 2007 the Corporate Real Estate Clients business unit faced stiff competition, especially in long-term finance. Consequently, this was the first time that the volume of new business brokered was not expanded. As expected, the volume of loan renewals decreased because fewer loans were due to have their interest rates renegotiated during the period under review.

Loan brokerage	2007	2006
Volume of new business (€ million)	850	918
Volume of loan renewals (€ million)	461	498
Revenue (€ million)	3.1	4.1

The decline in revenue from loan brokerage was offset by higher revenue from the sale of other financial products and from financial advice provided to clients so that, overall, the revenue generated by this business unit in 2007 rose by 7 per cent to €4.8 million (2006: €4.5 million).

The acquisition of Hypoport Netherlands B.V. at the end of 2006 in particular increased the number of clients to 29 (2006:17) and, consequently, the revenue generated by the Institutional Clients business unit advanced from €0.2 million to €2.7 million.

2. Financial performance

	2007		2006		Change	
	€'000	%	€'000	%	€'000	%
Revenue	41,714	100.0	26,286	100.0	15,428	58,7
Own work capitalised	3,333	8.0	2,642	10.1	691	26,2
Other operating income	503	1.2	1,172	4.4	-669	57,1
Gross operating revenue	**45,550**	**109.2**	**30,100**	**114.4**	**15,450**	**51,3**
Cost of materials	73	0.2	22	0.1	51	100,0
Personnel expenses	17,466	41.9	13,073	49.8	4,393	33,6
Depreciation, amortisation expense and impairm	3,337	8.0	1,883	7.2	1,454	77,0
Other operating expenses	20,714	49.6	10,502	40.0	10,212	97,2
Earnings before interest and tax (EBIT)	**3,960**	**9.5**	**4,620**	**17.6**	**-660**	**-14,3**
Net finance costs	-735	-1.8	-644	-2.4	-91	14,1
Earning before tax (EBIT)	**3,225**	**7.7**	**3,976**	**15.2**	**-751**	**-18,9**
Current income taxes	723	1.7	637	2.4	86	13,5
Deferred taxes	-1,757	-4.2	-742	-2.9	-1,015	100,0
Net profit for the year	4,259	10.2	4,081	15.5	178	4,4

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By raising its revenue by 59 per cent to €41.7 million, the Hypoport Group continued its uninterrupted growth of previous years. Its earnings before interest and tax (EBIT) were reduced by expenses of €1.101 million for the listing of its shares in the Prime Standard of the Frankfurt Stock Exchange on 29 October 2007 and by impairment losses of €479 thousand on software. If these one-off items for 2007 and the one-off effect of the sale of the office building in Lübeck in 2006 (resulting in income of €878 thousand) are eliminated, adjusted EBIT for 2007 amounts to €5.540 million and adjusted EBIT for 2006 comes to €3.742 million. Consequently, the adjusted EBIT margin fell slightly from 14.2 per cent (17.6 per cent on an unadjusted basis) to 13.3 per cent (9.5 per cent on an unadjusted basis).

Own work capitalised relates to the pro rata personnel expenses and operating costs incurred in building and expanding the transaction platforms.

The decline in other operating income was largely attributable to the lower proceeds of €22 thousand from disposals of non-current assets (2006: €884 thousand).

The cost of materials relates to expenses on printing services carried out by third parties.

Personnel expenses rose in line with the increase in the average headcount for the year from 265 employees to 368.

The rise in other operating expenses essentially relates to selling expenses of €12.287 million (2006: €5.737 million) and administrative expenses of €4.728 million (2006: €2.247 million). The administrative expenses include the €1.101 million cost of the Company's initial public offering (IPO).

The net finance costs include interest expenses of €823 thousand (2006: €667 thousand), which stemmed largely from loans totalling €12.8 million (2006: €14.9 million).

3. Net assets

The following information on the structure of Hypoport's assets, equity and liabilities as at 31 December 2007 is based on the balance sheet figures aggregated according to liquidity. Receivables and liabilities falling due less than twelve months after the balance sheet date are reported as 'current', while all others – unless shown separately – are reported as 'non-current'.

	2007		2006		Change	
Assets	€'000	%	€'000	%	€'000	%
Intangible assets	23,319	48.4	22,175	50.3	1,144	5.2
Property, plant and equipment	1,553	3.2	1,314	3.0	239	18.2
Financial assets	522	1.1	454	1.0	68	15.0
Other assets	0	0.0	17	0.0	-17	-100.0
Deferred tax assets	2,676	5.5	2,278	5.2	398	17.5
Non-current assets	**28,070**	**58.2**	**26,238**	**59.4**	**1,832**	**7.0**
Trade receivables	15,847	32.9	10,514	23.9	5,333	50.7
Other current items	1,019	2.1	3,671	8.3	-2,652	-72.2
Income tax assets	195	0.4	593	1.3	-398	-67.1
Cash and cash equivalents	3,100	6.4	3,180	7.2	-80	-2.5
Current assets	**20,161**	**41.8**	**17,958**	**40.6**	**2,203**	**12.3**
Total asset	**48.231**	**100.0**	**44,196**	**100.0**	**4,035**	**9.1**
Equity and Liabilities						
Subscribed capital	6,094	12.6	6,288	14.2	-194	-3.1
Reserves	16,836	34.9	12,532	28.4	4,305	34.3
Equity	**22,930**	**47.5**	**18,820**	**42.6**	**4,110**	**21.8**
Financial liabilities	12,059	25.0	7,368	16.7	4,691	63.7
Deferred tax liabilities	3,520	7.3	4,879	11.0	-1,359	-27.9
Other non-current liabilities	0	0.0	58	0.1	-58	-100.0
Non-current liabilities	**15,579**	**32.3**	**12,305**	**27.7**	**3,274**	**26.6**
Provisions	21	0.0	18	0.0	3	16.7
Financial liabilities	1,341	2.8	7,738	17.6	-6,397	-82.7
Trade payables	3,399	7.0	1,309	3.0	2,090	159.7
Income tax liabilities	319	0.7	623	1.4	-304	-48.8
Other current liabilities	4,642	9.7	3,383	7.7	1,259	37.2
Current liabilities	**9,722**	**20.2**	**13,071**	**29.7**	**-3,349**	**-25.6**
Total equity and liabilities	**48,231**	**100.0**	**44,196**	**100.0**	**4,035**	**9.1**

Although total assets increased by €4.035 million, there were only minor changes in the structure of the Company's assets, equity and liabilities.

Non-current assets grew by € 1.832 million, or 7 per cent.

The increase in intangible assets mainly relates to internally produced software of € 1.147 million.

Financial assets include loans totalling €169 thousand to employees and a loan of €353 thousand to a joint venture.

Current assets grew by € 2.203 million, or 12 per cent, owing to the increase of € 5.333 million in trade receivables. Other current assets decreased. In 2006 these mainly consisted of a receivable of € 3.540 million for the sale of the office building in Lübeck.

Equity grew by € 4.110 million, or 22 per cent, as a result of the net profit for the year and the increase in capital reserves following the exercise of share options under the Company's 2002–2004 employee share ownership programme. The equity ratio rose from 42.6 per cent to 47.5 per cent.

Non-current liabilities rose by € 3.274 million, or 27 per cent. Non-current financial liabilities increased by € 4.691 million, or 64 per cent. Deferred tax liabilities decreased by € 1.359 million, or 28 per cent.

Current liabilities declined by € 3.349 million, or 26 per cent, primarily because current financial liabilities fell by € 6.397 million, or 83 per cent. Trade payables rose by € 2.090 million, or 160 per cent, while other current liabilities grew by € 1.259 million, or 37 per cent.

Total financial liabilities fell by 11 per cent from € 15.106 million to € 13.400 million. Borrowing of € 5.500 million was more than offset by scheduled loan repayments of € 7.597 million.

4. Financial position

The changes in the Company's liquidity position at the balance sheet date are shown in the table below.

	31.12.2007 €'000	31.12.2006 €'000	Change €'000
Current liabilities	9,722	13,071	-3,349
Cash and cash equivalents	3,100	3,180	-80
	6,622	9,891	-3,269
Other current assets	17,061	14,778	2,283
Surplus cover	**10,439**	**4,887**	**5,552**

The cover ratio of non-current assets to non-current equity and liabilities is shown in the table below.

	31.12.2007 €'000	31.12.2006 €'000	Change €'000
Non-current assets	28,070	26,238	1,832
Equity	22,930	18,820	4,110
	5,140	7,418	-2,278
Non current liabilities	15,579	12,305	3,274
Surplus cover	**10,439**	**4,887**	**5,552**

207 per cent (2006: 137 per cent) of the current liabilities of € 9.722 million (2006: € 13.071 million) are covered by current assets.

82 per cent (2006: 72 per cent) of non-current assets are funded by equity.

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The table below shows the year-on-year changes in balance sheet ratios.

		31.12.2007	31.12.2006
Equity	: Non current assets	81.7 %	71.7 %
Equity and non-current iabilities	: Non current assets	137.2 %	118.6 %
Non-current assets	: Total assets	58.2 %	59.4 %
Equity	: Total equity and liabilities	47.5 %	42.6 %
Equity	: Liabilities	90.6 %	74.2 %

We have used the cash flow statement to show the sources and application of funds and to disclose the changes in the Company's financial position during the year under review. The cash flow statement presented on page 42 is a condensed version of German Accounting Standard (DRS) 2 and International Accounting Standard (IAS) 7 and shows the net cash inflows and outflows broken down by type of activity (operating activities, investing activities and financing activities). Positive amounts (+) denote a net cash inflow, while negative amounts (-) stand for a net cash outflow.

The net cash inflows of €4.205 million from operating activities did not compensate for the net cash outflows of €2.246 million from financing activities and of €2.039 million from investing activities. Consequently, cash and cash equivalents as at 31 December 2007 fell by €80 thousand to €3.100 million.

Cash and cash equivalents at the end of the period consisted exclusively of cash on hand and at banks.

5. Capital expenditure and finance

By far the most important capital investment of 2007 was the establishment of the joint venture Hypoport Stater B.V., Amsterdam, in collaboration with Stater B.V., Amersfoort. Hypoport AG holds shares worth € 100,001.00 in the joint venture, which commenced trading in March 2007. Its aim is to build a EUROPACE financial marketplace that can be used to process mortgage transactions between independent distributors and product suppliers in the Netherlands.

Other capital expenditure during the year under review related to investment in office furniture and equipment and in software.

Capital expenditure was financed by both positive operating cash flow and borrowing.

6. Unrecognised assets

The brokerage activities of the Private Clients and Corporate Real Estate Clients business units provide HYPOPORT with information on its clients' assets and revenue and on the financial products sold to them. This client base and transaction portfolio constitute an unrecognised asset, because HYPOPORT can use this information to sell further suitable financial products to the same client in future. In addition, HYPOPORT can, for example, offer advice on the renewal or refinancing of existing mortgage deals before the originally agreed fixed-interest period is due to expire, for which it may receive another commission from the product supplier.

In its Financial Service Providers business unit, HYPOPORT provides several thou-sand financial advisers with access to its EUROPACE marketplace so that they can process their new mortgages and personal loans. This enables HYPOPORT to assemble a substantial distribution capability, which in turn exerts a considerable appeal for further product suppliers that offer either the same or similar financial products. This potential future extension of the product range enables additional transactions to be processed on the EUROPACE marketplace and constitutes a significant unrecognised asset. Furthermore, HYPOPORT can enable affiliated financial advisers to participate in the renewal or refinancing of financial products that have already been brokered on the EUROPACE marketplace, for which it can earn additional transaction-related fees.

Moreover, HYPOPORT possesses a valuable brand that is becoming increasingly well-known; this is particularly true of its Private Clients business. Dr. Klein regularly comes top in the product tests and reviews conducted by independent consumer organisations, and the growing number of regional franchisees is raising its profile beyond the internet as well. Many new clients are increasing the brand's recognition by recommending Dr. Klein to others after having received good advice from the Company. This constitutes a significant unrecognised asset for HYPOPORT, because a trusted brand provides a valuable competitive advantage in the sale of financial products.

In its Institutional Clients business unit, HYPOPORT has long-term licensing and service agreements on the provision of EUROPACE for issuers for the reporting of ABS transactions throughout their term, which usually runs for many years. These agreements provide HYPOPORT with long-term income streams and client relationships.

7. Procurement and distribution

Financial Product Sales – Private Clients

By further intensifying our online marketing activities for drklein.de, we continued to significantly increase the amount of traffic on our website, thereby laying the necessary foundations for generating sustainable growth in our online distribution.

Having successfully stepped up our online sales operations, we prioritised the expansion of our telephone sales activities, focusing on personal loans. This significantly increased our advisory capacities, which caused the proportion of clients we serve as part of our own sales activities to rise further. The growing range of products on offer is enabling our advisers to specialise more, thereby further improving the quality of the advice we provide to our clients.

We redoubled our efforts to build our stationary distribution channel in 2007. Alongside a number of new franchisees, our stationary distribution channel Freie Hypo was repositioned in the market as 'Freie Hypo – your local Dr. Klein property finance specialist'.

In 2007 we continued to recruit new partner banks and insurance companies as product suppliers. Because of the broad range of products it offers, Dr. Klein is setting a clear benchmark against which other financial product distributors are measured. Furthermore, Dr. Klein's growing sales volumes are gradually helping to improve its purchasing terms and conditions, which has significantly strengthened its competitiveness.

Financial Product Sales – Corporate Real Estate Clients

Our product supplier base in 2007 was broadly diversified, which considerably reduced the risk of our becoming dependent on any one supplier. New transactions were closed with a total of 17 (2006: 17) lenders. The newly acquired partners helped to broaden Dr. Klein's product range further and increased the variety of products available to our clients. Furthermore, in mid-2007 we started to offer a new capital market finance product through our subsidiary Dr. Klein & Co. Capital AG. This provides housing companies with direct access to the international capital markets. This will safeguard Dr. Klein's strategic independence over the long term and reduce its dependence on German banks' lending policies.

EUROPACE-WoWi, a software program introduced in 2007, is in great demand. Our lending and security analysis advisory products are also in greater demand than in 2006. These products help strengthen our client loyalty and provide us with vital support in our attempts to acquire new sources of finance.

B2B Financial Marketplaces – Financial Service Providers

In order to ensure that our EUROPACE marketplace prospers, we need, above all, to attract new distribution partners and product suppliers and strengthen our business relationships with existing partners and suppliers. In 2007 we acquired further key partners, partly as a result of our new building finance product. The constantly growing number of major partners on both sides (i.e. distributors and product suppliers) is enhancing the marketplace's appeal to new partners. In 2007 this network effect was already boosting demand for access to this marketplace, thereby consolidating EUROPACE's prominent position in the market.

In order to increase the platform's efficiency and the volume of transactions it processes, our subsidiaries continued to invest heavily in the expansion of the IT infrastructure in 2007. This created considerable spare capacity, which improved the platforms' performance.

Our international ambitions in 2007 were focused on the Netherlands. On 16 January 2007 the Company set up the joint venture Hypoport Stater B.V., Amsterdam, with Stater Participations B.V., Amersfoort. Its aim is to transfer the successful EUROPACE business model to the Dutch market.

B2B Financial Marketplaces – Institutional Clients

EUROPACE for investors helps investors to decide whether to buy or sell structured products in the European market. Instead of investors having to spend considerable time and effort on obtaining information on specific securitisations, EUROPACE for investors provides them with a web-based portal containing systematically filed information on all European securitisations. EUROPACE for investors currently covers more than 1,100 transactions. 2007 saw the first clients recognise the full potential of this platform and decide to use it.

Our subsidiary Hypoport Netherlands B.V. found further interesting clients in the Netherlands for the desktop version of EUROPACE for issuers (formerly Prommise). We significantly stepped up our marketing of this product outside the Netherlands. Given clients' current reluctance to invest, the web-based solution developed in Germany for Hypoport Capital Market AG will not be developed any further over the next few years. Market conditions will first have to change to provide HYPOPORT with an attractive investment climate.

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8. Employees

The number of employees in the Hypoport Group rose continuously in line with revenue growth and stood at 402 people as at 31 December 2007. This was a year-on-year increase of 27 per cent (31 December 2006: 316 people). The average number of people employed in 2007 was 368, which was a year-on-year in-crease of 39 per cent (2006: 265 people).

The table below gives a breakdown of the Company's employees by business unit at the balance sheet date.

	31.12.2007		31.12.2006		Change	
	Number	%	Number	%	Number	%
Financial Product Sales, Private Clients	175	44	148	47	27	18
Financial Product Sales, Corporate Real Estate Clients	26	6	26	8	0	0
B2B Financial Marketplaces, Financial Service Providers	33	8	18	6	15	83
B2B Financial Marketplaces, Institutional Clients	35	9	38	12	-3	0
Information technology	96	24	64	20	32	50
Administration	37	9	22	7	15	68
	402		**316**		**86**	**27**

Staff turnover remained low during the year under review, which can be seen as an indication of the good relationship between the Company and its employees.

A 40-hour working week is standard throughout the Company, although exceptions to this rule can be contractually agreed in individual cases. Employees' remuneration is based on individual agreements and often includes performance-related elements.

Employees are given plenty of opportunities for continuing professional development.

9. Marketing

We once again increased our marketing budget and selling expenses (excluding personnel expenses) in 2007. The cost of these activities for the Hypoport Group amounted to € 12.3 million, or 29 per cent of revenue (2006: € 5.7 million, or 22 per cent of revenue).

The objective of all our marketing activities is to add value for our clients and to build and maintain long-term client relationships. The individual elements of our marketing mix are geared to our clients'

needs and the target market. In addition to our product-related, pricing and distribution policies, promotional measures accounted for a large proportion of these activities in 2007. In order to achieve a fully integrated marketing and communications mix, we stepped up all relevant aspects of our public relations, print advertising, print media, direct marketing, sales promotions and trade fair exhibitions.

10. Remuneration report

The overall structure and amount of the Management Board's remuneration are determined by the Supervisory Board, which currently comprises its chairman Dr. Ottheinz Jung-Senssfelder, its vice-chairman Jochen Althoff, and Christian Schröder. Both the structure and amount of this remuneration are regularly reviewed, most recently in the summer of 2007.

The total remuneration paid to the members of the Management Board is composed of a fixed annual salary, a guaranteed bonus, a variable year-end payment, and non-cash remuneration.

The main criteria used to assess the appropriateness of remuneration are the functions and responsibilities of the respective Management Board member, his or her personal performance and the financial situation, performance and prospects of Hypoport AG.

The variable year-end payment must be no more than the respective basic salary. The calculation of the year-end payment is based on the Company's EBIT figure as reported in its IFRS consolidated annual financial statements less € 5 million. The year-end payment amounts to 5 per cent of this basis of calculation. The year-end payment is reduced by the guaranteed bonus already paid in the respective financial year. It falls due when the Supervisory Board adopts the single-entity annual financial statements and approves the consolidated annual financial statements of Hypoport AG.

The members of the Management Board receive no remuneration for any director-ships they hold at subsidiaries. The Management Board members' service contracts contain no agreements that would apply in the event of a change of control resulting from a takeover bid. No loans or advances had been granted as at 31 December 2007.

The employment contracts of all members of the Management Board include a non-competition clause that applies to the two years after the end of the contract. During the period that the non-competition clause applies, Hypoport AG must pay annual compensation equivalent to half of the average contractually agreed remuneration benefits regularly paid out over the previous three years. There are no service contracts between the Company or one of its subsidiaries and one or more members of the Management Board that include a provision for the payment of benefits at the end of employment.

The Company bears the cost of maintaining a reasonable level of cover under a directors' and officers' liability insurance policy for the members of the Management Board. No excess has been agreed.

No pension payments, annuities or similar benefits have been agreed with any of the members of the Management Board.

The remuneration paid to the Management Board for 2007 totalled €482 thousand and was broken down as follows:

€'000	Fixed remuneration*		Variable remuneration		Other remuneration		Total remuneration	
	2007	2006	2007	2006	2007	2006	2007	2006
Prof. Dr. Thomas Kretschmar	156	144	0	0	3	10	159	154
Ronald Slabke	156	144	0	0	8	15	164	159
Marco Kisperth	156	120	0	0	3	2	159	122
Total	**468**	**408**	**0**	**0**	**14**	**27**	**482**	**435**

* The fixed remuneration includes the guaranteed bonus.

The remuneration paid to the members of the Supervisory Board is stipulated in the Company's statutes and is determined by the Annual Shareholders' Meeting. It was last amended by a resolution adopted by the Annual Shareholders' Meeting on 1 June 2007 and now consists of three components: an annual fixed remuneration, special remuneration for the chairman and vice-chairman of the Supervisory Board, and a performance-related element.

Pursuant to section 12 of the Company's statutes, the members of the Supervisory Board receive a fixed remuneration of €10,000 for every full financial year during which they serve on the Supervisory Board, plus reimbursement of their out-of-pocket expenses. In addition, the members of the Supervisory Board receive a variable remuneration equivalent to 0.1 per cent of any positive earnings before interest and tax (EBIT) as reported in the Company's IFRS consolidated annual financial statements, but in any event no more than €5,000, for every full financial year during which they serve on the Supervisory Board. Both the fixed and variable remuneration are payable at the end of the Annual Shareholders' Meeting that formally approves the acts of management for the previous financial year, unless the Annual Shareholders' Meeting decides otherwise. The chairman of the Supervisory Board receives double the amount of the fixed and variable remuneration, the vice-chairman one and a half times the amount.

Members of the Supervisory Board who have served for less than a full financial year receive pro rata fixed and variable remuneration in proportion to the period for which they have served on the Supervisory Board.

The Company reimburses all members of the Supervisory Board for any value-added tax paid in respect of their remuneration and out-of-pocket expenses. The Company bears the cost of maintaining a reasonable level of cover under a directors' and officers' liability insurance policy for the members of the Supervisory Board. No excess has been agreed.

The remuneration paid to the Supervisory Board for 2007 totalled €57 thousand and was broken down as follows:

€'000	Fixed remuneration		Variable remuneration		Other remuneration		Total remuneration	
	2007	2006	2007	2006	2007	2006	2007	2006
Dr. Ottheinz Jung-Senssfelder	18	13	5	0	2	1	25	14
Jochen Althoff	13	13	3	0	0	0	16	13
Christian Schröder	10	10	4	0	2	1	16	11
Insgesamt	**41**	**36**	**12**	**0**	**4**	**2**	**57**	**38**

11. Disclosures pursuant to section 315 (4) HGB

Composition of subscribed capital

The Company's subscribed capital amounted to €6,093,510.00 at the end of 2007. It is divided into 6,093,510 no-par-value registered shares.

All shares confer the same rights and obligations. Each share confers one vote at the Annual Shareholders' Meeting and determines shareholders' entitlement to the Company's profits. Shareholders' rights and obligations are defined in detail by the provisions of the German Stock Corporation Act (AktG), in particular by sections 12, 53a et seq., 118 et seq. and 186 AktG.

Restrictions on voting rights and the transfer of shares

The Management Board is not aware of any restrictions on voting rights or the transfer of shares.

Shareholdings exceeding 10 per cent of the Company's voting rights

The following shareholdings in Hypoport AG were known to us or had been notified to us at the time this management report was prepared:
According to the notification dated 29 October 2007, Ronald Slabke, Lübeck, holds 36.03 per cent of Hypoport's shares. Of these, 35.17 per cent of the voting shares in Revenia GmbH are attributable to him pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG).

According to the notification dated 30 October 2007, Kretschmar Familienstiftung, Berlin, holds 22.36 per cent of Hypoport's shares.

There are no further direct or indirect shareholdings exceeding 10 per cent of the Company's voting rights.

Shares with special rights conferring powers of control

There are no shares with special rights conferring powers of control. In particular, there are no powers to appoint Supervisory Board members pursuant to section 101 (2) AktG.

Type of control over voting rights in cases where employees are shareholders in the Company but do not directly exercise their control rights

In cases where employees of Hypoport AG are shareholders in the Company, they directly exercise their control over voting rights.

Statutory regulations and provisions of the statutes concerning the ap-pointment and dismissal of Management Board members and amendments to the statutes

The members of the Management Board are appointed by the Supervisory Board pursuant to sections 84 and 85 AktG and section 5 (2) of the Company's statutes. The Management Board comprises at least two persons pursuant to section 5 (1) of the Company's statutes; the number of Management Board members is determined by the Supervisory Board. If the Management Board is short of a member, this member is appointed by the courts in urgent cases at the request of an interested party pursuant to section 85 AktG.

Amendments to the Company's statutes require a resolution to be passed by the Annual Shareholders' Meeting pursuant to section 179 AktG. The Supervisory Board has the authority to make amendments concerning the wording only pursuant to section 19 of the Company's statutes.

Powers of the Management Board to issue and repurchase shares

With approval of a resolution at the Annual Shareholders' Meeting on 1 June 2007, the Management Board was authorised, subject to the consent of the Supervisory Board, at any time up to 31 May 2012 to increase the subscribed capital of the Company by way of an issue of no-par-value registered shares for cash and/or non-cash contribution, on one or more occasions, by up to a maximum of €3,000,000.00. The Management Board can decide to disapply the statutory pre-emption rights of the shareholders, subject to the consent of the Supervisory Board.

The Annual Shareholders' Meeting on 26 August 2002 approved a conditional capital increase of up to €276,808.00 in the Company's subscribed capital. The purpose of the conditional capital increase was to allow share options to be granted to employees, members of the Management Board and to managers in subsidiaries. The conditional capital issued under the resolution adopted on 26 August 2002 amounted to €224,098.00 on 31 December 2007 after shares had been issued in connection with the exercise of share options.

Material agreements by the Company that are conditional upon a change of control resulting from a takeover bid

There are no material agreements between Hypoport AG and third parties that either become effective, are amended or end in the event of a change of control resulting from a takeover bid.

Compensation agreements between the Company and Management Board members or employees in the event of a takeover bid

There are no compensation agreements between Hypoport AG and Management Board members or employees in the event of a takeover bid.

II. Risk report

It is not possible for medium-sized companies such as the Hypoport Group to influence or control fundamental overarching risks. Consequently, we see risk management first and foremost as an entrepreneurial function that consists of taking calculated risks while exploiting the opportunities available. The task of management and all employees is to optimise the likelihood of either of these factors occurring in order to safeguard the Company's interests.

1. Integrated risk management system

Internal monitoring system

The central feature of our internal monitoring system is an appropriate, impermeable separation of functions. This is ensured by our organisational structures, job specifications, and processes, which are laid down in the Company's electronic manual and regularly reviewed for compliance. To supplement these regulations we are already planning to set up a central Internal Audit function. Given the ever-increasing size of the Company and the growing internal and external requirements, this represents an important step in the enhancement of our existing internal control system.

The security and reliability of our IT infrastructure is constantly being refined and is regularly reviewed. The same applies to the Company's compliance with data protection regulations.

Financial planning and reporting

Strategic, operational and functional financial planning and reporting are conducted in all business units and are based on regular strategic reviews. This re-sults in the systematic formulation of long-term and short-term business targets and objectives right down to each business unit and cost centre.

The achievement of these targets and objectives (target/actual comparison) is analysed at all managerial levels in the form of regular meetings, at which control measures are agreed and their effectiveness is reviewed.

Early-warning systems

Information on future developments and trends is exchanged across all levels in the Company in regular meetings, reports and protocols and is assessed by the appropriate unit. This ensures that internal and external information can be analysed on a timely basis for its relevance to risk and that the findings are implemented throughout the Hypoport Group.

From the full range of risks to which we are exposed, we have described below the types of risk that we consider to be material at present.

2. Aggregate risk

All risks currently identified and weighted according to the likelihood of their occurrence have been compensated for by preventive measures and do not present any evident threat to the continued existence of the Company. At present we have not identified any additional risks that might jeopardise the Company as a going concern.

3. Macroeconomic risk

Through its various business units, the Hypoport Group serves a number of target groups in diverse product segments. It is therefore affected by the performance of its individual target markets, its competitors in each market and, in particular, the real-estate and capital markets.

A sustained decline in the market share and potential of its business units' respective target markets could have an adverse impact on the performance of the Hypoport Group's business if the profitability of its businesses were impaired. The Hypoport Group took account of this factor by investing in innovation, distribution and quality improvements in 2007 and plans to do the same in 2008. These measures improved its competitive position last year.

The most important macroeconomic risk continues to be a slackening of demand for mortgage finance, because this product segment still accounts for a significant proportion of the Hypoport Group's activities. The main triggers for such a down-turn could be the housing market or long-term interest rates.

The German housing market has remained flat in terms of prices and volumes for many years now, with government intervention regularly causing temporary sharp fluctuations. Given the stable population figures, the slight rise in per capita demand for housing, the weak propensity to invest in residential property as a form of pension provision and the stability of construction prices due to the stiff competition, we believe that conditions in the German housing market will remain stable over the next few years, so we cannot expect to see any significant positive or negative changes in the market.

The interest rate on long-term investments, which serve as the benchmark rate on property finance, could also have a significant impact on the demand for finance and, consequently, on the performance of both Dr. Klein as a financial product distributor and EUROPACE as a financial marketplace. A sharp rise in long-term interest rates might curb demand for such finance, while lower interest rates could stimulate it. However, the stable macroeconomic data in the European Union, the generally benign global economic environment and the efficiency of the global capital markets mean that we are unlikely to witness any dramatic developments here. On the contrary: we expect interest rates to remain low, and the year-to-date trend in 2008 confirms this assumption.

Because the internet is used intensively by financial product distributors to acquire new business and by financial marketplaces to communicate and execute transactions, the Hypoport Group is especially reliant on the fact that the internet continues to be available to and accepted by its clients and partners. Any impairment of its acceptance or technical availability could have serious consequences for the financial performance of several subsidiaries. However, recent studies suggest that the internet is becoming an increasingly accepted medium by private clients and in business transactions. Even the long-running debate about the security of the internet and the data it transmits has not curbed its growing use in recent years. The internet's growing importance for the entire economy and the high level of capital spending by the telecoms industry in the net's infrastructure mean that we are unlikely to see global technical impairments of the internet's availability.

The Hypoport Group increasingly serves a large number of target groups in vari-ous product segments, which reduces its dependence on individual markets. When assessing their target markets, management and product distributors constantly use the internal and external information sources available so that they can identify any imminent changes in these markets before they occur.

If the revenue in one of our business units falls, the low probability of losses occurring elsewhere and the low anticipated level of such losses therefore mean that they are unlikely to give rise to risks that jeopardise the continued existence of the Company as a whole.

The financial services market is growing rapidly. In particular, changes to the system of retirement pensions towards more responsibility for the individual, increasingly complex products and the disintegration of traditionally established (banking) market structures are fuelling the growth of innovative product distribution concepts such as Dr. Klein.

At the same time, however, the market is undergoing a period of consolidation. Increasingly restrictive legal requirements and technological innovations demand that companies operate on an efficient scale. The need to achieve this critical mass is currently driving the market in mergers and acquisitions. As its acquisitions to date show, the Hypoport Group is more likely to be an actor than a target in this process. Given its current shareholder structure, a hostile takeover of the Company would be impossible. Nonetheless, its shareholder structure is constantly and carefully reviewed to detect any changes.

4. Operational risk

Information technology (IT) is key to all the Hypoport Group's business models. If the EUROPACE platform were to fail, this would reduce the revenue generated by the transaction-based business models on the B2B financial marketplaces and impair the work of our Dr. Klein financial product distribution and could damage the Hypoport Group's general reputation as a technology partner.

The Company therefore pursues a uniform, Group-wide IT strategy to mitigate its IT risks. When selecting our IT systems we usually opt for software packages supplied by reputable providers, supplementing them where necessary with proprietary software developed specifically for HYPOPORT. To ensure that they work properly, we subject all IT systems to rigorous testing before they go live. The operation of critical infrastructure is outsourced to specialist service providers. Our internal IT systems are protected physically and systemically against unauthorised access.

The availability of existing and new expertise is particularly important in a growth company. The Hypoport Group regularly conducts HR planning to ensure that the necessary resources are available either inhouse or from external partners. In addition, it conducts regular staff development and performance appraisal reviews at all levels as a means of staff retention.

Timely and high-quality product development forms the backbone of any service-driven technology company. We have clearly defined development-related processes and responsibilities and introduced planning tools that help to ensure that development projects can be completed on schedule and on budget.

Building and enhancing a brand image forms an integral part of any successful product strategy. The names and logos used by Hypoport AG and its subsidiaries are trademarks and, as such, are protected against unauthorised use.

5. Financial risk

As a medium-sized company, the Hypoport Group is exposed to a number of financial risks. Because of its rapid growth, the Company's need for capital is constantly increasing. It meets this demand for capital by working closely with its shareholders and lenders. The shareholders help to increase the Company's financial strength and mitigate its financial risks by retaining its profits and providing it with equity capital.

To ensure that it can borrow sufficient amounts, the Hypoport Group maintains business relationships with several banks. It discusses its future borrowing requirements with these institutions in a timely fashion. We subject our banking partners to rigorous selection criteria, assessments and ongoing reviews to ensure that they are reliable lenders and suitable partners. In doing so, we reduce the risk that such banks – which are subject to frequent strategic changes – call in their loans at short notice.

The Company's liquidity is maintained by a central liquidity management system. In addition, the Hypoport Group can draw on credit lines from its partner banks.

A further aspect of the Company's financial risk is the credit risk attaching to its receivables. The Management Board centrally approves the funds it lends as part of its operating activities, and these approved lending limits are documented in the Company's electronic manual. The vast majority of the Hypoport Group's accounts receivable are owed by medium-sized and large financial service providers and employees. Suitable collateral security is pledged for long-term receivables.

The Company's transparent financial reporting system and the healthy structure of its balance sheet also help to minimise its financial risks. These are supported by an early-warning system in the form of financial and revenue planning across all business units. This enables the Company to discuss its financial requirements with its lenders in a timely manner.

6. Strategic risk

Strategic risks can arise if the Company's management misjudges significant developments and trends in the financial services sector or fails to identify them at a sufficiently early stage. This can result in key decisions being made which, in terms of the achievement of the Company's long-term objectives and targets, prove with hindsight to be disadvantageous and may be difficult to reverse.

The management of strategic risk forms part of the overall coordination of the Company and is the responsibility of the Management Board.

As part of our long-term planning, the Management Board and the Group Executive Committee (GEC) regularly review the Hypoport Group's strategy. Corporate and divisional strategies form the basis on which the four-year plan and the budget for the following year are compiled. To this end we continuously monitor the domestic and international environment and keep our strategic market position under constant review. This enables us, where necessary, to respond to changing market conditions by adjusting our business model or processes. When formulating such strategic initiatives, the Management Board liaises closely with the Supervisory Board.

This system ensures that strategic risk is identified on a timely basis and preven-tive action can be taken at a sufficiently early stage.

III. Events after the balance sheet date

The firms Genopace GmbH and Starpool GmbH are currently being set up. These companies will broker loans on the EUROPACE platform.

After the balance sheet date there were no particularly significant events that would have affected the presentation of the Company's financial position or financial performance.

IV. Outlook

Germany's panel of economic experts expects the pace of expansion in the United States, Europe and Japan to slow. By contrast, Asia's other economies are proving to be the drivers of the global economy, so that global GDP growth is likely to weaken only marginally in 2008. Interest rates in the financial markets are forecast to be slightly lower as a result of the subprime mortgage crisis. Germany's gross domestic product is expected to grow by 1.9 per cent this year. The lower growth rate compared with 2007 is mainly due to the country's smaller positive trade balance. Domestic demand – especially consumer spending – is becoming the main engine of economic growth.

The acceptance of the internet as an efficient information, communication and transaction medium will continue to grow over the next few years. This trend will benefit the Company's financial market-places and its Dr. Klein financial product distribution in equal measure. Given private clients' growing demand for independent advice on financial services on the internet as well as over the telephone and at branches, the market environment will remain encouraging for Dr. Klein over the coming years.

Home ownership continues to constitute a key component of private pension provision. The growing importance of real estate as a form of retirement pension and the increasing need for modernisation and renovation of a constantly ageing housing stock are compensating for the reduction in govern-ment housebuilding subsidies and provide a neutral market environment for mortgage finance. We therefore expect demand for mortgages and home loans to hold up.

Insurance and investment products continue to benefit from the urgent need for private pension provision. Given the further reductions in the level of income provided by state pensions, demand for such products is only likely to increase.

The effects of an ageing society on the state-run healthcare system are equally dramatic. At present there are few indications that politicians plan to radically re-form this system. Eventually, however, there will be no alternative but for people to bear some of the cost of their own healthcare, which will provide further attractive business opportunities for private health insurance providers and financial product distributors such as Dr. Klein.

Because the Hypoport Group is well positioned in this growth market, we expect its business to continue to perform well over the next few years, generating significant revenue and earnings growth.

A further focal point of the Company's business development in the coming years will be the expansion of its activities in the Netherlands, which we expect to stimulate growth over the medium term.

The Hypoport Group will continue to pursue a well-balanced strategy of organic growth and growth by acquisition in 2008, selectively acquiring companies that supplement and enhance its business model in strategically important places.

V. Responsibility statement

"We assure that, to the best of our knowledge and in accordance with the accounting standards applied, the consolidated financial statements give a fair presentation of the Company's financial position and financial performance, the group management report gives a fair presentation of the Hypoport Group's business, profits and position and that the material opportunities and risks of its expected development are described."

Berlin, 14 March 2008

Hypoport AG – The Management Board
Prof. Dr. Thomas Kretschmar – Ronald Slabke – Marco Kisperth

HYPOPORT
THE FINANCE INTEGRATOR

6 Consolidated financial statements

IFRS consolidated balance sheet as at 31 December 2007

Assets	31.12.2007 €'000	31.12.2006 €'000	Notes
Non-current assets			
Intangible assets	23,319	22,175	4.1
Property, plant and equipment	1,553	1,314	4.1
Financial assets	522	454	4.2
Other assets	0	17	4.4
Deferred tax assets	2,676	2,278	4.5
	28,070	**26,238**	
Current assets			
Trade receivables	15,847	10,514	4.3
Other assets	1,019	3,671	4.4
Current income tax assets	195	593	4.4
Cash and cash equivalents	3,100	3,180	4.6
	20,161	**17,958**	
	48,231	**44,196**	
Equity			
Equity			
Subscribed capital	6,094	6,288	4.7
Reserves	16,836	12,532	4.11
	22,930	**18,820**	
Non-current liabilities			
Financial liabilities	12,059	7,368	4.12
Other liabilities	0	58	4.13
Deferred tax liabilities	3,520	4,879	4.5
	15,579	**12,305**	
Current liabilities			
Provisions	21	18	4.14
Financial liabilities	1,341	7,738	4.12
Trade payables	3,399	1,309	
Current income tax liabilities	319	623	
Other liabilities	4,642	3,383	4.13
	9,722	**13,071**	
	48,231	**44,196**	

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IFRS consolidated income statement

for the year ended 31 December 2007

	2007 €'000	2006 €'000	Notes
Revenue	41,714	26,286	3.1
Own work capitalised	3,333	2,642	3.2
Other operating income	503	1,172	3.3
Cost of materials	-73	-22	3.4
Personnel expenses	-17,466	-13,073	3.5
Other operating expenses	-20,714	-10,502	3.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**7,297**	**6,503**	
Depreciation, amortisation expense and impairment losses	-3,337	-1,883	3.6
Earnings before interest and tax (EBIT)	**3,960**	**4,620**	
Financial income	88	23	3.8
Finance costs	-823	-667	3.8
Earnings before tax (EBT)	**3,225**	**3,976**	
Income taxes and deferred taxes	1,034	105	3.9
Net profit for the year	**4,259**	**4,081**	
Basic earnings per share (€)	0.69	0.65	3.10
Diluted earnings per share (€)	0.68	0.64	3.10

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Consolidated statement of changes in equity for 2006 and 2007

	Subscribed capital €'000	Treasury shares €'000	Capital reserves €'000	Retained earnings €'000	Equity €'000
Equity as at 1 Jan 2006	1,595	-259	400	9,819	11,555
Issue of new shares	4,791	–	852	-4,695	948
Recall of treasury shares	-98	259	98	-494	-235
Gains on the sale and exchange of treasury shares	–	–	–	2,471	2,471
Net profit for the year	–	–	–	4,081	4,081
Equity as at 31 Dec 2006	**6,288**	**0**	**1,350**	**11,182**	**18,820**

	Subscribed capital €'000	Treasury shares €'000	Capital reserves €'000	Retained earnings €'000	Equity €'000
Equity as at 1 Jan 2007	6,288	0	1,350	11,182	18,820
Issue of new shares	53	–	107	–	160
Recall of treasury shares	-247	–	247	-309	-309
Net profit for the year	–	–	–	4,259	4,259
Equity as at 31 Dec 2007	**6,094**	**0**	**1,704**	**15,132**	**22,930**

HYPOPORT
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IFRS consolidated financial statements for the year ended 31 December 2007

	2007 €'000	2006 €'000
Earnings before interest and tax (EBIT)	3,960	4,620
Non-cash income (+) / expense (-) from income tax	1,522	303
Interest received (+)	88	23
Interest paid (-)	-823	-667
Income tax payments (-)	-511	-952
Income tax receipts (+)	23	754
Depreciation and amortisation expense, impairment losses (+) / reversals of impairm	3,337	1,883
Gains (-) / losses (+) on the disposal of non-current assets	0	-860
Cash flow	**7,596**	**5,104**
Increase (+) / decrease (-) in current provisions	3	11
Increase (-) / decrease (+) in inventories, trade receivables and other assets not attributable to investing or financing activities	-6,116	-2,246
Increase (+) / decrease (-) in trade payables and other liabilities not attributable to investing or financing activities	2,722	993
Change in working capital	**-3,391**	**-1,242**
Cash flows from operating activities	**4,205**	**3,862**
Proceeds from the disposal of property, plant and equipment / intangible assets (+)	3,540	0
Payments to acquire property, plant and equipment / intangible assets (-)	-4,720	-4,050
Payments for acquisitions to be consolidated	-803	-527
Proceeds from the disposal of financial assets (+)	464	352
Purchase of financial assets (-)	-520	-696
Cash flows from investing activities	**-2,039**	**-4,921**
Proceeds from additions to equity (+)	159	1,050
Payments to shareholders and minority interest (-)	-308	-403
Proceeds from the issue of bonds and drawdown of loans under finance facilities (+)	5,500	2,500
Redemption of bonds and loans (-)	-7,597	-844
Cash flows from financing activities	**-2,246**	**2,303**
Net change in cash and cash equivalents	-80	1,244
Cash and cash equivalents at the beginning of the period	3,180	1,936
Cash and cash equivalents at the end of the period	**3,100**	**3,180**

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1. Basic principles underlying the consolidated financial statements

1.1 Business background and company-law information

Hypoport AG, whose registered office is located in Berlin, Germany, is entered in the commercial register of the Berlin-Charlottenburg local court under HRB 74559. The business address of the Company is Klosterstrasse 71, 10179 Berlin, Germany.

Hypoport AG is required by section 290 of the German Commercial Code (HGB) to prepare consolidated financial statements and a group management report. Because the Company's shares have been listed in the Prime Standard segment of the Frankfurt Stock Exchange since 29 October 2007, this obligation applies irrespective of whether certain minimum size criteria are met. As a parent enterprise that is listed on a stock exchange, the Company is obliged to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). It is required by section 315a (1) HGB to comply with supplementary provisions of the German Commercial Code.

The consolidated financial statements for 2007 have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU). Furthermore, a group management report has been added to the IFRS consolidated financial statements to meet the requirements of the HGB. The IFRS consolidated financial statements comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the notes to the consolidated financial statements. The disclosures required by section 315a (1) HGB are presented in the notes to the consolidated financial statements and in the remuneration report, which forms part of the group management report. The consolidated financial statements were completed on 14 March 2008 and are expected to be submitted to the Supervisory Board on 31 March 2008 to be approved for publication.

The consolidated balance sheet has been broken down into current and non-current items in accordance with IAS 1.51 et seq.

The consolidated income statement is presented under the nature-of-expense method.

The consolidated financial statements and the single-entity financial statements for the entities included in the IFRS consolidated financial statements have been prepared in euros.

To improve clarity, all figures in the IFRS consolidated financial statements are presented in thousands or millions of euros.

The financial year for all the companies in the Group is the same as the calendar year.

The Hypoport Group's presence in the financial services market is based on various business models.

1.2 Application of International Financial Reporting Standards (IFRS)

All pronouncements by the International Accounting Standards Board (IASB) subject to mandatory application by 31 December 2007 have been taken into account. All the principles of the framework, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the earlier interpretations of the Standing Interpretations Committee (SIC) applicable at the balance sheet date have been applied.

The International Financial Reporting Interpretations Committee published the following interpretations that were applicable in the current financial year:

- IAS 1 "Amendment to IAS 1 Presentation of financial statements – capital disclosures"
- IFRS 7 "Financial instruments: disclosures"
- IFRIC 7 "Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of embedded derivatives"
- IFRIC 10 "Interim financial reporting and impairment"

The application of IFRS 7 and IAS 1 has given rise to extended disclosures on Hypoport Group financial instruments presented in these financial statements and on the management of capital (see section 7.11). The application of the remaining new interpretations has not led to any changes to the Hypoport Group's accounting policies.

Furthermore, the IASB has published the following standards, interpretations and amendments to existing standards that are not yet subject to mandatory application and that HYPOPORT has not applied in advance:

- IAS 1 "Presentation of financial statements (revised)"
- IAS 23 "Borrowing costs"
- IAS 27 "Consolidated and separate financial statements"
- IFRS 3 "Business combinations"
- IFRS 8 "Operating segments"

- IFRIC 11 "IFRS 2: Group and treasury share transactions"
- IFRIC 12 "Service concession arrangements"
- IFRIC 13 "Customer loyalty programmes"
- IFRIC 14 "IAS 19: The limit on a defined-benefit asset, minimum funding requirements and their interaction"

HYPOPORT is working on the assumption that the future application of these standards and interpretations will not have any effect on the financial position and financial performance of the Group.

1.3 Basis of consolidation

Apart from Hypoport AG as the parent company, the IFRS consolidated financial statements include 14 (2006: 16) domestic and international subsidiaries in which the Company directly or indirectly holds the majority of voting rights.

Hypoport Stater B.V., Amsterdam, was consolidated for the first time in 2007.

Hypoport Stater B.V., Amsterdam, was set up as a joint venture with Stater Participations B.V., Amersfoort, on 16 January 2007. This company's subscribed capital amounts to € 200,000.00 and is fully paid-up. Hypoport AG holds shares worth € 100,001.00 in the joint venture. The statutes of Hypoport Stater B.V. require unanimity for management decisions and majorities of 75 per cent for supervisory board decisions. The investors in the joint venture each appoint an equal number of members of the management and supervisory board. Hypoport Stater B.V. is consolidated only on a pro rata basis because of this restricted level of control exercised by Hypoport AG. Because Hypoport Stater B.V. has been consolidated on a pro rata basis, non-current assets totalling € 742 thousand, current assets totalling € 213 thousand, non-current liabilities totalling € 353 thousand, current liabilities totalling € 58 thousand, income totalling € 41 thousand and expenses totalling € 218 thousand have been consolidated.

To streamline the structure of shareholdings, Hypoport Credit Market GmbH was merged with the parent company with effect from 1 January 2007 and is therefore no longer included in the consolidation as an individual entity.

As the result of an agreement dated 16 May 2007, Hanseatisches Versicherungskontor GmbH was sold by Dr. Klein & Co. Aktiengesellschaft to Hypoport AG at its carrying amount and was then renamed Hypoport Insurance Market GmbH.

Furthermore, Dr. Klein & Co. GmbH was merged with Dr. Klein & Co. Aktiengesellschaft. As a result, Dr. Klein & Co. GmbH ceased to be the general partner in Dr. Klein & Co. Grundstücksbesitzgesellschaft mbH & Co. KG and Dr. Klein & Co. Grundstücksbesitzgesellschaft mbH & Co. KG was wound up.

Dr. Klein & Co. Aktiengesellschaft entered into a control and profit transfer agreement with Vergleich.de Gesellschaft für Verbraucherinformation mbH on 6 July 2007 under which Dr. Klein & Co. AG is the controlling company. The following table shows the entities included in the consolidated financial statements in addition to Hypoport AG:

	Holding %
Dr. Klein & Co. Aktiengesellschaft, Lübeck	100
Dr. Klein & Co. Capital AG, Berlin	100
Dr. Klein & Co. Consulting GmbH, Lübeck	100
Freie Hypo GmbH, Lübeck	100
Hypoport Capital Market AG, Berlin	100
Hypoport Insurance Market GmbH, Berlin (formerly Hanseatisches Versicherungskontor GmbH, Lübeck)	100
Hypoport Mortgage Market Ltd., Westport (Ireland)	100
Hypoport Netherlands B.V., Amsterdam	100
Hypoport PFE GmbH, Lübeck	100
Hypoport Stater B.V., Amsterdam	50
Hypoport Systems GmbH, Berlin	100
Prommise Technolgies B.V., Amsterdam	100
Qualitypool GmbH, Lübeck	100
Vergleich.de Gesellschaft für Verbraucherinformation mbH, Berlin	100

With the exception of Hypoport Stater B.V. (joint venture, consolidation on a pro rata basis), all companies in the Group are fully consolidated.

1.4 Principles of consolidation

The single-entity financial statements for the entities included in the Hypoport IFRS consolidated financial statements and the single-entity financial statements for the parent are prepared to the same balance sheet date using uniform accounting policies.

The single-entity financial statements for the consolidated subsidiary Dr. Klein & Co. Capital AG have been prepared on the basis of the HGB classification criteria and accounting policies and in accordance with the special provisions applicable to financial services institutions pursuant to

sections 340 et seq. HGB as well as the statutory German regulations on accounting by banks and financial services institutions (RechKredV). The income of €51 thousand from financial transactions reported in the single-entity financial statements of Dr. Klein & Co. Capital AG relates to book profits on the sale of current securities, which were reclassified as other operating income when the IFRS consolidated financial statements were prepared.

Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which the Group acquires control. They are deconsolidated as soon as control by the parent comes to an end.

In business combinations carried out after 1 January 2004, the combination is accounted for in accordance with IFRS 3 using the purchase method of accounting, i.e. by offsetting the cost of the acquired entity against the fair value of the assets and liabilities assumed on the date on which the Group obtains control.

In contrast, it has been decided not to apply IFRS 3 retroactively to business combinations prior to 1 January 2004 in accordance with IFRS 1.15 in conjunction with Annex B. In accordance with IFRS 1, Annex B, B2, (j), the assets and liabilities of the subsidiary in this case have been restated as at 1 January 2004 as if IFRS had been specified for the single-entity financial statements of the subsidiary. The subsidiary's equity restated in this way has then been used for consolidation purposes. Any positive difference between the parent's share of these restated carrying amounts and the acquisition cost for the subsidiary in the single-entity financial statements of the parent has been reported as goodwill. Negative differences have been accounted for in consolidated reserves.

All intercompany receivables and payables within the Group are eliminated in consolidation with the elimination of intercompany balances. In the income statement, intercompany revenue and other intercompany income within the Group is offset against corresponding expenses (consolidation of income and expense).

Where intercompany profits and losses have a significant impact on the fair presentation of the Company's financial position and financial performance, such intercompany profits and losses are eliminated.

The Hypoport Group consolidates its investments in joint ventures on a pro rata basis. For each individual item it aggregates its pro rata share of the joint ventures' income, expenses, assets, liabilities and cash flows with similar items in its own financial statements. For these purposes, joint ventures include companies in which the Hypoport Group holds a majority of the voting rights but where, because of the relevant companies' memorandum and articles of association, material decisions can only be taken unanimously.

1.5 Currency translation

In the single-entity financial statements for the companies in the Group, all receivables and payables denominated in foreign currency are measured using the mid rate on the balance sheet date regardless of any existing hedging.

Where, in the case of receivables, the closing rate is lower or, in the case of payables, the closing rate is higher, the foreign currency value translated at the closing rate is reported. Any exchange differences arising as a result are recognised in consolidated income.

1.6 Use of assumptions and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires that the Company make some assumptions and estimates with regard to the recognition and measurement of assets and liabilities, income and expenses, and contingent liabilities. The assumptions and estimates relate for the most part to the definition of useful lives, the recognition and measurement of receivables and provisions, and the realisation of future tax relief. In individual cases, the actual values may differ from the assumptions and estimates. Any changes as a result of new information, more experience or subsequent developments are recognised immediately in income in accordance with IAS 8.

2. Accounting policies

2.1 Comparative figures for 2006

Since 1 January 2007 there has been a change to the presentation of the balance sheet, the statement of changes in equity and the income statement compared with the presentation in the consolidated financial statements for the year ended 31 December 2006. On the face of the balance sheet, the items "Reserves" and "Distributable profit" have been aggregated under "Reserves"; on the face of the statement of changes in equity, the items "Retained earnings" and "Distributable profit" have been aggregated under "Retained earnings". The comparative figures for 2006 have been restated accordingly. The profit carried forward and the distributable profit are no longer reported on the face of the income statement.

2.2 Intangible assets

Goodwill arising on the consolidation of subsidiaries, capitalised development costs in connection with the development of transaction platforms, patents, software, licences and similar rights are reported under intangible assets. Any intangible assets acquired are reported at cost at the date of acquisition.

All intangible assets, with the exception of goodwill, have a specific useful life. They are amortised on a straight-line basis over the period of their use. The useful lives applied to these assets vary

between three and 15 years. If there are any indications of impairment, depreciable intangible assets are subjected to an impairment test and, where required, an impairment loss is recognised to ensure that the carrying amount of the asset is reduced to the recoverable amount in accordance with IAS 36.

In accordance with IFRS 3 and IAS 38, goodwill is not amortised. Instead, an impairment test is carried out in accordance with IAS 36 once a year (or in the intervening period if there are indications of impairment) and, where required, an impairment loss is recognised to ensure that the carrying amount of the asset is reduced to its recoverable amount (impairment-only approach).

An impairment loss is recognised in income if the recoverable amount for the asset is below the carrying amount. The recoverable amount is the higher of net realisable value and value in use. The net realisable value is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties less costs to sell. The value in use is determined by discounting the forecast cash flows from the use and disposal of an asset. The cash flows are derived from the Company's four-year strategic plan. The planning assumptions used are adjusted in the light of the latest information available and take appropriate account of macroeconomic trends and historical developments. The cash flows are not extrapolated beyond the detailed planning period. The cash flows are then discounted back to the balance sheet date using discount rates that reflect the risks specific to the asset.

If impairment is identified, an impairment loss is first recognised for any available goodwill in the cash-generating unit concerned. Any residual amount is then allocated pro rata to the other assets in the cash-generating unit concerned on the basis of the residual carrying amount of each individual asset at the balance sheet date. If the reasons for a previously recognised impairment loss no longer exist, the impairment loss is reversed (except in the case of goodwill), but the reversal cannot result in a carrying amount that is higher than the amortised carrying amount that would have applied if the impairment loss had never been recognised.

Provided they meet the preconditions of IAS 38, development costs are capitalised at cost if the costs can be clearly attributed and it is certain that the product is technically feasible and can be brought to market. Furthermore, there must be a sufficient probability that the development activity will generate future economic benefits. If the criteria for capitalisation are not satisfied, the costs are expensed as incurred.

The capitalised development costs comprise all costs directly attributable to the development process plus an appropriate portion of development-related overheads. Finance costs are not capitalised. Software platforms are amortised on a straight-line basis from the point at which they come into

operation over an estimated useful life of eight years if they are being used for the first time or five years in the case of enhancements.

2.3 Property, plant and equipment

Property, plant and equipment is recognised at cost and reduced by depreciation and any impairment losses. Property, plant and equipment is depreciated on a straight-line basis over its estimated useful life. The following periods of useful life are applied:

	useful life (years)
Buildings	50
Office furniture and equipment	3 bis 13

If there are any indications of impairment, an impairment test is carried out. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised to reduce the carrying amount to the recoverable amount in accordance with IAS 36. If the reason for a previously recognised impairment loss no longer exists, the impairment loss is reversed such that the carrying amount of the asset is restored to the amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

2.4 Borrowing costs

Interest on borrowings is expensed as incurred.

2.5 Financial instruments

A financial instrument is an agreement that simultaneously gives rise to a financial asset at one entity and to a financial liability or an equity instrument at another entity. Financial instruments recognised as financial assets are reported separately from those recognised as financial liabilities. Financial instruments are recognised as soon as HYPOPORT becomes a counterparty to such financial instruments.

Financial instruments are initially recognised at their fair value. When these instruments are subsequently measured, they are allocated to one of the categories mentioned in IAS 39. Transaction costs directly attributable to their acquisition or issuance are factored into their carrying amount unless the financial instruments are recognised in income at their fair value. If their trade date differs from their settlement date (i.e. the date on which they are delivered), HYPOPORT chooses their trade date for their initial recognition or their derecognition.

2.6 Financial assets

Financial assets include receivables from financial services, trade receivables, receivables from banks, cash on hand, derivative financial assets, and marketable securities and financial investments.

Financial assets recognised in income at fair value

Financial assets recognised in income at fair value comprise held-for-trading financial assets.

Financial assets, such as equities or interest-bearing securities, are classified as held-for-trading if they are acquired with the intention of selling them in the short term. Gains and losses on held-for-trading financial assets are recognised in income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not publicly traded in an active market, such as trade receivables. Once they have been initially recognised, loans and receivables are measured at amortised cost under the effective interest method, net of any impairment losses. Gains and losses are recognised in the net profit for the period if the loans and receivables are derecognised or impaired. The interest rate effects of using the effective interest method are also taken to income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are classified as available-for-sale and do not belong in any of the aforementioned categories. This category includes equity instruments and debt instruments such as government bonds.

Once they have been initially recognised, available-for-sale financial assets are measured at fair value, with unrealised gains and losses recognised directly in equity in the reserve for available-for-sale financial assets. If there is objective evidence of impairment or if there are changes in the fair value of a debt instrument as a result of exchange rate movements, they are recognised in income. When financial assets are sold, the cumulative gains and losses on their fair value measurement, which are recognised directly in equity, are taken to income. If the fair value of unlisted equity instruments cannot be sufficiently reliably determined, the shares are measured at amortised cost (net of any impairment losses). Interest received from these financial assets is recognised in the income statement as interest and similar income under the effective interest method. Dividends are taken to income as soon as a legal entitlement to payment arises.

2.7 Impairment of financial assets

At each balance sheet date, the carrying amounts of financial assets that are not recognised in income at their fair value are tested to see whether there is objective evidence of any impairment; such evidence could be serious financial difficulties on the part of the borrower or significant changes in the technological, economic, legal or market environment of the borrower. In the case of equity instruments, a sustained or significant fall in their fair value would constitute objective evidence that they may be impaired.

Loans and receivables

The amount of impairment on loans and receivables is the difference between the asset's carrying amount and the present value of its anticipated future cash flows, which are discounted using the financial asset's original effective interest rate. The impairment is recognised in income.

If the amount of the impairment loss decreases in a subsequent reporting period and if this decrease can be objectively attributed to an event that occurred after the impairment was recognised, the previously recognised impairment loss is reversed and taken to income.

Most impairment losses on loans and receivables (e.g. trade receivables) are charged to impairment accounts. The decision as to whether a credit risk is recognised through an impairment account or by a direct impairment loss on the receivable depends on how high the probability of default is estimated to be. If receivables are classified as irrecoverable, the respective impaired asset is derecognised.

Available-for-sale financial assets

If the value of an available-for-sale asset is impaired, an amount previously only recognised directly in equity and representing the difference between the asset's acquisition cost (less any repayments and redemptions) and its current fair value (less any impairment losses on this financial asset previously recognised in income) is taken to income. Reversals of impairment losses on equity instruments classified as available-for-sale are recognised directly in equity. Reversals of impairment losses on debt instruments are taken to income if the increase in the instrument's fair value can be objectively attributed to an event that occurred after the impairment loss was recognised in income.

2.8 Leases

Under IAS 17, a leasing partner is classified according to whether beneficial ownership in the leased asset is attributable to the lessee (finance lease) or the lessor (operating lease). The classification is based on the extent to which the risks and rewards incident to ownership lie with the lessee or lessor. Hypoport AG has entered into operating leases as a lessee, in particular for vehicles and photocopiers. The related lease costs are expensed as incurred. The Hypoport Group does not currently have any significant leases classified and recognised as finance leases.

2.9 Trade receivables and other assets

Trade receivables and other assets are recognised at the lower of amortised cost and market value. Appropriate write-downs are recognised to account for any identifiable risks. These impairment losses are reversed if the reasons for previously recognised write-downs no longer exist. Irrecoverable receivables are derecognised. Payments subsequently received for amounts that have already been derecognised are taken to income and offset against the impairment losses on trade receivables reported on the face of the income statement. All receivables due for payment in over one year are classified in the Group as non-current.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and overdraft facilities. Utilised overdraft facilities are shown on the face of the balance sheet as liabilities to banks under current financial liabilities.

Cash is measured at nominal value.

2.11 Treasury shares

Treasury shares in the parent purchased within the Group are deducted from equity at cost. Income or expense related to the purchase, sale, issue or recall of treasury shares is recognised directly in equity under reserves.

2.12 Provisions

Provisions are recognised for obligations if the Group has a present legal or constructive external obligation, 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 provision. Future events that may have an effect on the amount required to settle the obligation are taken into account in the provisions providing there is sufficient objective evidence that these events will occur and providing these obligations result from past events.

Other provisions are measured in accordance with IAS 37 and IAS 19 on the basis of a best estimate of the extent of the obligation.

Provisions with a remaining maturity of more than one year are discounted.
Accruals are reported under other liabilities.

2.13 Financial liabilities

Financial liabilities include trade payables, liabilities to banks, bonds, derivative financial liabilities and other liabilities.

Financial liabilities recognised at amortised cost
Once they have been initially recognised, financial liabilities are measured at amortised cost under the effective interest method.

Financial liabilities recognised in income at fair value
Financial liabilities recognised in income at fair value comprise held-for-trading financial liabilities. Gains and losses on held-for-trading financial liabilities are recognised in income.

2.14 Trade payables and other liabilities

Liabilities are recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle an obligation and this amount can be reliably determined.

Other current liabilities are recognised at their repayment or settlement value. Non-current liabilities are generally recognised at amortised cost using the effective interest method. Liabilities are classified as non-current if the agreement concerned does not require repayment within twelve months.

2.15 Contingent liabilities

In accordance with IAS 37.27, contingent liabilities are not recognised on the balance sheet. However, contingent liabilities are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

2.16 Employee benefits

The employees in the Group are for the most part insured under the mandatory statutory pension insurance scheme and therefore pay into a government defined-contribution plan. The Group does not have any legal or constructive obligation under this pension entitlement to make any contributions over and above those required by the scheme. Contributions to defined-contribution plans are made in the year in which employees perform the work with which the contributions are earned.

The Group has set up an employee share ownership programme involving the issue of treasury shares. The fair value of the work performed by employees as the consideration for the granting of the options is recognised as an expense. The total expense over the period until the option rights become vested is determined on the basis of the fair value of the options granted. The estimate of the number of options that are expected to become exercisable is reviewed at each balance sheet date. The effects of original estimates (and any changes to these estimates) are recognised in income and with a corresponding adjustment in equity.

The payments received on exercise of the share options are credited (net of directly attributable transaction costs) to subscribed capital (par value) and the share premium.

2.17 Recognition of income and expense

In accordance with IAS 18, revenue arising on service transactions is recognised on performance of the services providing that the amount of income, the percentage of completion at the balance sheet date, the costs already incurred in the transaction and the expected costs to complete can be reliably measured and it is sufficiently probable that the transaction will lead to an inflow of resources embodying economic benefits. Special volume-related commissions are generally recognised when the relevant target figure is achieved.

Operating expenses are recognised when a service is used or at the point the expense is incurred. Interest income and expense is recognised in the period in which it is earned/incurred.

2.18 Income taxes and deferred taxes

Current income taxes are calculated on the basis of the taxable income determined by the Company using the tax rates applicable at the balance sheet date.

Deferred taxes are determined using the liability method in accordance with IAS 12. Deferred income taxes represent the net tax expense/income in respect of temporary differences between the carrying amount of an asset or liability on the balance sheet and its tax base. Deferred taxes are recognised to account for timing differences between the carrying amount of assets and liabilities on the IFRS consolidated balance sheet and the corresponding balance sheet for tax purposes (with the exception of goodwill) and for recoverable loss carryforwards.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. At each balance sheet date, the Group reviews the carrying amount of deferred tax assets and reassesses unrecognised deferred tax assets; the amounts are remeasured, where required.

Hitherto unrecognised deferred tax assets are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered. On the other hand, the carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised, either as a whole or in part.

In accordance with IAS 12, deferred taxes are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The impact on deferred taxes of changes to tax legislation are recognised in income in the period in which the relevant tax law comes into force. Currently, the German companies in the Group are subject to an overall tax rate of 30 per cent, comprising the corporation tax rate, solidarity surcharge and an average trade tax rate. Non-German subsidiaries are currently subject to tax rates of between 12.5 per cent and 25.5 per cent.

Where there is some uncertainty concerning the tax circumstances in individual companies in the Group, deferred taxes on as yet unused tax loss carryforwards are determined on the basis of a limited planning horizon of four years. Increasingly restrictive tax provisions placing a limit on the use of loss carryforwards in individual companies are also taken into account.

3.3 Disclosures for individual Items on the Income Statement

3.1 Revenue

Revenue for the most part comprises commissions received, special commissions and fees in respect of services. The breakdown by business unit is as follows:

	2007 € million	2006 € million
Financial Product Sales – Corporate Real Estate Clients	4.8	4.5
Financial Product Sales – Private Clients	24.5	15.5
B2B Financial Marketplaces – Financial Service Providers	9.4	5.8
B2B Financial Marketplaces – Institutional Clients	2.7	0.2
Other	0.3	0.3
	41.7	**26.3**

3.2 Own work capitalised

Own work capitalised of €3.333 million (2006: €2.642 million) comprises work on the development and enhancement of internally produced financial marketplaces. In 2007, development costs of €1.478 million (2006: €699 thousand) were expensed as incurred.

3.3 Other operating income

Other operating income mainly comprises employee contributions of €215 thousand (2006: €204 thousand) to vehicle purchases and income of €82 thousand (2006: €25 thousand) from the reversal of provisions.

3.4 Cost of materials

The cost of materials relates to expenses on printing services carried out by third parties.

3.5 Personnel expenses

Personnel expenses are broken down as follows:

	2007 €'000	2006 €'000
Wages and salaries	14,998	11,300
Social security contributions	2,349	1,922
Post-employment and other employee benefits	119	121
	17,466	**13,073**

The cost of defined-contribution pension plans amounted to €1.124 million (2006: €916 thousand).

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3.6 Depreciation, amortisation expense and impairment losses

Of the depreciation/amortisation expense and impairment losses, €2.507 million (2006: €1.221 million) was attributable to intangible assets, and €830 thousand (2006: €662 thousand) to property, plant and equipment.

The amortisation and impairment reported for intangible assets include impairment losses of €479 thousand on our proprietary web-based software EUROPACE for issuers. We discontinued development work on this internet-based solution in response to our clients' clear preference for the desktop version of EUROPACE for issuers.

3.7 Other operating expenses

The breakdown of other operating expenses is shown in the table below:

	2007 €'000	2006 €'000	Change €'000
Operating expenses	2,774	1,957	817
Selling costs	12,287	5,737	6,550
Administrative expenses	4,728	2,247	2,481
Other personnel expenses	445	282	163
Other expenses	480	279	201
	20,714	**10,502**	**10,212**

The operating expenses consist mainly of vehicle-related costs of €873 thousand (2006: €733 thousand) and building rentals of €1.082 million (2006: €507 thousand). The rise in selling expenses was primarily attributable to fee and commission expense of €3.726 million (2006: €1.220 million). The administrative expenses largely comprise IT-related costs of €1.509 million (2006: €603 thousand) and legal and consultancy expenses of €1.332 million (2006: €432 thousand). €848 thousand of the total cost of €1.101 million for the Company's initial public offering (IPO) relates to legal and consultancy expenses. The additional personnel expenses mainly comprise training costs of €331 thousand (2006: €222 thousand).

3.8 Net finance costs

The breakdown of net finance costs is as follows:

	2007 €'000	2006 €'000
Financial income		
Other interest and similar income	63	4
Income from other securities and lending of financial assets	25	19
	88	23
Finance costs		
Interest expense and similar charges	823	667
	-735	**-644**

The interest expense and similar charges arise in relation to the drawdown of loans and use of credit lines.

3.9 Income taxes and deferred taxes

This item includes current and deferred tax income and expense in the following amounts:

	2007 €'000	2006 €'000
Current taxes	-723	-637
Deffered taxes	1,757	742
	1,034	**105**

Taxes are determined on the basis of the relevant tax legislation for the individual companies.

The total balance of tax loss carryforwards at the balance sheet date was €7.319 million (2006: €5.326 million). The loss carryforwards can be carried forward indefinitely.

The tax rates computed on the basis of current legislation are 30.0 per cent (2006: 38.0 per cent) for companies in Germany and between 12.5 per cent and 25.5 per cent (2006: between 12.0 per cent and 30.0 per cent) for subsidiaries outside Germany.

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The table below reconciles the tax expense anticipated for 2006 and 2007 to the tax expense actually reported for those years:

	2007 €'000	2006 €'000
Net profit before tax	3,225	3,976
Tax rate to be applied	30.0 %	38.0 %
Expected tax expense	-968	-1,511
Difference between financial statements and tax accounts	173	0
Effect of non-deductible expenses	-23	-5
Effect of the utilisation of loss carryforwards	0	-178
Effect of companies with negative contribution to profit	0	96
Tax expense on pro rata taxation of income pursuant to section 8 b KStG	-50	0
Tax expense on trade tax added back	-55	0
Capital allowances	0	2
Tax expense in accordance with 2001–2003 tax audit	0	-24
Tax differences in respect of foreign income	916	588
Effect of tax rate adjustment resulting from 2008 tax reform	558	0
Adjustment of deferred tax liabilities at non-German companies	490	0
Deferred taxes in respect of loss carryforwards	0	1,137
Other	-7	0
Current tax income	1,034	105
Tax rate for the Group	32.1 %	2.6 %

3.10 Earnings per share

The figure for earnings per share is determined in accordance with IAS 33. Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of outstanding shares. Diluted earnings per share is calculated by dividing the net profit for the period by the total weighted average number of outstanding shares, adjusted for the dilutive effect of potential new shares. The figure for earnings per share becomes diluted if the average number of shares is increased as a result of adding in the issue of potential shares in connection with options.

Share options were issued to employees in the years 2002 to 2004. These share options had the following dilutive effect on earnings per share in 2007:

	2007	2006
Net profit for the year (€'000)	4,295	4,081
Basic weighted number of outstanding shares ('000)	6,150	6,249
Basic earnings per share (€)	**0.69**	**0.65**
Weighted number of share options ('000) causing a dilutive effect	156	270
Diluted weighted number of outstanding shares ('000)	6,276	6,354
Diluted earnings per share (€)	**0.68**	**0.64**

The weighted number of outstanding shares is calculated on the basis of a daily balance. The options granted in 2007 had an average dilutive effect of 126,000 shares (2006: 105,000 shares).

4. Disclosures for Individual Items on the Balance Sheet

4.1 Intangible assets and property, plant and equipment

For information on the change in intangible assets and property, plant and equipment in the year under review, please see the consolidated statement of changes in non-current assets on the final page of these notes.

The carrying amounts for goodwill as at 31 December 2007 once again related to ten goodwill amounts arising on the first-time consolidation of subsidiaries. For the purposes of impairment testing, the goodwill has been assigned to the following cash-generating units, which reflect the segments in the Group:

€'000	Corporate Real Estate Clients	Private Clients	Financial Service Providers	Institutional Clients	Total
Cost of acquisitions as at 1 January 2007	3,684	7,653	230	3,259	14,826
Additions	0	0	0	0	0
Cost of acquisitions as at 31 December 2007	3,684	7,653	230	3,259	14,826

The impairment tests conducted at the balance sheet date using a risk-free discount rate of 10.2 per cent (2006: 9.4 per cent) revealed no need for any impairment charges.

The sensitivity analysis we conducted revealed that there was no need for any impairment charges on goodwill even if our key underlying assumptions varied within a realistic range. This sensitivity analysis assumed a 10 per cent reduction in future cash flows and a 10 per cent increase in the weighted cost of capital, as variances of this magnitude are realistically possible. In our experience, greater variances than this are unlikely.

4.2 Financial assets

The table below gives a breakdown of financial assets:

	2007 €'000	2006 €'000
Loans to employees	169	454
Loan to joint venture	353	0
	522	**454**

Because the above parties have been granted the option of making unscheduled repayments at any time, the carrying amounts of these loans at the balance sheet date do not differ significantly from their fair values.

4.3 Trade receivables

	2007 €'000	2006 €'000
Trade receivables from		
third parties	15,625	10,514
joint ventures	222	0
	15,847	**10,514**

The fair values of trade receivables equate to the carrying amounts.

The table below shows impairment losses on receivables.

	2007 €'000	2006 €'000
Balance as at 1 January	7	2
Addition to impairment of receivables	41	5
Irrecoverable receivables written off in 2007	222	0
Balance as at 31 December	**47**	**7**

Impairment charges of € 175 thousand (2006: € 237 thousand) were directly recognised.

The Hypoport Group usually grants its clients a credit period of 30 days, although some companies grant up to 90 days. The table below gives a breakdown of its overdue, but not impaired, receivables by age:

	2007 €'000	2006 €'000
1 to 90 days	414	124
90 to 180 days	274	7
180 to 360 days	280	25
More than 360 days	93	14
Total	**1,061**	**170**

4.4 Current income tax assets and other assets

The breakdown of current income tax assets and other assets is as follows:

	2007 €'000	2006 €'000
Advance payment of commissions	412	0
Prepaid expenses	154	39
Current income tax assets	195	593
VAT credits	144	0
Overpayments to suppliers	110	16
Receivables from employees	101	0
Sale price receivable for Lübeck office building	0	3,540
Other	98	93
	1,214	**4,281**

The following asset amounts are only recoverable after one year:

	2007 €'000	2006 €'000
Rent deposits	0	11
Employment exchange receivables in respect of pre-retirement part-time employment	0	6
Loans to employees	0	0
	0	**17**

4.5 Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities (including comparison with prior-year figures) is as follows:

Deferred tax assets	2007 €'000	2006 €'000
In respect of tax loss carryforwards	2,188	2,034
Intangible assets	418	244
Rental and lease obligations	70	14
	2,676	**2,278**

Deferred tax liabilities	2007 €'000	2006 €'000
Intangible assets	1,937	2,570
Property, plant and equipment	59	21
Receivables/liabilities	1,524	2,288
	3,520	**4,879**

4.6 Cash and cash equivalents

The breakdown of cash and cash equivalents (including comparison with prior-year figures) is as follows:

	2007 €'000	2006 €'000
Cash at banks	3,094	3,177
Cash on board	6	3
	3,100	**3,180**

4.7 Subscribed capital

The changes to subscribed capital in the year under review were as follows:

Subscribed capital	EUR
Balance as at 1 January 2007	6.287.648,00
Increase due to exercise of share options	52.710,00
Recall of shares on 1 June 2007	246.848,00
Balance as at 31 December 2007	6.093.510,00

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The Company's subscribed capital as at 31 December 2007 amounted to €6,093,510.00 (2006: €6,287,648.00) and is divided into 6,093,510 registered no-par-value shares.

Following approval of a resolution by the Annual Shareholders' Meeting on 1 June 2007, €6,000,000.00 from the total Hypoport AG distributable profit of €8,390,613.81 was reclassified to retained earnings and the remaining €2,390,613.81 carried forward to the new financial year.

4.8 Authorised capital

Following approval of a resolution by the Annual Shareholders' Meeting on 1 June 2007, the unused authorisation of 19 December 2006 was set aside and replaced by a new authorisation. The Management Board was authorised, subject to the consent of the Supervisory Board, to increase the subscribed capital of the Company by up to a total of €3,000,000.00 by way of an issue of new registered no-par-value shares for cash or non-cash contribution on one or more occasions on or before 31 May 2012. The Management Board can decide to disapply the statutory pre-emption rights of the shareholders, subject to the consent of the Supervisory Board.

4.9 Conditional capital

The Annual Shareholders' Meeting on 26 August 2002 approved a conditional capital increase of up to €276,808.00 in the Company's subscribed capital. The purpose of the conditional capital increase was to allow share options to be granted to employees, members of the Management Board and to managers in subsidiaries. The conditional capital issued under the resolution adopted on 26 August 2002 amounted to €224,098.00 on 31 December 2007 after shares had been issued in connection with the exercise of share options.

4.10 Treasury shares

During the reporting period, Hypoport purchased and then recalled 246,848 treasury shares (equivalent to €246,848.00, or 4.05 per cent, of the subscribed capital of Hypoport AG) at a cost price of €308 thousand. This expense in connection with the recall of treasury shares was recognised directly in equity and offset against the distributable profit. The subscribed capital attributable to the shares recalled was transferred to the capital reserves.

4.11 Reserves

The breakdown of reserves can be found in the attached consolidated statement of changes in equity (Page 41). Capital reserves include the premium from the capital increase carried out in 2001 (€400 thousand), the premium from the issue of shares under the 2002–2004 employee share ownership programme in 2006 and 2007 (€958 thousand), an amount equivalent to the par value of the treasury shares recalled in 2006 (€99 thousand) and an amount equivalent to the imputed share of subscribed capital for the treasury shares recalled in 2007 (€247 thousand).

Retained earnings include the profits generated by the entities included in the consolidated financial statements prior to the first-time consolidation on 1 January 2004, the capital gains on the sale of treasury shares, the losses on the recall of treasury shares and three negative goodwill amounts arising from business combinations. These negative goodwill amounts are reported under retained earnings, because profits had been retained after the acquisition but before the date of first-time consolidation.

All the remaining adjustments made under the first-time adoption of IFRS on 1 January 2004 and recognised directly in equity, together with a statutory reserve of €7 thousand (2006: €7 thousand) are also reported under this item.

4.12 Financial liabilities

The breakdown of financial liabilities is as follows:

	2007 €'000	2006 €'000
Non-current		
Liabilities to banks		
Loans	11,505	7,368
Other liabilities		
Loan to joint venture	353	0
Rental and lease obligations	201	0
	12,059	**7,368**
Current		
Liabilities to banks		
Loans	1,307	590
Mortgages	0	2,203
Overdraft	1	241
Other liabilities		
Rental and lease obligations	33	0
Finance facilities	0	4,704
	1,341	**7,738**
	13,400	**15,106**

1,359,961 no-par-value bearer shares in Dr. Klein & Co. AG have been pledged as collateral to lenders.

Some of the financial liabilities are subject to fixed interest. Others are subject to variable interest linked to the change in EURIBOR plus a bank mark-up. The interest rates vary between 4.8 per cent and 6.5 per cent (2006: between 3.5 per cent and 7.5 per cent). These interest rates are the normal market rates for the financial liabilities and the companies concerned.

The Company has various credit lines from domestic banks. The table below shows all credit lines and the amounts utilised at the relevant balance sheet dates:

	2007 €'000	2006 €'000
Credit line	3,500	4,000
Amount utilised	1	241
Credit line available	**3,499**	**3,759**

The average interest rate on credit lines utilised was 8.0 per cent (2006: 7.0 per cent).

The table below shows the interest-rate risk and agreed interest refix dates associated with financial liabilities at the balance sheet date:

	2007 €'000	2006 €'000
6 months or less	650	2,739
6 to 12 months	657	4,999
1 to 5 years	9,940	1,770
More than 5 years	1,918	5,598
	13,166	**15,106**

The table below gives a breakdown of the residual maturities of non-current financial liabilities:

	2007 €'000	2006 €'000
Between 1 and 2 years	1,349	590
Between 2 and 5 Jahren	8,725	1,770
More than 5 years	1,985	5,008
	12,059	**7,368**

The carrying amounts and fair values of non-current financial liabilities are shown below:

	Carrying amount		Fair value	
	2007	2006	2007	2006
Liabilities to banks	11,505	7,368	11,619	7,464
Loan to joint venture	353	0	353	0
Rental and lease obligations	201	0	201	0
	12,059	7,368	12,173	7,464

The fair values of non-current financial liabilities are based on discounted cash flows, which were calculated using interbank swap rates plus a risk and liquidity margin. The stated carrying amounts of current financial liabilities are roughly the same as their fair values.

4.13 Other liabilities

The breakdown of other liabilities is as follows:

	2007 €'000	2006 €'000
Non-current		
Personnel		
Pre-retirement part-time employment	0	58
	0	**58**
Current		
Tax liabilities		
Value-added tax	151	385
Wage tax and church tax	220	209
	371	**594**
Personnel		
Bonuses	1.406	868
Outstanding holiday entitlements	368	357
Pre-retirement part-time employment	15	0
Employers' liability insurance association	86	64
Wages and salaries	16	44
Disabled persons levy	40	31
Social security contributions	38	14
	1,969	**1,378**
Other		
Residual purchase price liability in respect of Prommise B.V.	0	703
Year-end costs	113	108
Commissions to be passed on	1,176	0
Outstanding invoices	658	211
Deferred income / lessor's allowance from 2006	125	163
Sundry	230	226
	2,302	**1,411**
	4,642	**3,383**
	4,642	**3,441**

4.14 Provisions

The changes in provisions in the year under review were as follows:

€'000	1 Jan 2007	Utilisation	Reversals	Addditions	31 Dec 2007
Current provisions					
Cancellations	18	0	0	3	21
	18	0	0	3	21

The provision for cancellations relates to the probable repayment of commissions to insurers owing to policyholders' withdrawal.

5. Cash flow statement disclosures

Cash flows from investing and financing activities are determined directly on the basis of the cash inflows and outflows. In contrast, cash flow from operating activities is determined indirectly from the net profit for the year. This indirect method of determining the cash flows takes into account changes in the balance sheet items in connection with operating activities and adjusts them for the effect of currency translation and changes to the entities included in the consolidation.

Apart from income tax payments, interest receipts and payments are also assigned to the cash flows from operating activities because they are primarily used to finance operating activities.

Investing activities include additions to property, plant and equipment, financial assets and intangible assets, as well as additions in respect of the capitalisation of development costs.

Cash and cash equivalents, as reported in the cash flow statement, comprises all liquid funds recognised on the balance sheet, i.e. cash on hand and at banks.

6. Segment reporting

Hypoport AG prepares its segment reporting by business unit in line with its internal organisation and reporting structure. This organisational structure breaks the Company down into four target-group-oriented business units (Financial Product Sales – Corporate Real Estate Clients (formerly Housing Companies), Financial Product Sales – Private Clients, B2B Financial Marketplaces – Financial Service Providers, and B2B Financial Marketplaces – Institutional Clients) and two function-oriented business units (Information Technology and Administration). The target-group-oriented business units bring together different business lines with similar opportunities and risks.

The Financial Product Sales – Corporate Real Estate Clients business unit focuses on the provision of financial support for housing companies, borrowing, management consultancy and support for property transactions and the insurance portfolio.

The Financial Product Sales – Private Clients business unit offers mortgage finance, personal loans, insurance, current accounts and deposit accounts through four distribution channels (online sales, telesales, branch-based sales and agent sales).

B2B Financial Marketplaces – Financial Service Providers focuses on financial product distributors and product suppliers. The core product in this business unit is the EUROPACE marketplace, which was originally introduced in 1999. Independent distributors use EUROPACE to process their financing transactions with the product suppliers they represent.

The B2B Financial Marketplaces – Institutional Clients business unit supports lenders/originators and investors by providing information technology and a range of services.

Administrative expenses in respect of management, administration, accounting and human resources together with IT costs are reported under the heading 'Reconciliation', which also includes any consolidation effects.

The disclosures for the individual segments are all based on the same standard accounting policies applicable to the consolidated amounts in the consolidated financial statements.

Where a segment comprises several companies, the effects of intercompany transactions are eliminated in the course of consolidation. The supply of goods and services between segments is always invoiced at market prices. In cost transfers within the Group, the direct costs actually incurred are transferred between the relevant entities.

The segment disclosures are derived directly from the internal reporting used by the top level of operating decision-makers in the Company for management purposes. Indebtedness and the corresponding interest expense is not determined for individual business units for internal control purposes. Corresponding disclosures are therefore not included in the segment reporting.

Segment assets are deemed to comprise direct operating receivables and non-current assets used for the relevant segment's operating activities.

Segment liabilities comprise the trade payables and provisions attributable to the operating activities concerned.

There is no subdivision of the primary segments into secondary segments (geographical segments) because most of the revenue in the Group is generated in Germany.

The segment breakdown of business performance in 2007 is as follows:

2007 (€'000)	Corporate Real firmenkunden	Private Clients	Financial dienstleister	Institutional Kunden	Reconciliation	Group
Segment revenue in respect of third parties	**4,797**	**24,499**	**8,977**	**2,656**	**785**	**41,714**
2006	4,479	15,552	5,784	213	258	26,286
Segment revenue in respect of other segments	**14**	**1**	**436**	**46**	**-497**	**0**
2006	526	265	322	261	-1,374	0
Total segment revenue	**4,811**	**24,500**	**9,413**	**2,702**	**288**	**41,714**
2006	5,005	15,817	6,106	474	-1,116	26,286
Segment earnings (EBIT)	**834**	**4,379**	**5,521**	**-1,412**	**-5,362**	**3,960**
2006	1,034	2,580	2,698	-342	-1,350	4,620
Segment assets	**8,266**	**15,970**	**11,957**	**1,368**	**10,670**	**48,231**
2006	7,430	12,622	8,955	2,018	13,171	44,196
Segment liabilities	**231**	**1,888**	**2,428**	**200**	**20,554**	**25,301**
2006	323	1,817	560	100	22,576	25,376
Segment capital expenditure	**115**	**98**	**2,567**	**696**	**1,244**	**4,720**
2006	154	770	1,725	4,954	788	8,391
Segment depreciation/amortisation expense, impairment losses	**48**	**52**	**1,402**	**756**	**1,079**	**3,337**
2006	38	119	1,018	209	499	1,883
Significant non-cash expenses	**221**	**1,190**	**421**	**84**	**2,026**	**3,942**
2006	303	1,453	94	62	124	2,036

7. Other Disclosers

7.1 Other financial commitments

At the balance sheet date there were total other financial commitments of € 11.143 million related to rentals, leases and maintenance agreements covering a number of years. Included in the other financial commitments are commitments of € 1.984 million due within one year, € 6.720 million due in one to five years and € 2.439 million due in more than five years.

7.2 Related parties

IAS 24 requires disclosure of the names of persons or entities that control Hypoport AG or are controlled by Hypoport AG. Transactions between Hypoport AG and its subsidiaries are eliminated during consolidation and are therefore not subject to the disclosure requirement in this section.

IAS 24 also requires disclosure of the names of persons who can exercise significant influence over the Company.

The scope of persons covered by the requirements also includes key management personnel, their close family members and other entities via which a named person exercises control or significant influence over Hypoport AG. In 2007, the persons covered by this requirement were the members of the Supervisory Board of Hypoport AG, the members of the Group Executive Committee (Thomas Kretschmar, Ronald Slabke, Marco Kisperth, Stephan Gawarecki, Klaus Kannen, Hans-Peter Trampe and Martin Damaske) and their close family members.

The total remuneration paid to the members of the Group Executive Committee (GEC) in 2007 was € 1.499 million; total remuneration for members of the Supervisory Board was € 57 thousand. In all cases, all the benefits were due for payment within one year.

In 2007, loans were also outstanding to members of the GEC (balance at 31 December 2007: € 0 thousand; balance at 31 December 2006: € 355 thousand). The loans carried interest at 5.0 per cent per annum and were repaid on schedule, with new loans of € 90 thousand being offset by repayments of € 445 thousand.

The members of the GEC and Supervisory Board directly or indirectly hold shares and options in the parent. The following table shows the balance of shares and options granted by the parent under the share option programme as at 31 December 2007.

	Shares (number)	Options (number)
Group Executive Committee		
Prof. Dr. Thomas Kretschmar	1.383.353	0
Ronald Slabke	2.177.608	32,000
Marco Kisperth	108,212	14,000
Stephan Gawarecki	187,800	0
Klaus Kannen	32,500	0
Hans Peter Trampe	174,990	20,000
Martin Damaske	69,288	15,000
Supervisory Board		
Dr. Ottheinz Jung-Senssfelder	24,000	0
Jochen Althoff	131,000	0
Christian Schröder	24,000	0

According to the notification dated 29 October 2007, Ronald Slabke, Lübeck, holds 36.03 per cent of Hypoport's shares. Of these, 35.17 per cent of the voting shares in Revenia GmbH are attributable to him pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG).

According to the notification dated 31 October 2007, Revenia GmbH, Lübeck, holds 35.17 per cent of Hypoport's shares. All the shares in this company are held by Ronald Slabke, Co-CEO of Hypoport AG.

According to the notification dated 30 October 2007, Kretschmar Familienstiftung, Berlin, holds 22.36 per cent of Hypoport's shares. Thomas Kretschmar, Co-CEO of Hypoport AG, is a member of the board of Kretschmar Familienstiftung.

The companies in the Hypoport Group have not carried out any other disclosable transactions with members of the Supervisory Board, the GEC or companies on whose management or supervisory bodies these persons are represented. This also applies to close family members related to these persons.

7.3 Management Board

The following were members of the Management Board in the year under review:

- Thomas Kretschmar (Co-CEO), Berlin, responsible for the Corporate Real Estate Clients and Institutional Clients business units, strategy and fundamental issues, communications, legal affairs and data protection
- Ronald Slabke (Co-CEO), graduate in business administration, Lübeck, responsible for the Private Clients and Financial Service Providers business units, human resources, finance and administration
- Marco Kisperth, graduate in business informatics, Berlin, responsible for information technology.

The total remuneration paid to the members of the Management Board in 2007 amounted to €483 thousand; for further information please refer to the remuneration report in the group management report (Page 27).

7.4 Supervisory Board

The following persons were members of the Supervisory Board in 2007:

- Ottheinz Jung-Senssfelder (chairman of the Supervisory Board), attorney, Fürth; directorships at other companies: chairman of the supervisory board at mwb Wertpapierhandelsbank AG, Gräfelfing; chairman of the supervisory board at BRANDAD Systems AG, Fürth; and vice-chairman of the supervisory board at IC Immobilien Holding AG, Unterschleißheim
- Jochen Althoff (vice-chairman of the Supervisory Board), graduate in business administration, management consultant, Berlin
- Christian Schröder, graduate in business administration, auditor, Lübeck

The total remuneration paid to the members of the Supervisory Board in 2007 amounted to €57 thousand; for further information please refer to the remuneration report in the group management report (Page 27).

7.5 Investments pursuant to section 21 (1) WpHG

In addition to the notifications mentioned in section 7.2 above, Deutsche Post AG, Bonn, notified us on 31 October 2007 that it holds 9.93 per cent of Hypoport's shares. These voting rights are fully attributable via Deutsche Postbank AG pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG).

7.6 Share option plans

The Company has set up an employee share ownership programme ("2002-2004 share option plan") for its employees. The objectives of this programme include the recruitment and retention of personnel and the promotion of the success of the business by offering employees the opportunity to purchase shares in the Company.

Under the 2002-2004 share option plan from 2002, a maximum of 115,000 share options were to be issued to the Management Board and members of senior management, and a maximum of 30,000 share options to employees. The share options have a maturity of six years from the date on which they are granted. These options can be exercised at the exercise price stated below during a four-year exercise period following a lock-up period of 24 months immediately after the options are granted.

The "reference price" for the price to be paid on exercise of a share option ("exercise price") is €10.00. The exercise price is then determined as follows: up to the end of the first year after the issue date, 100 per cent of the reference price; in the second year after the issue date, 110 per cent of the reference price; in the third year after the issue date, 120 per cent of the reference price; from the fourth year after the issue date onwards, 130 per cent of the reference price. No consideration is paid in return for the share options. Employees are not entitled to the payment of any cash alternative.

The table below shows the status of the Company's share option programme as at 31 December 2007:

	Plan 2002 - 2004
In issue as at 1 January 2007	165,608
Granted	0
Exercised	52,710
Expired	2,240
In issue as at 31 December 2007	110,658

The weighted average share price for the options exercised in the period under review was €3.04. 110,658 of the outstanding options could have been exercised by 31 December 2007. The exercise period for all options comes to an end between 31 December 2008 and 31 December 2010.

Under IFRS 2, the market value of the issued share options should be determined using an option pricing model. The total value of options so determined at the issue date should then be allocated evenly over the vesting period and recognised as personnel expenses.

The fair value of the share options at the grant date was determined using the Black-Scholes option pricing model. The calculation is based on the following parameters at each exercise date:

	2002	2003	2004
Issue date / measurement date	**31 Dec 2002**	**31 Dec 2003**	**31 Dec 2004**
Share price on issue date (€)	1.50	1.25	1.25
Exercise price (€)	3.19	3.19	3.19
Expected share price volatility (%)	25	25	25
Expected dividend yield (%)	0.0	0.0	0.0
Risk-free interest rate (%)	2.2	2.3	2.5
Maturity of options (Jahre)	2	2	2
Option value (€)	0.50	0.28	0.28

Since neither Hypoport AG shares nor options were listed on a stock exchange on the date the fair values of the share options were determined, it was not possible to determine an implied volatility. The Company therefore based its calculation of expected volatility on the historical changes that had affected other companies in its market segment.

The expected maturity of the options is based on the stated intentions of the option holders to exercise the share options as quickly as possible. This is mainly driven by the tax treatment of proceeds from the exercise of share options.

The Company has decided not to recognise personnel expenses in consolidated income during the vesting period because of measurement uncertainties and because the calculated (estimated) market values for the issued options as stated above are insignificant.

7.7 Auditors' fees and services

The fees paid in 2007 for the services of the Company's auditors Counsel Treuhand GmbH are stated in the table below:

	2007 €'000
Auditing (incl. out-of-pocket expenses)	99
Other attestation and appraisal services	147
Total	246

The audit fees include the fees for auditing the consolidated financial statements as well as the single-entity financial statements of Hypoport AG and Dr. Klein & Co. Aktiengesellschaft.

7.8 Average number of persons employed during the financial year

In 2007 the Company employed an average of 368 (2006: 265) persons in addition to the members of the Management Board.

The table below gives a breakdown of the Company's employees by business unit at the balance sheet date:

	31 Dec 2007		31 Dec 2006		Change	
	Number	%	Number	%	Number	%
Financial Product Sales – Private Clients	175	44	148	47	27	18
Financial Product Sales – Corporate Real Estate	26	6	26	8	0	0
B2B Financial Marketplaces – Financial Service	33	8	18	6	15	83
B2B Financial Marketplaces – Institutional Client	35	9	38	12	-3	0
Information technology	96	24	64	20	32	50
Administration	37	9	22	7	15	68
	402		**316**		86	27

The total headcount includes people working at joint ventures on a pro rata basis according to Hypoport's share of the venture. A total of five people (2006: none) were employed at such companies.

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7.9 Financial risk management

As a result of its business activities, the Hypoport Group is exposed to various financial risks; these include market risk, credit risk, liquidity risk and interest-related cash flow risk. It does not use any derivative financial instruments to hedge against specific risks.

The Hypoport Group is exposed to only a very limited currency risk because only very small amounts of its assets and liabilities are denominated in currencies other than the Company's functional currency.

If the exchange rate of the euro to the US dollar had been 10 per cent higher or lower on 31 December 2007, and assuming that all other variables had remained constant, the Hypoport Group's net profit for the year would have been €3 thousand (2006: €3 thousand) higher or lower. This would have been primarily attributable to currency translation gains or losses on dollar-denominated trade receivables.

If the exchange rate of the euro to the pound sterling had been 10 per cent higher or lower on 31 December 2007, and assuming that all other variables had remained constant, the Hypoport Group's net profit for the year would have been €3 thousand (2006: €2 thousand) higher or lower. This would have been primarily attributable to currency translation gains or losses on sterling-denominated trade receivables.

The main credit risk for the Hypoport Group lies in its trade receivables. In 2007, it recognised impairment losses of €175 thousand to cover the probability of irrecoverable receivables. Such receivables are estimated by the management of the Hypoport Group on the basis of past experience and current economic conditions.

The credit risk in cash and cash equivalents is limited because these are all held by banks within the limits covered by deposit insurance.

There is no significant concentration of credit risk in the Group because this risk is spread across a large number of counterparties and clients.

The main source of liquidity risk lies in the rapid expansion of the Group. The risks associated with the expansion of the Group are monitored by the Management Board and currently are not material given the high level of liquidity and excellent equity ratio in the Group.

The total headcount includes people working at joint ventures on a pro rata basis according to Hypoport's share of the venture. A total of five people (2006: none) were employed at such companies:

€'000	Maturities					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Gesamt
Floating-rate financial liabilities	0	216	635	3,071	2,106	6,027
2006	0	224	660	3,203	2,824	6,910
Fixed-rate financial liabilities	19	293	864	8,731	0	9,905
2006	2,221	72	5,172	3,613	0	11,077
Rental and lease obligations	3	8	25	134	64	234
2006	0	0	0	0	0	0
2007	22	516	1,523	11,936	2,170	16,166
2006	2,221	296	5,831	6,816	2,824	17,988

Because the Hypoport Group does not hold any significant interest-bearing assets, its net profit for the year and its operating cash flow are largely immune to changes in market interest rates.

The Group's interest-rate risk stems from non-current, interest-bearing liabilities. Floating-rate liabilities expose the Group to interest-related cash flow risks. Its financial risk policy requires that the vast majority of liabilities it assumes should be subject to fixed interest rates.

If interest rates had been 10 basis points higher or lower on 31 December 2007, and assuming that all other variables had remained constant, the Hypoport Group's net profit for the year would have been € 13 thousand (2006: € 15 thousand) lower or higher. This would have been primarily attributable to higher or lower interest expense and similar charges on floating-rate financial liabilities.

7.10 Additional information on financial instruments

The table below shows the carrying amounts and fair values of individual financial assets and liabilities for each category of financial instrument and reconciles these amounts to the corresponding balance sheet items. Because the balance sheet items 'Other receivables' and 'Other liabilities' contain financial instruments as well as non-financial assets and non-financial liabilities (e.g. other tax receivables), these amounts are reconciled in the column 'Non-financial assets/liabilities'.

	Measured at amortised cost		Measured at fair value	Non-financial assets/liabilities	
€'000	Carrying amount	Pro forma: fair value	Carrying amount	Carrying amount	amount on the balance sheet at 31 Dec 2007
Trade receivables	15,847	–	–	–	15,847
Loans and receivables	15,847	15,847	–	–	15,847
Financial assets	522	–	–	–	522
Loans and receivables	522	522	–	–	522
Other assets	211	–	–	808	1,019
Loans and receivables	211	211	–	–	211
Non-financial assets	–	–	–	808	808
Cash and cash equivalents	3,100	–	–	–	3,100
Loans and receivables	3,100	3,100	–	–	3,100
Total financial assets	**19,680**	**–**	**–**	**–**	**19,680**
Thereof: loans and receivables	**19,680**	**–**	**–**	**–**	**19,680**
Financial liabilities	13,400	–	–	–	13,400
Measured at amortised cost	13,400	13,515	–	–	13,400
Trade payables	3,399	–	–	–	3,399
Measured at amortised cost	3,399	–	–	–	3,399
Other liabilities	3,737	–	–	905	4,642
Measured at amortised cost	3,737	–	–	–	3,737
Non-financial liabilities	–	–	–	905	905
Total financial liabilities	**20,536**	**–**	**–**	**–**	**20,536**
Thereof: measured at amortised cost	**20,536**	**–**	**–**	**–**	**20,536**

€'000	Measured at amortised cost: Carrying amount	Measured at amortised cost: Pro forma: fair value	Measured at fair value: Carrying amount	Non-financial assets/liabilities: Carrying amount	amount on the balance sheet at 31. Dec 2006
Trade receivables	10,514	–	–	–	10,514
Loans and receivables	10,514	10,514	–	–	10,514
Financial assets	454	–	–	–	454
Loans and receivables	454	454	–	–	454
Other assets	3,595	–	–	93	3,688
Loans and receivables	3,595	3,595	–	–	3,595
Non-financial assets	–	–	–	93	93
Cash and cash equivalents	3,180	–	–	–	3,180
Loans and receivables	3,100	3,100	–	–	3,100
Total financial assets	**17,743**	**–**	**–**	**–**	**17,743**
Thereof: loans and receivables	**17,743**	**–**	**–**	**–**	**17,743**
Financial liabilities	15,106	–	–	–	15,106
Measured at amortised cost	15,106	15,211	–	–	15,106
Trade payables	1,309	–	–	–	1,309
Measured at amortised cost	1,309	–	–	–	1,309
Other liabilities	2,349	–	–	1,092	3,441
Measured at amortised cost	2,349	–	–	–	2,349
Non-financial liabilities	–	–	–	1,092	1,092
Total financial liabilities	**18,764**	**–**	**–**	**–**	**18,764**
Thereof: measured at amortised cost	**18,764**	**–**	**–**	**–**	**18,764**

The fair values of receivables, loans, held-to-maturity investments and primary liabilities are calculated as the present value of future cash inflows and outflows. These cash flows are discounted using an interest rate prevailing at the balance sheet date and factor in the respective maturities of assets and liabilities as well as the credit rating of Hypoport AG. If a market value or market price is available, this is recognised as the fair value.

Because most trade receivables, trade payables, other receivables, other liabilities, and cash and cash equivalents have short maturities, their carrying amounts at the balance sheet date do not differ significantly from their fair values.

The table below breaks down the income, expenses, gains and losses resulting from financial instruments into the following categories:

€'000	Loans and receivables	Held-to-maturity investments	Fair value/ held for trading	Liabilities measured at amortised cost	Total for 2007
Interest and similar income	86	–	–	–	86
Interest expense and similar charges	–	–	–	-807	-807
Gains/losses on disposals	–	–	51	–	51
Translation adjustments	-9	–	–	–	-9
Impairment losses	-217	–	–	–	-217
Net result	**-140**	**0**	**51**	**-807**	**-896**

€'000	Loans and receivables	Held-to-maturity investments	Fair value/ held for trading	Liabilities measured at amortised cost	Total for 2006
Interest and similar income	33	–	–	–	33
Interest expense and similar charges	–	–	–	-568	-568
Translation adjustments	-1	–	–	–	-1
Impairment losses	-241	–	–	–	-241
Net result	**-209**	**0**	**0**	**-568**	**-777**

7.11 Capital risk management

Hypoport AG's statutes do not specify any capital requirements. The Hypoport Group pursues two main objectives in terms of its capital management: firstly, to ensure that the Company continues to operate as a going concern so that it can continue to generate returns for its shareholders and provide its other stakeholders with the services they require; and secondly, to maintain the optimum capital structure so that it can lower its cost of capital and meet the minimum capital requirements resulting from its borrowings. It complied with the minimum capital requirement of €730 thousand applicable to its subsidiary Dr. Klein & Co. Capital AG pursuant to section 33 KWG.

In order to maintain or alter its capital structure, HYPOPORT returns capital to its shareholders, issues new shares or sells assets to repay its liabilities.

The Hypoport Group monitors its capital in terms of its level of gearing, which is the ratio of net debt to equity. Net debt consists of total financial liabilities minus cash and cash equivalents. Equity comprises the total shares in issue plus reserves.

The table below shows the Company's gearing as at 31 December 2007 and 31 December 2006.

	2007 €'000	2006 €'000
Financial liabilities	13,400	15,106
Minus cash and cash equivalents	3,100	3,180
Net debt	10,300	11,926
Equity	22,930	18,820
Gearing	**45 %**	**63 %**

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7.12 Declaration of compliance with the German Corporate Governance Code

Governance Code Hypoport AG has issued and made available to its shareholders the declaration of compliance required by section 161 of the German Stock Corporation Act (AktG). This declaration can be viewed on the Company's website at www.hypoport.com.

7.13 Events after the balance sheet date

The firms Genopace GmbH and Starpool GmbH are currently being set up. The object of these companies is the brokerage of loans on the EUROPACE platform.

Berlin, 14 March 2008
The Management Board

Prof. Dr. Thomas Kretschmar

Ronald Slabke

Marco Kisperth

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IFRS consolidated financial statements for the year ended 31 December 2007

	Cost			
	Balance 01 Jan 2007 €'000	Additions €'000	Disposals €'000	Balance 31 Dec 2007 €'000
I. Intangible assets				
1. Patents, licences, trademarks and similar rights and assets, including licences for such rights and assets				
1.1 Software	1,808	317	2	2,123
1.2 Development costs	8,576	3,334	0	11,910
2. Goodwill	14,826	0	0	14,826
	25,210	**3,651**	**2**	**28,859**
II. Property, plant and equipment				
1. Land, leasehold improvements and buildings, including buildings on land owned by others	18	0	0	18
2. Office furniture and equipment	2,929	1,069	757	3,241
	2,947	**1,069**	**757**	**3,259**
	28,157	**4,720**	**759**	**32,118**

Cumulative depreciation, amortisation and impairment				Carrying amount	
Balance 01 Jan 2007 €'000	Additions €'000	Disposals €'000	Balance 31 Dec 2007 €'000	Balance 31 Dec 2007 €'000	31 Dec 2006 €'000
352	320	2	670	1,453	1,456
2,683	2,187	0	4,870	7,040	5,893
	0	0	0	14,826	14,826
3,035	**2,507**	**2**	**5,540**	**23,319**	**22,175**
5	3	0	8	10	13
1,628	827	757	1,698	1,543	1,301
1,633	**830**	**757**	**1,706**	**1,553**	**1,314**
4,668	**3,337**	**759**	**7,246**	**24,872**	**23,489**

7 Auditor's Opinion

Auditor's Opinion:

"We have audited the consolidated annual accounts prepared by Hypoport AG, Berlin, comprising the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and the Notes, as well as the consolidated management report for the financial year from January 1 to December 31, 2007. The preparation of the consolidated annual accounts and the consolidated management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (§ 315a Abs. 1 HGB) is the responsibility of the company's Management Board. Our task is to express an opinion on the consolidated annual accounts and on the consolidated management report based on our audit.

We conducted our audit of the consolidated annual accounts in accordance with section 317 of the German Commercial Code (§ 317 HGB) and German generally accepted standards for the audit of annual accounts promulgated by the Institute of Public Auditors in Germany (IDW). These standards require that we plan and perform the audit such that incorrect statements and violations which materially affect the presentation of the net assets, financial position and results of operations in the consolidated annual accounts in accordance with the applicable financial reporting framework and in the consolidated management report are detected with reasonable certainty. Knowledge of the business activities and the economic and legal environment of the Group and expectations concerning possibly incorrect statements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system an the evidence supporting the disclosures in the consolidated annual accounts and the consolidated management report are examined primarily on the basis of random sampling within the framework of the audit. The audit includes assessing the annual accounts of those companies included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated annual accounts and the consolidated 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 and based on the findings of our audit, the consolidated annual accounts comply with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 a (1) of the German Commercial Code (§ 315 a Abs. 1 HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements.

The consolidated management report is consistent with the consolidated annual accounts and as a whole provides a fair view of the Group's position an suitably presents the opportunities and risks of future developments."

Hamburg, March 14, 2008

COUNSEL TREUHAND GMBH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Kai Andersen	ppa. Michael Vogeler
(Auditor)	(Auditor)

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