

Six month' report January 1 to June 30, 2005 (IFRS)

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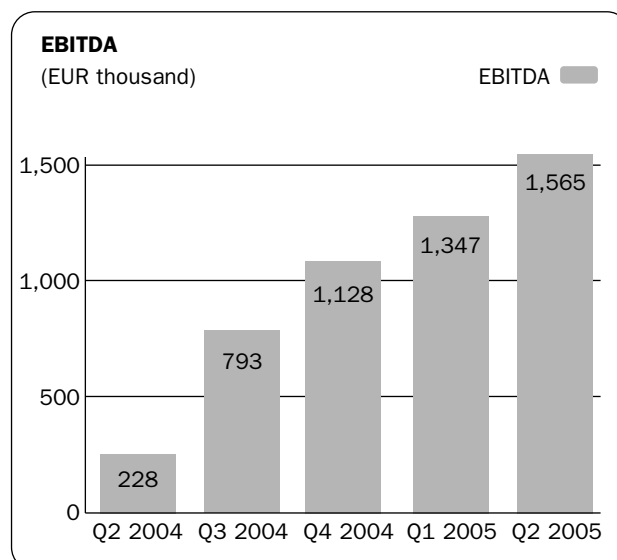
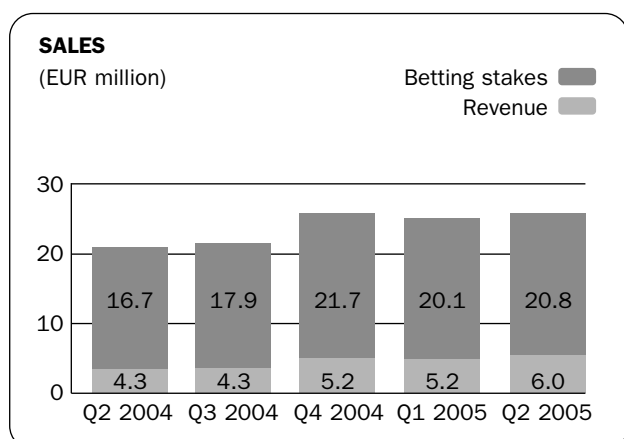
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FLUXX key data (IFRS)

FLUXX KEY DATA (IFRS)					
GUV	1. Halbjahr 2005 T€	1. Halbjahr 2004 T€	Q2 2005 T€	Q2 2004 T€	Q1 2005 T€
Gross sales	52,082	41,544	26,791	21,034	25,291
Betting stakes	40,884	33,366	20,819	16,720	20,065
Revenues	11,198	8,178	5,972	4,314	5,226
EBITDA	2,912	488	1,565	228	1,347
EBIT	950	80	533	20	417
Consolidated earnings	540	99	178	1	362
Earnings per share (€)					
basic	0.05	0.01	0.015	0.000	0.036
diluted	0.05	0.01	0.015	0.000	0.033
Employees, average for period	95	89	95	89	94
Revenue per employee	118	92	63	48	56
Personnel expenses per employee	30	29	15	15	15

Balance Sheet	30/06/2005 T€	31/12/2004 T€
Non-current assets	21,310	20,874
Net cash	28,342	5,073
Liquidity ratio 2	724 %	133 %
Shareholders' equity	46,155	17,230
Balance sheet total	53,080	29,592
Equity ratio	87.0 %	58.2 %





Group Management Report of FLUXX AG at June 30, 2005

1. Business progress

The second quarter of the 2005 financial year was dominated by the preparations for launching over-the-counter sales of lottery products ("Direct Lottery"). FLUXX announced the go-ahead of a pilot scheme in a number of supermarkets in Schleswig-Holstein at a press conference in mid-April. Increased expenses for the preparatory measures such as research and development and personnel recruitment, which have not yet been offset by any significant level of sales, as well as increased marketing expenses principally to strengthen the very successful JAXX platform, led to a rise in operating expenses in the second quarter.

The continuing sharp growth in core business in an above-average second quarter nevertheless led to a substantial increase in sales and earnings. Revenue thus rose by 38 percent to EUR 6.0 million in the second quarter of 2005, from EUR 4.3 million in the prior-year quarter, and consolidated earnings improved from EUR 1 thousand to EUR 178 thousand. Compared with the prior-year period, revenue was up 37 per cent from EUR 8.2 million in 2004 to EUR 11.2 million. Earnings were boosted from EUR 99 thousand to EUR 540 thousand.

1.1 Assessment of the market

With the general economic context remaining subdued, German lottery companies enjoyed a further year-on-year increase in their sales. Betting stakes rose by around 3.5 percent in the first half of 2005. The company estimates that the proportion of betting stakes handled via the internet has risen to about 4.5 per cent.

The legal position of sports betting providers in Germany remains unclear. The eagerly awaited ruling of the Federal Constitutional Court is still pending; initial oral proceedings have been scheduled for November 8, 2005. At the same time, however, Germany is also coming under pressure from the European Union. EU Internal Market Commissioner Charlie McCreevy wants to instigate infringement procedures against Germany and other member states. In the opinion of the Commission, the state monopoly on sports betting in Germany violates the freedom to provide services across borders in the single market. The initiative stems from a complaint by the umbrella organisation of private European sports betting providers, EBA.

1.2 Business progress

The betting stakes processed by the FLUXX Group for lottery companies and racecourses in the second quarter showed a 25 per cent increase on the prior-year quarter, from EUR 16.7 million to EUR 20.8 million. Compared with the prior-year period, the gaming volume processed rose by 23 per cent from EUR 33.4 million in 2004 to EUR 40.9 million in 2005. The Direct Lotto project launched in April has not yet generated any significant level of sales, as the number of terminals installed for the pilot phase is still too low.

The sharp rise in sales is to be viewed as positive particularly in bearing in mind that the betting stakes handled via WEB.DE have fallen sharply following the legal dispute. FLUXX currently serves only existing customers from that sales channel. In parallel, new products that should largely compensate from the loss of WEB.DE business by the end of



the year (such as KENO at Lotto Schleswig Holstein) have not yet contributed substantially towards making good the shortfall, as they have only recently gone live. The largest driving forces behind growth, which have contributed substantially towards compensating for the loss of sales via WEB.DE, were latterly the FLUXX-operated gaming products of AOL and Lotto Brandenburg, together with JAXX, which has performed very well.

Highly profitable syndicate business has likewise continued to make very positive progress, even though the sales resources for acquiring new customers are becoming scarcer. Bottlenecks in the procurement of high-quality addresses in particular have meant that growth in this segment is limited. In sales terms, FLUXX is nevertheless profiting from the rapid expansion of contracts last year, though this is leading to increased depreciation and amortisation as a result of the capitalisation of contracts with new customers.

■ **Direct Lotto**

Since April 2005, FLUXX became the first company in Germany to join forces with various retailing companies to offer lottery games via a new sales channel known as Direct Lotto.

Customers can purchase lottery tickets at countertop terminals at the branches of the participating partners. The data is read in at the shop via a special lottery terminal and transferred to a lottery company via the FLUXX server, which in turn sends the confirmation to the lottery terminal via the FLUXX server, where a game receipt for the customer is printed out.

In accordance with the partnership agreements with the sales partners, JAXX GmbH and in turn ANYBET GmbH take charge of providing the principal services required for this direct sales channels, such as processing the tickets, calculating winnings, handling payment transactions and customer service, whereas the venture partners provide sales and promotional space and personnel, take receipt of the gross sales proceeds and pay out the winnings where less than EUR 100.00.

A test phase involving about 10 retail outlets with around 20 terminals initially served to gather findings on the technical side of operations and stage various marketing and promotional activities in order to gauge the effectiveness of such measures.

Initial findings from the test phase supported the decision by the management of FLUXX AG to increase the shareholders' equity in order to finance a nationwide roll-out. The lion's share of the proceeds of the issue from the capital increase implemented in June is now to be used for the gradual expansion of the over-the-counter lottery sales network. The aim is to equip between 1,000 and 2,000 sales outlets with lottery terminals within the next two years.

On the strength of the very positive feedback from grocery retailers and the level of interest among customers, the Board of Management will shortly be ordering around 1,000 terminals by way of fulfilling its part of the contract with its partners in this venture.

FLUXX has so far concluded partnership agreements with EDEKA Handelsgesellschaft Nord mbH, Schlemmermarkt Freund GmbH, IVEMA Ges. für Foto und Unterhaltungselektronik-Vertrieb mbH & Co. KG (FOTOPOINT photo chain) and OIL! Tankstellen GmbH. FLUXX is currently conducting negotiations with a number of further partners.

■ **Investigation proceedings against FLUXX AG Management Board member**

The company was notified at the end of June that investigation proceedings have been initiated against a member of the company's Management Board. The accusation centres on the suspicion that prohibited sports betting activities have been held. In the opinion of the company and its legal advisors, however, the accusations are unfounded because the FLUXX Group's operates exclusively within a legal framework in handling sports betting. The legislators of Germany's federal states have expressly acknowledged the permissibility of offering gaming commercially across state boundaries.



As a broker exclusively of state-licensed gaming, the FLUXX Group's activities are now fully legitimised on the one hand by the law and the State Treaty on lotteries, and on the other hand by a supreme-court decision (Federal Supreme Court ruling of 1999).

In particular after inspection of the files, the company and its legal advisors are working on the assumption that the proceedings will be wound up.

1.3 Investment

In investment terms, the second quarter was dominated by the further expansion of syndicate business and the resulting investment in customer contracts and qualified addresses. Preparatory investments were moreover made in order to pave the way for the sale of lottery tickets at supermarkets. A total of EUR 2,302 thousand was invested in the first half of the year, including in self-created software. The syndicate contracts to be recognised as an intangible asset pursuant to IAS 38 account for the lion's share of capital expenditure in the period.

1.4 Personnel and welfare

The average total of permanent employees rose from 89 in the first half of 2004 to 95 in the first half of 2005. Additional personnel have been recruited in particular for the areas of software development and product management, as a result of preparations for Direct Lotto activities.

1.5 Capital measures

In July 2004, FLUXX placed a zero convertible bond, divided into 3.2 million debentures, on the capital market. The convertible bond has a term lasting until the end of 2008. In

2004, 1,290,775 debentures in total were converted. A further 1,228,396 debentures were converted in the first conversion window in 2005, which ended on February 20, and a further 570,402 debentures in the second conversion window, which ended on May 20. There remain 110,427 debentures outstanding. In view of the present price level, it can be expected that all the remaining bonds will be converted in the course of the current financial year.

In June, FLUXX AG successfully completed a rights-issue capital increase for cash and was able to place all new shares successfully. 3,210,010 new shares in total were issued, at a subscription price of EUR 7.93 each. The company is thus accruing a gross amount of around EUR 25.5 million less costs of issuance, or EUR 24.6 million net.

The proceeds of the issue are to be used in the first instance to finance the gradual development of the over-the-counter lottery sales network at retail chains. The aim is to equip between 1,000 and 2,000 sales outlets with lottery terminals within the next two years. A further portion of the income from the capital increase is to be used for the development of a range of gaming products throughout Europe.

Subscription rights exercised by existing shareholders accounted for more than half of the capital increase. The remaining shares were largely acquired by German and international institutional investors by way of rights trading.

The EUR 3,210,010 increase in the capital stock, from EUR 11,235,039 to EUR 14,445,049, was entered on the Commercial Register on June 28.

1.6 Financing

Operating activities during the reporting period were financed from monetary holdings.



1.7 Miscellaneous

Capital stock, shareholder structure

At March 31, 2005 the capital stock of fluxx.com Aktiengesellschaft amounting to EUR 10,636,984 was distributed as follows:

- 92.7 per cent Free float
- 3.4 per cent DSM Direct Sales Marketing GmbH
- 3.9 per cent Management

The shares declared under the heading "Management" comprise 1.95 percent held by Carpe.di Verwaltungs GmbH, which are considered to be under the control of Management Board spokesman Rainer Jacken, and 1.95 percent held by WV-Consult GmbH, which are considered to be under the

control of Head of the Business Development Department Christoph Tonn.

The shares of Millenium GmbH shown in the 2003 accounts are allocated to the free float in this representation of the shareholder structure. The last official communication pursuant to Section 41 of German Securities Trading Law (WpHG) at April 1, 2002 refers to a total number of shares of 838,302. As Millenium GmbH moved below the reporting limits as a result of the capital measures implemented in 2003 and 2004 but did not notify the company pursuant to WpHG, the Management Board suspects that the shareholding has fallen significantly.

■ Directors' holdings

The shareholdings of the individual directors on either corporate body are as follows:

Name	Position	Type of security	Position at 31/12/2004	Additions	Disposals	Position at 30/06/2005
Rainer Jacken	Management Board spokesman	Shares	280,000	1,333	0	281,333
		Options	15,583	13,417	1,333	27,667
Mathias Dahms	Management Board member	Shares	0	1,713	0	1,713
		Options	15,583	13,417	1,333	27,667
Stefan Hänel	Management Board member	Shares	3,800	1,300	5,100	0
		Options	15,583	13,417	1,300	27,700
Goetz Graf von Hardenberg	Chairman of the Supervisory board	Shares	2,848	0	2,848	0
Frank Motte	Supervisory board	Shares	7,885	0	0	10,139



■ **Shares**

The market capitalisation of the company has increased more than six fold within one year. The closing price of FLUXX shares on the Frankfurt Stock Exchange (Xetra) on June 30, 2005 was EUR 10.15, representing market capitalisation of EUR 146.6 million based on a total of 14,445,049 shares. The share price on June 30, 2004 was EUR 2.73 (market capitalisation: EUR 22.2 million, based on 8,117,813 shares).

The shares of FLUXX AG, which have been listed in the Deutsche Börse SDAX index since March 21, achieved the best price performance of all index stocks (DAX, MDAX, TecDAX, SDAX) of almost 134 per cent in the first half of 2005.

■ **Ordinary Shareholders' Meeting**

21.39 per cent of the capital stock was represented for voting purposes at the sixth Ordinary Shareholders' Meeting, which was held on May 3 in Kiel. The Management Board and Supervisory Board were discharged with 100 per cent of votes. The Hamburg firm of auditors Susat & Partner OHG Wirtschaftsprüfungsgesellschaft was reappointed for the 2005 financial year.

The resolutions on the annulment of authorised but unissued amounts of capital (agenda item 5), on the authorisation of the Management Board to issue stock options and create further authorised but unissued capital (agenda item 6) and on the amendment of the approved capital (agenda item 7) are commented on in section 5.2.1. One shareholder lodged a protest against agenda item 7, relating to the issue of convertible bonds and the creation of further authorised but unissued capital, and launched a legal action. The proceedings are still pending.

Resolutions were also passed on the new arrangements for the remuneration of the Supervisory Board and the change in the company's name from "fluxx.com Aktiengesellschaft" to "FLUXX AG" as well as the relocation of the company's head

office. It was furthermore resolved to bring the Articles of Incorporation in line with changes to the law as a result of the German bill on corporate integrity and modernisation of the right of avoidance (UMAG).

■ **2. Representation of the financial position and financial performance**

2.1 Development in revenue

Gross consolidated sales rose by 27 per cent in the second quarter of 2005, from EUR 21.0 million in the first quarter of 2004 to EUR 26.8 million. The lottery and betting stakes handled by the company's own services and via partner platforms rose by around 25 percent in the same period, from EUR 16.7 million to EUR 20.8 million. Net revenues, which essentially comprise commissions from the betting stakes and handling fees, rose by an overproportional 38 per cent from EUR 4.3 million in the second quarter of 2004 to EUR 6.0 million in the second quarter of 2005.

Compared with the prior-year period, sales were up 25 per cent from EUR 41.5 million to EUR 52.1 million. Betting stakes rose by 23 percent from EUR 33.4 million to EUR 40.9 million. Revenues rose by 37 per cent from EUR 8.2 million in the first half of 2004 to EUR 11.2 million in the first half of 2005. Around 54 per cent of revenues were generated by the B2B segment in the first half of 2005, and around 46 per cent by the B2C segment.

2.2 Expenses

In the second quarter, the operating costs before depreciation and amortisation rose by a much lower rate than sales compared with the prior-year quarter. This again underlines the high scalability of the FLUXX Group's business model. The principal expense items are other operating expenses, which rose by 12 per cent on the second quarter of 2004 from EUR 2.8 million to EUR 3.1 million. Other



operating expenses showed a 25 per cent increase on the first quarter of 2005, on the one hand because there are higher investor relations costs in the second quarter for seasonal reasons, and in particular in connection with the Shareholders' Meeting and the production of the Annual Report. On the other hand, initial expenses in connection with the buildup of the Direct Lotto project and increased marketing costs for the acquisition of new customers by the FLUXX subsidiary JAXX were incurred in the second quarter.

Compared with the prior-year first half, operating costs likewise rose by well below the average, at 7 per cent, and other operating expenses rose by 8 per cent from EUR 5.2 million to EUR 5.6 million.

Personnel expenses showed a slight increase on the level of the prior-year quarter (EUR 1.32 million) at EUR 1.43 million and were on a par with the first quarter of 2005 (EUR 1.42 million). Compared with the prior-year period, personnel costs rose by almost 11 percent from EUR 2.6 million to EUR 2.8 million.

The personnel expenses ratio was at its lowest level since the founding of the company, at just under 24 per cent in the second quarter and 25 per cent in the first half of 2005. The cost of materials for the FLUXX Group is by definition negligible. Compared with the prior-year quarter, the cost of materials fell by 21 per cent from EUR 166 thousand to EUR 131 thousand. This expense item was 28 per cent down on the first half of the previous year, from EUR 377 thousand to EUR 273 thousand. The cost of materials largely comprises the payment of dividends by the online bookmaker Interjockey.com.

2.3 Earnings

Earnings before interest, tax, depreciation and amortisation (EBITDA) again rose sharply in the second quarter. EBITDA has increased almost seven-fold compared with the prior-year quarter, and rose by 586 per cent in the second quarter of 2004 from EUR 228 thousand to EUR 1,565 thousand. FLUXX posted EBITDA growth of 497 per cent in the first half.

EBITDA consequently rose from EUR 488 thousand to EUR 2,912 thousand and has thus surpassed the entire prior-year EBITDA of EUR 2,409 thousand after only six months. The EBITDA margin rose from 6 per cent to 26 per cent.

This development has nevertheless gone hand in hand with a significant rise in depreciation and amortisation, resulting mainly from the recognition of syndicate contracts as an intangible asset pursuant to IAS 38. Depreciation and amortisation rose from EUR 208 thousand in the second quarter of 2004 to EUR 1,032 thousand in the second quarter of 2005. In the first quarter of 2005, depreciation and amortisation totalled EUR 930 thousand. Depreciation and amortisation can be expected to ease back slightly in the next few quarters, as it has not been possible to pursue the acquisition of new customers for syndicate business with the same intensity as in the previous year due to scarcer resources.

Compared with the first half of the previous year, depreciation and amortisation rose from EUR 408 thousand in the first half of 2004 to EUR 1,962 thousand in the first half of 2005.

Despite the marked rise in depreciation and amortisation, the operating result before interest and tax (EBIT) showed a further substantial improvement thanks to the high level of sales in the second quarter. Compared with the prior-year quarter, EBIT in the second quarter of 2005 rose from EUR 20 thousand to EUR 533 thousand. In the first quarter of 2005, EBIT totalled EUR 417 thousand. Compared with the first half of the previous year, EBIT improved from EUR 80 thousand in the first half of 2004 to EUR 950 thousand in the first half of 2005.

As a result of the reduction in loan liabilities in the second half of 2004, the finance result has improved appreciably on both a quarterly and half-yearly basis. The balance of interest income and interest expense fell from EUR -107 thousand in the second quarter of 2004 to EUR -31 thousand in the second quarter of 2005. Compared with the first half of the previous year, the finance result improved from EUR -225 thousand to EUR -83 thousand.



Consolidated earnings, quarter on quarter, improved from EUR 1 thousand to EUR 178 thousand. The comparison for the first half showed a rise in earnings from EUR 99 thousand to EUR 540 thousand. The profit-sales ratio based on the first six months of the 2005 financial year thus amounted to 4.8 per cent.

2.4 Cash flow

Following the capital increase in June and the exercising of employee stock options, the company accrued net financial resources of EUR 24.6 million.

Capital expenditure in the first half of the year rose significantly due to investment in syndicate business and the Direct Lotto project and totalled EUR 2.1 million. As a result of the reduction in liabilities and the temporary buildup of receivables, the cash flow from operating activities is EUR -0.5 million.

2.5 Shareholders' equity

As a result of the capital increase of EUR 3.2 million implemented in June as well as the conversion of bonds and exercising of employee stock options, the shareholders' equity of FLUXX AG rose further to the current level of 46.2 million. The equity ratio has risen from 58 to 87 per cent since December 31, 2004.

2.6 Liabilities

The non-current liabilities at June 30, 2005 totalled EUR 2.5 million and were therefore some EUR 3.3 million down on the figure at the reporting date of December 31, 2004. The current liabilities were reduced by around EUR 2.2 million to EUR 4.4 million.

3. Significant risks to future development

Market researchers expect the gaming market in Germany and Europe to enjoy continued growth, and forecast disproportionately high rates of increase particularly for the online gaming market. Despite these positive market conditions, FLUXX is exposed to a large number of risks. The barriers to market entry in this young, rapidly expanding market are fundamentally low, as a result of which FLUXX has to face up to competition from an array of other companies in at least certain subsidiary areas. FLUXX therefore has to contend with a number of potential and actual competitors.

The field of competitors can be divided into three categories:

1. Direct competitors:

providers of online games such as Tipp24 AG, BETandWIN.com Interactive Entertainment AG and Sport wetten.de AG, which offer largely substitutive products and from which FLUXX differentiates itself through its online gaming products on jaxx.de, with a more extensive range of products.

2. Complementary providers:

domestic and foreign companies that are active in both the online and offline gaming market and offer basically complementary products such as sports betting or casinos; they both tie up purchasing power in the leisure market and could enter into direct competition with FLUXX by launching new products.

3. Lottery companies and other providers

of state-licensed gaming which are in direct competition through their own online solutions and offline sales.

At present, no tendency among complementary providers to position themselves in the core area of activity of the FLUXX Group has been observed. As a result of FLUXX's good customer relations and process expertise, the barriers to entry in this domain are high.



The overall competitive situation for the FLUXX Group is positive, and competition is helping to develop the market more rapidly. The presence of competitors nevertheless harbours significant risks. The market is becoming less transparent, the probability of losing particularly new customers to competitors is rising, and there is consequently the risk that the relative market share will fall. Meanwhile the costs of marketing and conducting competitor analyses are rising.

As a systems supplier of special software for handling lotteries and betting, FLUXX is in competition with companies such as Lotto Bayern which manage the internet presence of individual lottery companies. FLUXX's advantage is based on the compactness of the group and its flexibility as a result.

In view of the high proportion of fixed costs, FLUXX has limited scope for responding to fluctuations in capacity utilisation and employment, and in this respect is exposed to risks from a downturn in business. At the same time, the group requires a relatively high critical mass of customers in order to cover its fixed costs, though it can scale up to an almost unlimited degree. The continuing success of the FLUXX Group depends on further growth and the acquisition of new customers in both the B2B and B2C segments, as well as on consolidating existing customer relations.

The continuing positive share price development in the second quarter of 2005 and the successful placement of the capital increase on the capital market in June demonstrate that the situation on the stock market has improved substantially, and that smaller stock corporations such as FLUXX AG are likewise once again able to finance themselves through equity injections. The rise in the equity ratio and the reduced loan liabilities give FLUXX a substantially improved basis on which to finance the company's further development.

Defending our advantage as first mover, together with our superior development know-how and skills, remains a key priority. Success here depends substantially on the extent to which FLUXX is able to identify market trends and customer requirements early on, and implement them. FLUXX has no

influence over the product developments of competitors, which could cancel out FLUXX's existing lead. There is fundamentally a risk of FLUXX losing its market status. There is moreover no guarantee that the previous high level of acceptance among customers will hold up.

The FLUXX Group intends to expand the Direct Lotto sales system gradually nationwide, in coordination with the regional lottery companies. Highly promising negotiations are currently in progress with the various regional lottery companies in connection with introducing Direct Lotto in those federal states. However, it is not foreseeable how the lottery companies will ultimately respond to a new competitor in the guise of Direct Lotto at the level of lottery agencies. The possibility cannot be excluded that individual lottery companies will build up their own sales network of lottery products based on the Direct Lotto system and/or will attempt to hinder the expansion of the Direct Lotto sales network of the FLUXX Group. Nor can the possibility be excluded that individual lottery companies will refuse to cooperate with the company, which could likewise have a negative impact on the project's prospects of success.

It is furthermore not currently foreseeable what market reception Direct Lotto products can expect from consumers in the long run. It has been agreed with all partners in this venture to expand the sales network only gradually and there is scope for terminating agreements in the event of the product not developing as intended, with the result that the investment volume will likewise increase only gradually. It is nevertheless possible that the company's capital expenditure on the development of Direct Lotto and the expansion of the sales network will not prove worth while due to insufficient acceptance by consumers. In particular, the consumer habits of lottery players which have acquired an established pattern over decades result in high loyalty among customers to the state lottery agencies and may consequently hamper the establishment of new offline sales structures by the FLUXX Group.

In order to expand the sales network on a large scale, the company is moreover dependent on cooperation with further partners with a suitable network of branches. The FLUXX



Group is currently in negotiations with further venture partners which could potentially be suitable. It is not currently possible to predict whether the company will be able to conclude further partnership agreements. It is therefore possible that the company's expectations regarding the expansion of the Direct Lotto network may not be fulfilled.

Nor can the possibility be excluded that the company will come up against legal obstacles in individual federal states to its plans to spread the Direct Lotto sales network throughout the entire Federal Republic of Germany, and that this expansion will consequently be delayed or permanently prevented. On the basis of the authorising provision in Section 15 of the State Treaty on lotteries, certain federal states have already passed implementing statutes which could hinder or restrict the sale of Direct Lotto in those federal states in respect of the offering of games to block promoters of another federal state. The implementing statutes to some extent envisage duties of notification on the part of the commercial games promoter. To some extent they also specify or permit stipulations on which block companies may be served (exclusively) by the handling agent. The company believes that such regulations imply on the one hand a legal entitlement to access to the central system of the lottery company in the individual federal states. On the other hand, the development of a sales network for Direct Lotto via over-the-counter agencies in retail outlets could nevertheless be hindered or delayed in certain federal states.

Finally, it is not foreseeable how the company's competitors will react to the new product. It is possible that individual competitors will develop their own over-the-counter Direct Lotto system and establish a separate sales network, which will enter into competition with the Direct Lotto product of the FLUXX Group and therefore lead to the company's expectations not being fulfilled.

FLUXX generates a large portion of revenue from ongoing operation and hosting and therefore from continuous streams of royalties, and also to a lesser extent from the sale of technology licences and the resulting granting of

rights of use. The sale of a licence is entered in the books at the time the right is granted, i.e. the software made available, and a profit thus realised.

4. Events of particular significance occurring after the balance sheet date

No events of particular significance occurred after the balance sheet date.

5. Future developments and opportunities

The next few months will be dominated by the new topics of Direct Lotto and sports betting. By placing an order initially for 1,000 terminals, the management intends to integrate the branches of the partners EDEKA, OIL! and Fotopoint into the Direct Lotto system as soon as possible. The aim is to start operating the resulting systems within the next six to twelve months. Initial sales should thus be generated in the fourth quarter of 2005. On the other hand, there will be increased investment in the development of the infrastructure and the installation of the terminals from the third quarter. To this end, FLUXX intends to establish a partnership with a logistics service provider which will assume responsibility for the installation, servicing and support of the systems.

FLUXX is currently conducting negotiations on partnerships for Direct Lotto with a number of other potential partners, predominantly from the groceries retail sector. It can be expected that further agreements will be signed in the course of the year. In response to the increased costs as a result of acquiring and supporting new sales partners, a separate sales unit will initially be established within the stock corporation to handle Direct Lotto matters. Here again, initially higher costs in the third quarter will not yet be offset by any significant proceeds.



In the area of sports betting, FLUXX intends to base its approach on the fundamental ruling to be announced by the Federal Constitutional Court on the lawfulness of handling sports betting products licensed abroad. However, a definitive decision is no longer expected this year. Irrespective of national outline conditions, it is of decisive strategic importance for FLUXX to position itself as soon as possible in the European field of competitors. On the basis of the existing platform, FLUXX has therefore already developed a sports betting product that can be brought onto the market in the short term in order to develop a competitive product, outside Germany at least, on the basis of the existing European licences.

In the core segment, we continue to expect sales growth of more than 30 percent, with the cost basis remaining stable. As well as launching new products such as KENO for the commercial content on JAXX, AOL and freenet, FLUXX is currently also conducting negotiations with new potential sales partners for the online promoting of lottery and horse betting. Whether or not agreements can be concluded during the remainder of the year depends essentially on the final contractual negotiations.

Altenholz, August 9, 2005

Rainer Jacken

Mathias Dahms

Stefan Hänel



Consolidated Balance Sheet at June 30, 2005

ASSETS	Note	30/06/2005 T€	31/12/2004 T€
A. Non-Current Assets		21,310	20,874
I. Intangible assets	5.1.1	7,766	7,755
1. Goodwill		5,943	5,943
2. Other intangible assets		1,823	1,812
II. Property, plant and equipment	5.1.1	1,856	1,527
1. Land and buildings		1,030	1,040
2. Other plant and equipment		826	487
III. Financial assets	5.1.1	6	6
Investments		6	6
IV. Deferred taxes	5.1.1	11,682	11,586
B. Current Assets		31,770	8,718
I. Receivables and other assets	5.1.2	1,931	935
1. Trade accounts receivable		965	307
2. Receivable from investments		75	96
3. Miscellaneous assets		891	532
II. Cash on hands, cash in banks	5.1.2	29,775	7,756
of which freely available (net cash)		28,342	5,073
III. Prepaid expenses	5.1.2	64	27
Total Assets		53,080	29,592



Consolidated Balance Sheet at June 30, 2005

SHAREHOLDER'S EQUITY AND LIABILITIES	Note	30/06/2005 T€	31/12/2004 T€
A. Shareholder's equity		46,155	17,230
I. Share capital	5.2.1	14,445	9,409
II. Additional paid-in capital	5.2.1	51,949	28,600
III. Loss carry-forward	5.2.1	-20,779	-21,690
IV. Net profit for the period	5.2.1	540	911
B. Minority interests	5.2.2	5	5
C. Non-current liabilities		2,532	5,799
1. Tax accrual	5.2.3	246	156
2. Bonds	5.2.3	210	3,534
3. Due to banks	5.2.3	2,076	2,109
D. Current liabilities		4,388	6,558
1. Due to banks	5.2.4	0	6
2. Trade accounts payable	5.2.4	1,729	2,193
3. Other liabilities	5.2.4	1,623	3,152
4. Other accruals	5.2.4	856	1,013
5. Deferred income	5.2.4	180	194
Total shareholder's equity and liabilities		53,080	29,592



Consolidated Income Statements for the period January 1 to June 30, 2005

	Note	30/06/2005 T€	30/06/2004 T€
Gross sales		52,082	41,544
Betting stakes		40,884	33,366
1. Sales	5.3.1	11,198	8,178
2. Production for own assets capitalised	5.3.2	147	90
3. Other operating income	5.3.3	262	322
4. Cost of purchased materials	5.3.4	273	377
a) Raw material and consumables used		17	115
b) Cost of purchased services		256	262
5. Personnel expenses	5.3.5	2,843	2,569
a) Salaries		2,437	2,209
b) Social insurance		406	360
6. Depreciation and amortisation on intangible assets and on property, plant and equipment	5.3.6	1,962	408
7. Other operating expenses	5.3.7	5,579	5,156
Result from operating activities		950	80
8. Other interest and similar income	5.3.8	28	20
9. Interest and similar expenses	5.3.10	111	245
Finance result		-83	-225
10. Result from ordinary activities	5.3.11	867	-145
11. Income tax	5.3.12	-328	244
12. Other tax	5.3.13	1	0
13. Net profit for the period	5.3.14	540	99
14. Loss carry-forward from previous year		-20,779	-21,690
15. Accounting loss		-20,239	-21,591
16. Earnings per share			
Basic earnings per share (€)		0,05	0,01
Diluted earnings per share (€)		0,05	0,01

Consolidated Income Statements for the period April 1 to June 30, 2005

	Note	Q2 2005 T€	Q2 2004 T€	Q1 2005 T€
Gross Sales		26,791	21,034	25,291
Betting stakes		20,819	16,720	20,065
1. Sales	5.3.1	5,972	4,314	5,226
2. Production for own assets capitalised	5.3.2	89	39	58
3. Other operating income	5.3.3	163	129	99
4. Cost of purchased materials	5.3.4	131	166	142
a) Raw material and consumables used		10	14	7
b) Cost of purchased services		121	152	135
5. Personnel expenses	5.3.5	1,426	1,322	1,417
a) Salaries		1,225	1,139	1,212
b) Social insurance		201	183	205
6. Depreciation and amortisation on intangible assets and on property, plant and equipment	5.3.6	1,032	208	930
7. Other operating expenses	5.3.7	3,102	2,766	2,477
Result from operating activities		533	20	417
8. Other interest and similar income	5.3.8	14	16	14
9. Interest and similar expenses	5.3.10	45	123	66
Finance result		-31	-107	-52
10. Result from ordinary activities	5.3.11	502	-87	365
11. Income tax	5.3.12	-324	88	-4
12. Other tax	5.3.13	0	0	1
13. Net profit for the period	5.3.14	178	1	362
14. Loss carry-forward from previous year		-20,417	-22,218	-20,779
15. Accounting loss		-20,239	-22,217	-20,417
16. Earnings per share				
Basic earnings per share (€)		0,015	0,000	0,036
Diluted earnings per share (€)		0,015	0,000	0,033



Cash Flow Statement for the period January 1 to June 30, 2005

	30/06/2005 T€	30/06/2004 T€
<ul style="list-style-type: none"> • Net profit for the period before extraordinary expenses • Depreciation on fixed assets • Amortisation and write-down on financial assets and marketable securities • Increase/decrease in long-term accruals • Finance income • Interest expense • Other non-cash expenses and income/deferred taxes • Profit/loss from the disposal of fixed assets 	540 1,962 0 90 -28 111 117 0	99 408 0 29 -20 245 -378 22
Cash flow before changes to working capital	2,792	405
<ul style="list-style-type: none"> • Change in receivables and other assets • Change in liabilities and other items on the shareholders' equity and liabilities side • Increase/decrease in short-term accruals 	-1,033 -2,007 -157	843 -184 -114
Cash flow from operating activities	-405	950
<ul style="list-style-type: none"> • Extraordinary expenses • Interest paid • Income taxes paid 	0 -65 0	0 -163 1
Cash flow from operating activities	-470	788
<ul style="list-style-type: none"> • Cash receipts from disposals of fixed assets • Cash payments for investments in fixed assets • Acquisition of investments and other financial assets • Interest received 	0 -2,155 0 28	1 -304 0 20
Cash flow from investing activities	-2,127	-283
<ul style="list-style-type: none"> • Cash receipts from capital increases • Other cash receipts for capital • Cash receipts/payments from the issue of bonds and from the raising of loans • Repayments of bonds and loans 	3,238 21,417 0 -39	543 825 0 -52
Cash flow from financing activities	24,616	1,316
Overall effective adjustment	22,019	1,821
<ul style="list-style-type: none"> • Cash and cash equivalents at the start of the period 	7,756	3,059
Cash and cash equivalents at the end of the period	29,775	4,880
<ul style="list-style-type: none"> • Progression from cash and cash equivalents to net cash position • Betting stakes passed on • Securities provided 	29,775 1,244 189	4,880 1,136 175
Net cash position	28,342	3,569

Cash Flow Statement for the period April 1 to June 30, 2005

	Q2 2005 T€	Q2 2004 T€	Q1 2005 T€
• Net profit for the period before extraordinary expenses	178	1	362
• Depreciation on fixed assets	1,032	208	930
• Amortisation and write-down on financial assets and marketable securities	0	0	0
• Increase/decrease in long-term accruals	80	34	10
• Finance income	-14	-16	-14
• Interest expense	45	123	66
• Other non-cash expenses and income/deferred taxes	162	-157	-45
• Profit/loss from the disposal of fixed assets	0	22	0
Cash flow before changes to working capital	1,483	215	1,309
• Change in receivables and other assets	-966	889	-67
• Change in liabilities and other items on the shareholders' equity and liabilities side	-1,169	-265	-838
• Increase/decrease in short-term accruals	-139	-60	-18
Cash flow from operating activities	-791	779	386
• Extraordinary expenses	0	0	0
• Interest paid	-32	-44	-33
• Interest taxes paid	0	1	0
Cash flow from operating activities	-823	736	353
• Cash receipts from disposals of fixed assets	0	1	0
• Cash payments for investments in fixed assets	-1,570	-282	-585
• Acquisition of investments and other financial assets	0	0	0
• Interest received	14	16	14
Cash flow from investing activities	-1,556	-265	-571
• Cash receipts from capital increases	3,238	543	0
• Other cash receipts for capital	21,417	825	0
• Cash receipts/payments from the issue of bonds and from the raising of loans	0	0	0
• Repayments of bonds and loans	-15	-21	-24
Cash flow from financing activities	24,640	1,347	-24
Overall effective adjustment	22,261	1,818	-243
• Cash and cash equivalents at the start of the period	0	0	7,756
Cash and cash equivalents at the end of the period	22,261	1,818	7,514
• Progression from financial resources to net cash position	22,261	1,818	7,514
• Betting stakes passed on	-1,484	176	2,728
• Securities provided	0	10	189
Netto cash position	23,745	1,632	4,597



Development in Capital Accounts for the period January 1, 2004 to June 30, 2005

T€	Share capital	Additional paid-in capital	Accounting loss	Total	Bonds convertible
Position at December 31, 2003	5,915	22,289	-21,690	6,514	
Capital increase for DSM takeover	1,660	3,121		4,781	
From employee optionsn	5			5	
Capital increase for cash	538	860		1,398	
Costs of raising equity		-35		-35	
Earnings for 1st half of 2004			99	99	
Position at June 30, 2004	8,118	26,235	-21,591	12,762	
Issue of convertible bond		1,397		1,397	5,803
Conversion of bond at August 20, 2004	309	253		562	-562
Conversion of bond at November 20, 2004	982	825		1,807	-1,807
Costs of raising equity		-110		-110	
Interest on bond					100
Earnings for 2nd half of 2004			812	812	
Position at December 31, 2004	9,409	28,600	-20,779	17,230	3,534
Conversion of bond at February 20, 2005	1,228	1,060		2,288	-2,288
Interest on bond					30
Premiums earned from employee stock options		26		26	
Result for 1st quarter of 2005			362	362	
Position at March 31, 2005	10,637	29,686	-20,417	19,906	1,276
Conversion of bond at May 20, 2005	570	505		1,075	-1,075
Interest on bond					9
Premiums earned from employee stock options		8		8	
from employee stock options	28	49		77	
Capital increase for cash	3,210	22,245		25,455	
Costs of raising equity		-544		-544	
Result for 2nd quarter of 2005			178	178	
Position at June 30, 2005	14,445	51,949	-20,239	46,155	210



FLUXX AG

Consolidated Financial Statements at June 30, 2005 (IFRS)

FLUXX AG is a company specialising in the handling of lotteries and betting, with registered office in Altenholz and on the Commercial Register of the Local Court of Kiel under Entry No. 5038 KI. The rights and licences held by the company and the technical and market-relevant expertise place FLUXX in a position to be able to arrange any form of licensed gaming along a variety of sales channels, between the consumer and state-owned lotteries and betting providers, as well as to accept bets itself.

In addition to the self-marketed services jaxx.de, jaxxhorses.de, interjockey.com and Telewette.de, FLUXX makes its products and services available to other companies and organisations with extensive customer contacts. The latter include the Internet portal freenet.de, the online services WEB.DE, AOL and Lycos the lottery companies Nordwest-Lotto Schleswig-Holstein, Lotto Brandenburg and Lotto Mecklenburg-Vorpommern.

1. General principles

The Consolidated Financial Statements of FLUXX AG at June 30, 2005 are in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB).

Pursuant to Section 315a of German Commercial Code, it is not necessary to prepare separate consolidated financial statements or a group management report in accordance with the requirements of German Commercial Code.

The application of the following IAS standards results in discrepancies with the result for the period in the German Commercial Code accounts:

IFRS 2/	
IAS 19:	Measurement of employee stock options
IFRS 3:	Business combinations
IAS 12:	Recognition of deferred tax according to the balance-sheet oriented liability method; recognition of deferred tax assets from deferred tax loss carry-forwards
IAS 22:	Business combinations, in particular IAS 22.25, capitalisation of incidental acquisition costs for the acquisition of companies
IAS 38:	Capitalisation of self-created intangible assets, capitalisation of intangible assets
IAS 32/39:	Measurement of financial instruments and liabilities

No differences compared with the German Commercial Code accounts currently arise from the application of the remaining standards.

Following its application for the first time in the quarterly accounts at March 31, 2005, IFRS 2 is likewise applied in these accounts. This standard specifies, among other things, that stock options issued to employees are to be measured at their fair value and recognised as an expense as a component of remuneration in return for the employees' services. The balancing entry is made under shareholders' equity, which it increases as a consequence. Detailed information on the FLUXX options scheme and on the approach is provided in section 6.8.



IFRS 3 was applied for the first time in 2004 in the determination and amortisation of the goodwill from the takeover on April 1, 2004 of 100 per cent of the shares of DSM Lottoservice GmbH. The requirement prohibits the amortisation of goodwill for company acquisitions completed after March 31, 2004. Instead, the value of the company is to be subjected to an impairment test and an adjustment in the valuation with an effect on income only made in the event of lasting impairment. From January 1, 2005, IFRS 3 is also to be applied to all existing business combinations. There is consequently no longer any goodwill amortisation in these financial statements. In respect of the assessment of prior-year comparative data, it should be noted that DSM Lottoservice GmbH, which was not consolidated until April 1, 2004, is only included for three of the first six months of 2004. The business figures for DSM Lottoservice GmbH are included in full in the first six months of 2005. Because of this, the scope for comparison between the quarters is limited.

In respect of the assessment of prior-year comparative data, it should be noted that DSM Lottoservice GmbH, which was not consolidated until April 1, 2004, is not

included in the figures for the first quarter of 2004. The business figures for DSM Lottoservice GmbH are included in full in the first quarter of 2005. For this reason, there may be disproportionately high changes between the first quarter of 2004 and the first quarter of 2005.

2. Consolidated companies

The Consolidated Financial Statements include five domestic and two foreign companies in which FLUXX AG directly or indirectly holds a majority of voting rights.

By resolution of the Management Board and Supervisory Board, 100 per cent of the shares of DSM Lottoservice GmbH were acquired in March 2004, with an effect on the consolidated companies from April 1, 2004. The acquisition took place by way of a capital increase for contribution in kind. The capital increase was entered in the Commercial Register on May 3, 2004. DSM Lottoservice GmbH in turn established a subsidiary in Austria in April 2005 in order to access new markets.

SUMMARY OF INVESTMENTS	Registered office	Nominal capital T€	Proportionate interest %
Parent company FLUXX AG	Altenholz	14,445	–
Direct investments			
ANYBET GmbH	Kiel	110	100.00
JAXX GmbH	Hamburg	110	100.00
DSM Lottoservice GmbH	Hamburg	30	100.00
Mittelbare Beteiligungen			
book + data Software-Entwicklung GmbH	Kiel	25	100.00
fluxx.com Telewette GmbH	Hamburg	51	80.00
interjockey.com horsebet GmbH	Lustenau/ Austria	400	85.46
DSM Lottoservice GmbH	Lustenau	35	100.00



3. Consolidation principles

The consolidation of capital is performed pursuant to IAS 22.32 in accordance with benchmark treatment (carrying at proportionate revalued amounts), taking account of IAS 22.12, reverse acquisition, in respect of the transfer of the parent companies of FLUXX AG in 1998. In accordance with benchmark treatment, the carrying values of investments are netted against the proportionate revalued equity of the subsidiaries at the time of their acquisition. Assets and liabilities are recognised at their fair values. Goodwill resulting from any remaining differences in value is recognised and no longer amortised from January 1, 2005 in accordance with the specifications of IFRS 3. Goodwill is assessed regularly for impairment and revalued where necessary.

There are currently no differences compared with application of the carrying amount method as a result of unidentifiable hidden reserves or charges from the assets and liabilities.

Intermediate gains or losses, sales, expenditure and earnings, together with receivables and liabilities between the consolidated companies, have been eliminated.

Income tax effects of consolidation entries recognised in the Income Statement are taken into account and deferred taxes recognised.

4. Principles of recognition and measurement

Uniform principles of recognition and measurement were used in the preparation of the individual financial statements at the date of the Consolidated Financial Statements for the subsidiaries included in the Consolidated Financial Statements.

■ Intangible assets

Under IFRS 3, the derivative goodwill resulting from the acquisition of subsidiaries is no longer amortised, but instead regularly subjected to an impairment test. There is currently no need for an adjustment in its value. Other purchased intangible assets are measured at cost of purchase, and self-created intangible assets at cost of construction, in each case less amortisation according to the straight-line method. The useful life is taken to be three to four years.

As a result of the acquisition of DSM Lottoservice GmbH and the resulting substantial expansion in the level of contracts for syndicate business at DSM Lottoservice GmbH, the acquisition costs of these contracts are capitalised pursuant to IAS 38. These contracts increasingly include the generating of addresses. The average useful economic life of these contracts, including address data, based on the current contractual terms of 3-36 months is taken as the basis for the amortisation period. Including a deduction as a precautionary measure, the amortisation period thus determined is 6 months.

Self-created software to the value of EUR 147 thousand was capitalised in the period under review, and will be amortised over a useful life of four years. No borrowing costs were to be capitalised. Pursuant to IAS 23, these costs will be recognised as an expense in the period in which they have occurred and reported in the Income Statement under interest expense.

The value of intangible assets, and in particular of goodwill, is regularly examined in accordance with IAS 36 and an appropriate impairment loss applied where necessary. No impairment losses were applied in the reporting period.

We refer to the notes in Section 5.1.1. with regard to the composition of self-created software.



■ **Property, plant and equipment**

Property, plant and equipment are measured at acquisition cost, less depreciation. Buildings are depreciated according to the straight-line method over a useful life of 50 years. Movable assets are always depreciated by the straight-line method; the useful life in the case of leasehold improvements is based on the term of the tenancy agreements; for other assets, fixtures and fittings, the useful life is between three and fifteen years. Property, plant and equipment that has been depreciated in full is reported under acquisition cost and cumulative depreciation until the assets in question are taken out of service. The acquisition costs and accumulated depreciation are deducted in the case of the disposal of assets, and results from the disposal of assets are shown in the Income Statement.

Where the value of assets determined in accordance with the above principles is above or below their fair value at the reporting date, this is taken into account by means of write-downs or write-ups pursuant to IAS 36. The fair value is determined from the market value or – if higher – the present value of the estimated future cash flows from the use of the asset.

■ **Financial assets**

Financial assets are recognised on the basis of IAS 39 (Financial Instruments) unless other standards specify different treatment. Assets available for sale are consequently measured at fair value.

The company's financial assets are to be categorised as available for sale even if short-term realisation does not appear to be possible. There exist no interest rate risks.

■ **Deferred taxes**

Pursuant to IAS 12, deferred tax assets on loss carry-forwards that can probably be utilised in the future are capitalised. Deferred tax expenses for temporary differences from the capitalisation and amortisation of self-created intangible assets are created.

A total rate of corporation and trade tax of 38 per cent, based on the current tax rates, has been used as a basis for calculating the future level of tax relief. We moreover refer to the explanatory remarks in Section 5.1.1.

■ **Current assets**

The receivables and other assets are measured at their fair value or at amortised cost (= cost of purchase, generally the original invoiced amount or the balance of a loan) according to IAS 39. Discernible individual risks are taken into account by means of individual valuation allowances; a general credit risk is likewise taken into account. All current assets are to be classified as available-for-sale financial assets or as loans and receivables originated by the company.

Prepaid expenses resulting from payments which were made for expenses incurred in the subsequent periods are likewise reported under current assets. There exist no interest rate risks.

■ **Accrued expenses**

Accrued expenses are measured according to IAS 37 by the best possible estimate of the extent of the obligation. They are formed for an obligation towards a third party arising from a past occurrence that will lead to an outflow of funds in the future and where it is possible to estimate the level of this financial burden reliably. The valuations are continually checked and the accrued expenses regularly adjusted.



■ **Contingent liabilities and other financial obligations**

A summary of the contingent liabilities and other financial obligations at June 30, 2005 is provided in Section 6 "Further notes".

■ **Realisation of expenses and revenues**

Expenses and revenues for the period under review are recognised upon realisation, irrespective of payment. Proceeds from the sale of services are realised once the service due has been rendered.

■ **Leasing**

The lease agreements concluded by the company consist exclusively of operating lease agreements. Obligations resulting from these are shown in the Income Statement as expense, pursuant to IAS 28.25. Details of the expenditure arising in subsequent periods are provided in Section 5.3.7.

■ **Events occurring after the balance sheet date**

There were no disclosable events occurring after June 30, 2005, as defined in IAS 10.



5. Notes to the items in the Consolidated Balance Sheet and Consolidated Income Statement

5.1. Consolidated Balance Sheet

5.1.1. Non-current assets

Intangible assets

The intangible assets totalling EUR 7,766 thousand include primary, derivatively acquired and self-created assets. In addition to goodwill totalling EUR 5,943 thousand, which was unchanged since December 31, 2004, software and licence purchases and other purchased intangible assets totalling EUR 1,377 thousand, this item includes capitalised internally produced software to the total value of EUR 446 thousand. Despite the high level of amortisation, other intangible assets remain largely at the level of December 31, 2004 and have risen compared with the figure at March 31, 2005. This valuation results largely from the capitalisation of the syndicate contracts including address data acquired by DSM Lottoservice GmbH amounting to EUR 1,007 thousand.

The software and licence purchases and other purchased intangible assets are generally amortised by the straight-line method over a useful life of three years. The syndicate contracts, which have an economic term of 3-36 months, are amortised over an average of 6 months.

The goodwill differences from the consolidation of capital of investments acquired were measured at amortised cost at December 31, 2004. The useful life of these intangible assets was assumed to be five to six years. Linear amortisation in line with their useful life was performed up to and including December 31, 2004. The intangible assets capitalised as goodwill relate in the main to the investments in interjockey.com horsebet GmbH, any-bet.com GmbH (now merged with ANYBET GmbH) and fluxx.com Telewette GmbH.

A goodwill amount of EUR 1,447 thousand had already been written down in full for book + data Software-Entwicklung GmbH in the 2002 financial year.

From January 1, 2005, this goodwill will no longer be amortised, pursuant to IFRS 3. The goodwill resulting from the acquisition of DSM Lottoservice GmbH has not been amortised since its acquisition in April 2004, pursuant to IFRS 3. If it had been amortised, the volume of amortisation in the period under review would have totalled EUR 652 thousand.

The reconciliation of goodwill required in accordance with IAS 22 is given in the enclosed Assets Movement Schedule.

The capitalised self-created software consists of new and refined software packages that are amortised by the straight-line method over a useful life of four years.



■ **Property, plant and equipment**

The item Property, plant and equipment includes three parcels of real estate, together with the holiday apartments on them that are both rented out and used internally as business centres. The real estate and buildings were acquired in 1996 and measured at cost, less scheduled depreciation, based on a useful life of 50 years. A write-up was performed in 2002 to reverse the write-downs of the previous years. FLUXX still intends to dispose of the holiday apartments in the medium term. The selling process that has already been initiated via an estate agent and the market valuation confirm the values shown on the balance sheet. However, the general state of the economy and the unfavourable investment climate in Germany mean that a sale cannot be expected in the short term.

The remaining property, plant and equipment components relate to hardware, office equipment and furnishings, and other fixtures and fittings. Hardware is depreciated by the straight-line method over a period of three to four years, and office equipment and furnishings and other fixtures and fittings are depreciated by the straight-line method over a useful life of between four and 10 years.

Further details of costs and depreciation are provided in the Assets Movement Schedule.

■ **Financial assets**

The financial assets continue to show investments in New Communication GmbH & Co. KG, Seepark Sellin AG and TRANSPARENT Design Management GmbH.

Consolidated Assets Movement Schedule

	COST				DEPRECIATION					
	Position at 01/01/2005 T€	Additions T€	Disposals T€	Position at 30/06/2005 T€	Position at 01/01/2005 T€	Additions T€	Disposals T€	Position at 30/06/2005 T€	Carrying value 30/06/2005 T€	Carrying value 31/12/2004 T€
I. Intangible assets										
1. Concessions, industrial property rights, licences, software	6,737	1,701	0	8,438	5,287	1,801	0	7,088	1,350	1,451
2. Goodwill	8,899	0	0	8,899	2,956	0	0	2,956	5,943	5,943
3. Payments on account	0	27	0	27	0	0	0	0	27	0
4. Self-created software	867	147	0	1,014	505	63	0	568	446	362
	16,503	1,875	0	18,378	8,748	1,864	0	10,612	7,766	7,756
II. Property, plant and equipment										
1. Real estate and buildings	1,327	0	0	1,327	287	10	0	297	1,030	1,040
2. Other plant, and equipment	2,539	427	0	2,966	2,052	88	0	2,140	826	486
	3,866	427	0	4,293	2,339	98	0	2,437	1,856	1,526
III. Financial assets										
1. Investments	6	0	0	6	0	0	0	0	6	6
	6	0	0	6	0	0	0	0	6	6
Total Consolidated Assets Movement	20,375	2,302	0	22,677	11,087	1,962	0	13,049	9,628	9,288



■ Deferred taxes

For purposes of the capitalisation of deferred taxes, an unchanged total rate of corporation and trade tax of 38 per cent was used as the basis for calculating the future level of tax relief on the loss carry-forwards.

The tax rate of 38 per cent applied takes account of the 1999 Tax Adjustment Law and the October 2000 Tax Reduction Law, together with a tax rate for corporation tax of 25 per cent, a solidarity surcharge of 5.5 per cent and a municipal trade tax rate of 17 per cent at a municipal trade tax factor of 430 per cent. Deferred taxes totalling EUR 11,682 thousand were capitalised on the fiscal loss carry-forwards of EUR 30,290 thousand. Of this amount, a sum of EUR 96 thousand applies to the period from January 1 to June 30, 2005. These resulted from a correction to the valuation amounting to EUR -290 thousand following the reduction of the tax rate in Austria, and from an addition of EUR 386 thousand for tax losses by the subsidiaries in the first half of the year. The high addition results from the costs of the capital increase in June 2005, which substantially diminished the tax result of FLUXX AG. The costs of the capital increase were netted against shareholders' equity with no effect on income, in accordance with IFRS. The tax refund claim arising from this was correspondingly netted directly with the reserve via the deferred tax assets.

Despite the positive earnings situation of the group, it was therefore necessary to recognise additional deferred tax assets in the period under review. Taking into account the current plans and the higher losses of FLUXX AG as a result of the costs of the capital increase, manifested in the form of higher loss carry-forwards, it can therefore be expected that the deferred tax credit balances can largely be realised by 2008.

The tax effects on the temporary differences from capitalised self-created intangible assets and capitalised incidental acquisition costs for the acquisition of a subsidiary of EUR 188 thousand are shown separately under deferred tax liabilities. We refer to Section 5.3.12 by way of supplementary information.

We refer to Section 5.3.12 by way of supplementary information.

5.1.2. Current assets

■ Payments on account, receivables and other assets, prepaid expenses

The receivables and other assets are made up as follows:

RECEIVABLE AND OTHER ASSETS T€	Total 30/06/2005	Total 31/12/2004	Term to maturity over 1 year
1. Trade accounts receivable	965	307	0
2. Receivables from investments	75	96	0
3. Miscellaneous assets	891	532	0
	1,931	935	0

The other assets in addition include receivables from credit card players totalling EUR 29 thousand (previous year EUR 377 thousand). These relate to receivables from players who pay their stakes by credit card. The sharp fall compared with the previous year results from the prompt transfer of payments by credit card companies as at the end of June 2005. The rise in trade accounts receivable since December 31, 2004 results from invoices for licences and software modifications to lottery companies and from accounts outstanding for syndicates. The items in question had been settled to some extent at the time of preparing the accounts.

No impairment losses affecting the Income Statement were applied.



■ **Cash on hand, cash in banks**

The cash on hand and cash in banks totalling EUR 29,775 thousand includes cash in banks of EUR 1,433 thousand which is not freely accessible due to the security rights of third parties. The freely available cash position amounted to EUR 28,342 thousand at June 30 as a result of the capital increase implemented in June. After deduction of the costs of the capital increase, the company accrued the net amount of EUR 24,578 thousand, with the result that the cash position excluding the capital increase is EUR 3,478 thousand.

5.2. Shareholders' equity and liabilities

5.2.1. Capital and reserves

■ **Share capital**

Following the further conversion of debentures from the convertible bond issued in summer 2004, the exercising of employee stock options and the implementation of a capital increase in June 2005, the share capital of FLUXX AG totals EUR 14,445,049 and is divided into the same number of individual share certificates with no par value. We refer to the remarks in the Management Report with regard to the structure and composition of the capital stock.

■ **Approved capital**

The company had approved capital of EUR 5,317,612, as approved at the Shareholders' Meeting on May 03, 2005. The authorisation period was simultaneously extended to May 2, 2010. Following the partial utilisation of the approved capital, the Management Board is now authorised to increase the share capital on one or more occasions by up to a total of EUR 2,107,602, with the approval of the Supervisory Board, through the issue of new shares against contributions in cash or in kind. The Supervisory Board has approved an appropriate amendment to the articles of incorporation. The shareholders shall be granted a fundamental subscription right; the Management Board is, however, authorised to exclude the shareholders' right

to subscribe to capital increases in certain circumstances, with the agreement of the Supervisory Board. The resolutions from the Shareholders' Meeting of May 03, 2005 were entered in the Commercial Register on June 6, 2005.

■ **Authorised but unissued capital**

Convertible bonds

The Shareholders' Meeting of May 12, 2004 resolved to increase the authorised but unissued capital stock by an amount of up to EUR 3,200,000. The Management Board was authorised, with the agreement of the Supervisory Board, to equip convertible bonds with conversion rights on one or more occasions up until December 31, 2008, entitling the acquirer to purchase shares in the company. The conversion rights may refer to shares in the company with a mathematical nominal value of up to EUR 3,200,000.

The issue price payable for a new individual share certificate shall be at least 66 per cent of the average market price of the shares – the closing price in the electronic share dealing system XETRA – on the 10 trading days prior to the day of the resolution by the Management Board on the issue of the convertible bonds, but no less than EUR 1.00. The authorised but unissued capital shall only be increased to the extent that the bearers of convertible bonds exercise their rights to convert them into shares. A convertible bond, divided into 3,200,000 debentures, was successfully placed at a price of EUR 2.25 per debenture in July 2004, with the right to convert each debenture into a share with a par value of one euro. As a result of the exchanging of a total of 3,089,573 convertible bonds in 2004 and 2005 into 3,089,573 bearer individual share certificates, the authorised but unissued capital now totals EUR 110,427 (authorised but unissued capital 2004/I).

Finally, the share capital of the company has been increased by an authorised but unissued amount of EUR 4,100,000. The conditional capital increase will only be



implemented to the extent that bearers of the debentures issued by the company pursuant to the authorisation resolved under agenda item 7 of the Shareholders' Meeting on May 3, 2005 exercise their right to convert them into new shares. The new shares shall bear profit entitlements from the start of the financial year in which they are created through the exercising of conversion rights. The Management Board is, with the agreement of the Supervisory Board, authorised to determine the further details of the conditional capital increase and its implementation. The Supervisory Board is authorised to amend Section 4 of the Articles of Incorporation ("Capital Stock of the Company, Contributions in Kind") in accordance with how the authorised but unissued capital is drawn on.

The company has not yet made use of this authorisation. An action against the resolution on authorisation by the Shareholders' Meeting of May 3, 2005 is currently pending with the District Court of Kiel.

Supervisory Board members

In respect of the overall remuneration of the Supervisory Board members, we in addition refer to Section 6.6.

Employees

Pursuant to the resolution of the Ordinary Shareholders' Meeting of August 20, 1999, the Management Board was authorised to issue subscription rights on one or more occasions, with the agreement of the Supervisory Board, to employees of the company (including members of the Management Board) and of affiliated companies for a period of five years, bearing the entitlement to subscribe to shares with a total par value of EUR 240,000. The capital stock was raised by a corresponding authorised but unissued amount.

A subscription right entitles the bearer to acquire a share at a strike price equivalent to the price upon issue, or at EUR 3.85 in the case of subscription rights issued before the initial public offering.

Following the issue of pre-emptive shares in the 2005 financial year and the partial cancellation of the authorised but unissued capital, the latter now totals EUR 170,832 (authorised but unissued capital 1999/III).

The Ordinary Shareholders' Meeting on May 9, 2000 in addition increased the capital stock by a further authorised but unissued amount of EUR 210,000 to grant permission to issue subscription rights to the management and employees of the company and of affiliated companies. Following its partial cancellation, this authorised but unissued capital now totals EUR 32,120 (authorised but unissued capital 2000/I).

The capital stock was increased by a further authorised but unissued amount of EUR 55,800 at the Ordinary Shareholders' Meeting on May 3, 2001. This is to service the subscription rights of employees of the company and of its affiliated companies which were promised to these employees before the initial public offering and confirmed by the conclusion of stock option agreements dated January 31, 2000. Following its partial cancellation, this authorised but unissued capital now totals EUR 22,474 (authorised but unissued capital 2001/I).

Finally, the Ordinary Shareholders' Meeting on May 3, 2005 increased the capital stock by a further authorised but unissued amount of EUR 307,897 to grant permission to issue subscription rights to the management and employees of the company and of affiliated companies.



■ Accounting loss

The accounting loss is comprised as follows:

	30/06/2005 T€
Loss carry-forward at 01/01/05	-20,779
Net profit for the period	540
Accounting loss at 31/03/05	-20,239

5.2.2. Minority interests

Interests of minority shareholders in the share capital and the additional paid-in capital are reported here. There was no netting of shares in the result for the period, as the minority shareholders do not participate in the result.

5.2.3. Non-current liabilities

■ Tax accrual

TAX ACCRUAL						
T€	Position at 01/01/2005	Changes in consolidated companies	Con- sumed	Re- versed	Allo- cated	Position at 30/06/2005
1. Income taxes	0	0	0	0	58	58
2. Deferred taxes	156	0	0	24	56	188
	156	0	0	24	114	246

The deferred taxes relate to the temporary differences from the capitalisation of self-created intangible assets and the resulting amortisation. Capitalisation initially improves the result in commercial/IFRS terms, but not fiscally in the period in which capitalisation takes place. A deferred tax

expense is recognised on the difference. Amortisation in subsequent periods results in fiscally nondeductible expenses, and the commercial/IFRS result is consequently lower than the fiscal result and deferred tax accruals as a result of capitalisation are reversed again.



■ Loan and bonds

LOANS AND BONDS T€	Total 30/06/2005	Total 31/12/2004	With a term to maturity of		
			less than 1 year	1 - 5 years	> 5 years
1. Bonds	210	3,534	0	210	0
2. Due to banks	2,076	2,109	51	2,025	0
	2,286	5,643	51	2,235	0

■ Non-current loans

Amounts due to banks totalling EUR 1,070 thousand are secured by mortgages. According to IAS 1.63, the current portions of non-current loans are likewise reported under non-current liabilities. Interest not yet paid at the balance sheet date is reported under current liabilities, as other liabilities.

■ Bonds

The amounts shown under bonds relate to convertible bonds and to the portion of these debt instruments that is allocable to liabilities pursuant to IAS 32. The portion that is not allocable to liabilities is reported under the equity item of additional paid-in capital.

The successful issue of a convertible bond on the basis of a resolution by the Shareholders' Meeting of May 12, 2004 resulted in a cash inflow of EUR 7,200 thousand in the 2004 financial year. Pursuant to IAS 32, the convertible bond,

which was issued interest-free as a zero-coupon bond, is to be broken down into an equity capital and a borrowed capital portion upon reporting for the first time. To this end, the countervalue of the bond is to be discounted at 5 per cent. The amount resulting from discounting totalling EUR 5,803 thousand was allocated to borrowed capital. Following the conversions already performed in 2004 and 2005, there remains a portion allocable to borrowed capital totalling EUR 210 thousand, which is reported under the item bonds, including imputed interest resulting from the measurement of the liability portion pursuant to IAS 39. This states that interest is to be calculated on liabilities granted interest-free, with the interest expense recognised as an expense in the Income Statement. At no time does the entry affect the cash flow.

The equity capital portion determined in the course of these measurements is reported under additional paid-in capital.

The subsequent conversions of the bond into shares in the company have been added to shareholders' equity accordingly.



5.2.4. Current liabilities

■ Other accruals

Other accruals are comprised as follows:

OTHER ACCRUALS T€	Position at 01/01/2005	Consumed	Reversed	Allocated	Position at 30/06/2005
1. Personnel cost	300	271	1	265	293
2. Suppliers in arrears	270	141	78	110	161
3. Costs of annual accounts and audit	61	51	4	30	36
4. jaxx points und bonus points	360	67	119	169	343
5. Litigation costs	12	6	1	0	5
6. Remuneration of Supervisory Board	10	10	0	18	18
	1,013	546	203	592	856

The accruals for personnel costs substantially comprise obligations for outstanding vacation leave, bonuses and industrial accident insurance contributions. The accruals for suppliers in arrears relate for example to legal and consultancy costs not yet invoiced.

All accruals are short-term in nature, with a term of up to one year; no reimbursements are expected.

■ Current loans and liabilities, other liabilities

CURRENT LOANS AND LIABILITIES, OTHER LIABILITIES T€	Total 30/06/2005	Total 31/12/2004	With a term to maturity of		
			less than 1 year	1 - 5 years	> 5 years
1. Due to banks	0	6	0	0	0
2. Trade accounts payable	1,729	2,193	1,729	0	0
3. Other liabilities	1,623	3,152	1,623	0	0
	3,352	5,351	3,352	0	0



■ Trade accounts payable

The trade accounts payable totalling EUR 1,729 have a term of up to one year (previous year EUR 2,193 thousand). They are secured to the customary extent by retention of title. The high level in the previous year stems largely from the high sales in December 2004 due to the size of the jackpot and the resulting sharp rise in commission payments to partners which had not yet been paid by the end of 2004, as well as from the higher volume of business in connection with the acquisition of DSM Lottoservice GmbH.

■ Other liabilities

Other liabilities are comprised as follows:

OTHER LIABILITIES	30/06/2005 T€	31/12/2004 T€
Liabilities from lottery players	1,050	2,790
Sales tax	192	93
Income tax and church tax	79	67
Social security contributions	120	103
Other	182	99
	1,623	3,152

The liabilities from lottery players include winnings not yet paid out to players and stakes that have not yet been passed on to the lottery companies. The high level in the previous year and at the end of the first quarter of 2005 is due to the relatively high jackpots in December 2004 and March 2005.

■ Deferred income

The item includes pro rata sales for syndicate games already played that were not billed until July 2005.

5.3. Consolidated Income Statement

5.3.1. Sales

Sales include revenue from the handling of lottery and horse bets, as well as from sales of licences.

The commissions from the handling of lottery and horse bets are shown as sales once the state lotteries or racecourses have received the tickets or slips.

The sales generated by the sale of licences are reported as such once acceptance reports or other equivalent confirmations of acceptance have been received.

SALES	30/06/2005 T€	31/03/2004 T€
Commissions	3,586	3,346
Handling fees	6,623	3,272
Licence sales	0	0
Fees	379	301
Betting stakes	289	243
Revenue from call centres	0	123
Production output	91	747
Other	230	146
	11,198	8,178



The continuing high growth in the various platforms in the first half is reflected only to a disproportionately low extent in the revenue from commissions, in particular compared with the first half of 2004. This is because the lottery companies paid substantially higher commissions in the first half of 2004. The monopolistic organisation of the lottery companies within the context of the Regionalisation State Treaty since July 1, 2004 results in lower, uniform commissions for agents nationwide, with the result that revenue from commissions has risen more slowly despite the higher level of betting stakes.

On the other hand, handling revenues rose by more than 100 per cent as a result of customer growth and the integrated syndicate business of DSM Lottoservice GmbH. It should be noted in particular that the comparative figures for the previous year include DSM Lottoservice GmbH for only three months of the year, as the company was not included in consolidation until April 1, 2004.

The revenue from production output in connection with the administration of the syndicates and the revenue from call centre services have fallen, as these services are provided substantially for DSM Lottoservice GmbH and therefore now eliminated as intra-group transactions. The betting stakes comprise the revenue of Interjockey.

5.3.2. Production for own assets capitalised

Production for own assets capitalised relates to self-created intangible assets. These comprise exclusively software, the anticipated future benefit of which exceeds the capitalised cost.

5.3.3. Other operating income

OTHER OPERATING INCOME	30/06/2005 T€	30/06/2004 T€
Income from the reversal of accruals	203	79
Income from write-down of allowances on receivable	0	4
Income from the disposal assets	0	1
Other income	59	238
	262	322

The other operating income arises substantially in connection with the reversal of accruals.

5.3.4. Cost of purchased materials

In the year under review, the cost of raw materials and consumables used amounted to EUR 17 thousand (previous year EUR 115 thousand) and the cost of purchased services totalled EUR 256 thousand (previous year 262 thousand). The items relate to purchased services, the cost of which was passed on, as well as to reimbursed betting stakes. The year-on-year fall in raw materials and consumables used results from the consolidation of DSM Lottoservice GmbH, which did not yet form part of the group in the first quarter of 2004 but already had business associations with FLUXX.



5.3.5. Personnel expenses

Expenses for wages and salaries totalled EUR 2,437 thousand (previous year EUR 2,209 thousand), and social insurance contributions and expenses EUR 406 thousand (previous year EUR 360 thousand). No additional expenses for retirement benefits and maintenance payments were incurred.

The increase results from the recruitment of additional personnel during 2004, which had filtered through only partly into the first-half figures for 2004 but is evident in the first half of 2005 on the basis of the employee total at the end of 2004. The value of the stock options issued to employees is likewise included in salary expenses pursuant to IFRS 2 / IAS 19, at the amount of EUR 34 thousand. There were 97 employees at the reporting date (previous year 88, Q1 95). The average number of employees for the half year was 95 (previous year 89, Q1 94). New employees were recruited for the software development and product management areas in order to help meet the requirements for Direct Lotto sales.

5.3.6. Depreciation and amortisation

Depreciation and amortisation totalling EUR 1,962 thousand (previous year EUR 408 thousand) includes EUR 1,864 thousand for amortisation of intangible assets and EUR 98 thousand for depreciation of property, plant and equipment. The increase results largely from the amortisation of the capitalised syndicate contracts, which result in a rise in the volume on account of the short amortisation period; this will increase further in the future. As a result of syndicate business and the new Direct Lotto sales channel, there will be an appreciable rise in the need for investment in forthcoming periods. Around EUR 300 thousand were invested in over-the-counter sales in the second quarter. Depreciation of property, plant and equipment in particular consequently has already edged up. Essential expenditure on replacement equipment and promising investments in expanding the field of business will be stepped up in future.

5.3.7. Other operating expenses

OTHER OPERATING EXPENSES	30/06/2005 T€	30/06/2004 T€
Marketing	1,984	1,693
Commissions	1,827	1,903
Expenses for premises	190	206
Collection charges	201	206
Rental for fixtures and fittings	15	79
Losses on receivables	211	131
Costs of annual accounts and audit	25	25
Legal and consultancy costs	256	101
Vehicle costs	70	49
Insurance, donations, membership fees	86	68
Postage	227	174
Telephone costs	52	56
Fees for data lines	85	43
Travel and entertaining expenses	109	87
Periodicals and books	6	4
Incidental costs of monetary transactions	5	18
Office supplies	26	20
Other costs	204	293
	5,579	5,156



As a result of increased marketing expenses to strengthen our own jaxx.de end consumer platform an initial measures flanking the Direct Lotto test phase predominantly in the second quarter of 2005, other operating expenses show an 8 per cent increase on the prior-year figure. In the first quarter, expenses were still broadly on a par with the prior-year quarter. The costs of legal consultancy and losses on receivables have likewise risen. The dispute with WEB.DE, the defence against the action in relation to the Shareholders' Meeting and legal consultancy on Direct Lotto and the State Treaty resulted in substantially higher costs compared with the first half of 2004. Further expenses are to be expected in these respects over the next few months. The higher losses on receivables are the result of intensive generation of new customers. The downturn in commissions stems from the reduced volume of business from WEB.DE.

The inclusion of DSM Lottoservice GmbH in the Consolidated Financial Statements is the reason for the quarter-on-quarter rise in postage costs.

The company leases vehicles, office machinery and telecommunications systems through operating lease agreements. The agreements concluded have residual terms of between one and three years.

The expense from these operating lease agreements and from tenancy agreements for furniture and fittings totalled EUR 44 thousand in the first half, and the expense from tenancy agreements EUR 154 thousand. The expenses are reported in other operating expenses under vehicle costs, rental for fixtures and fittings and expenses for premises. There are no finance lease agreements.

The following table shows the future minimum expenses that will be incurred from lease and tenancy agreements in view of the terms and notice periods of these agreements. These come under other financial obligations (see also Section 6.3). The rise in lease agreements results largely from switching company cars from short-term rental agreements to lower-priced but longer-term lease agreements.

TENANCY AND LEASE AGREEMENTS	30/06/2005 T€	30/06/2004 T€
Tenancy agreements		
Term up to 1 year	190	65
Term 1 to 5 years	0	329
Lease agreements		
Term up to 1 year	10	49
Term 1 to 5 years	358	14

5.3.8. Other interest and similar income

The other interest and similar income amounts to EUR 28 thousand (previous year EUR 20 thousand). It consists of interest on bank credit balances and loans issued. The interest was collected during the reporting period.

5.3.9. Amortisation on investments

No amortisation was made in the reporting period.

5.3.10. Interest and similar expenses

The interest and similar expenses relate to interest expenses for non-current loans and imputed interest of EUR 39 thousand pursuant to IAS 32 for the convertible bond granted interest-free. Interest is fundamentally not booked against income; it is initially added to the figure for liabilities from bonds and then, following conversion, to shareholders' equity. Of the total interest expense of EUR 111 thousand (previous year EUR 245 thousand), an amount of EUR 65 thousand was booked against income in the period under review.

5.3.11. Result from ordinary activities

The result from ordinary activities for the group is EUR 867 thousand, compared with EUR -145 thousand for 2004, and has therefore improved substantially.



5.3.12. Income tax

INCOME TAX T€	30/06/2005 Assessment base	30/06/2005 Tax expense	30/06/2004 Assessment base	30/06/2004 Tax expense
Result from ordinary activities	867		-145	
Other tax	0		0	
IAS accounting profit	867	329	-145	-55
Fiscally unrecognised goodwill amortisation	0	0	131	50
Fiscally recognised amortisation on investments	0	0	0	0
Other differences from consolidation	-1,653	-645	-632	-242
Fiscally unrecognised business expenses	51	19	5	2
Temporary differences (intangible assets)	-84	-32	-14	-5
Tax result	-819	-329	-655	-250
Tax rebate for previous years		1		0
Deferred taxes on temporary differences and loss carry-forwards from previous years		366		6
Reduction in deferred tax items due to tax rate change in Austria		290		0
Reported income tax expense (-) = income		328		-244

The income tax essentially comprises the capitalised tax assets on the losses of the individual companies (tax income), and the deferred tax expense on production for own assets capitalised and on the amortisation on this. Income tax expense for gains from tax accruals is furthermore recognised as expense. The overall resulting tax income of EUR 328 thousand is adjusted by the tax refund claim from the costs of the capital increase of EUR 334 thousand, which were netted against the accrual with no effect on income. Although this expense does affect the tax result, the tax is to be recognised with no effect on income due to the income-neutral treatment in the IFRS accounts.

The unrecognised business expenses result predominantly from the non-recognition of interest payments between subsidiaries as a result of the new fiscal rules on shareholder debt financing (German Thin Capitalisation Rules).

The reduction in the corporation tax rate in Austria results in an additional tax expense of EUR 290 thousand from the remeasurement of the deferred tax assets for the Austrian subsidiary Interjockey.

With regard to income tax, we additionally make reference to the deferred taxes in Section 5.1.1. Detailed notes on how the tax rate was calculated were published in the Notes to the Consolidated Financial Statements for 2001.



5.3.13. Other tax

Other tax, where applicable, consists of motor vehicle tax and real property tax.

5.3.14. Net profit for the period

The net profit for the period is EUR 540 thousand, as against EUR 99 thousand for the prior-year period.

5.3.15. Earnings per share

EARNINGS PER SHARE	01/01- 30/06/2005 T€	01/01- 30/06/2004 T€
Consolidated earnings	540	99
Weighted average number of ordinary shares outstanding during the period under review	10,468	6,609
Basic earnings per share €	0.05	0.01
Number of dilutive shares under option	1,093	29
Number of shares that would have been issued at fair value	-330	-8
Total	11,230	6,631
Consolidated earnings (€ thousand)	540	99
Number of shares	11,230	6,631
Diluted earnings per share €	0.05	0.01

6. Further notes

6.1. Contingent liabilities

There are contingent liabilities totalling EUR 189 thousand; these consist substantially of guarantees on tenancy agreements.

6.2. Hedging policy and derivative financial instruments

Insured type	Insured total T€
Third-party insurance Business, product and environmental liability	2,000
Activity of corporate bodies	2,500
Business interruption	2,500
Electronics insurance	1,682
Accident insurance	2,500

There exists no interest rate risk in view of the long-term loan agreements with fixed interest rates. No hedging of the interest rate risk is therefore practised.

The company has concluded insurance policies to cover various operating risks. The following table shows the levels of cover for the principal credit risks.

6.3. Other financial obligations

The other financial commitments at June 30, 2005 totalled EUR 650 thousand (December 31, 2004 EUR 580 thousand). These obligations above all comprised tenancy, maintenance and lease agreements.



6.4. Segment reporting

SEGMENT REPORTING T€	B2C	B2B	Other	Consolidated transfers	Total
External sales 30/06/2004	5,190 2,566	6,007 5,612	1 0	0 0	11,198 8,178
Sales with other segments 30/06/2004	2,113 1,457	1,750 1,392	570 541	-4,433 -3,390	0 0
Total sales 30/06/2004	7,303 4,023	7,756 7,004	572 541	-4,433 -3,390	11,198 8,178
Gross income 30/06/2004	7,044 3,528	7,460 6,765	462 541	-3,894 -2,942	11,072 7,892
EBITDA 30/06/2004	2,490 -124	1,422 1,455	-1,842 -733	843 -109	2,913 489
Result for segment before interest and taxes 30/06/2004	562 -374	594 620	-1,859 -743	1,653 578	950 81
Net interest 30/06/2004	-388 -358	-559 -600	864 733	0 0	-83 -225
Income taxes 30/06/2004	-55 260	-24 -18	375 2	-623 0	-327 244
Net profit or loss for the period 30/06/2004	119 -472	11 1	-620 -8	1,030 578	540 99
Gross carrying value of assets 31/12/2004	11,234 11,255	18,099 18,390	66,334 42,111	-42,587 -42,164	53,080 29,592
Liabilities 31/12/2004	17,111 17,584	22,976 23,027	2,189 4,653	-34,363 -33,101	7,913 12,163
Investment 30/06/2004	1,617 199	662 307	23 4,839	0 204	2,302 5,549
Depreciation and amortisation 30/06/2004	1,927 250	828 835	17 10	-810 -687	1,962 408
Non-cash expenses 30/06/2004	0 101	-209 102	124 95	34 0	-51 298

The segment results for the first half of 2005 compared with the corresponding period of the previous year have continued to improve, mirroring the positive development in the consolidated result. The B2B segment continues to generate the highest sales, at EUR 6.0 million. As a result of the inclusion of DSM Lottoservice GmbH in the consolidated companies and the allocation of this company to

the B2C segment, the latter has posted a disproportionately steep rise in sales. The gross profit has risen by a correspondingly steep 100 per cent since the first half of 2004. With expenses running at a moderate level, the result is high EBITDA in conjunction with a sharp rise in depreciation and amortisation, leaving a clearly positive EBIT for the segment.



The B2B segment continues to contribute high earnings. However, the B2C segment was almost able to pull level.

The B2B segment still has to absorb the cost of purchasing software licences for both segments and the resulting amortisation, as well as the cost of assuming the B2C segment's liabilities in respect of the holding company for the payment of the purchase price for these software licences. The amortisation and interest expense are consequently very high, and continue to diminish the segment result for the period substantially. The same applies to the interest burden for the B2C segment. In this segment, there are still high loans from the financing of the high losses of 2000-2002 by the holding company. The interest burden is correspondingly high. Both segments therefore report high liability items, which are mirrored by corresponding loans receivable for the holding company. Capital expenditure in the B2C segment has risen sharply as a result of the expansion of syndicate business, as has the raising of loans within the group to finance capital expenditure.

Secondary data structured by geographical region have not been provided, since well over 90 per cent of sales are generated within Germany.

6.5. Finance and investment

In the first half of 2005, FLUXX AG accrued cash from the earnings before depreciation and amortisation, deferred tax, interest and other non-cash expenses of EUR 2,792 thousand. The build-up of accounts receivable and other assets resulted in short-term tied-up capital of EUR –1,033 thousand. The reduction in liabilities and accruals compared with the high levels at December 31, 2004 resulted in an outflow of EUR –2,164 thousand. Further funds totalling EUR –65 thousand were used for interest payments. The cash flow from operating activities amounted to EUR –470 thousand.

A sum of EUR –2,155 thousand was used for capital expenditure predominantly on software, hardware infra-

structure components and syndicate contracts; this contrasts with interest receipts of EUR 28 thousand. The result is a cash flow from investing activities of EUR –2,125 thousand. The net cash flow before investing activities is thus EUR –2,597 thousand.

Whereas the company could largely be financed from the cash flow from operating activities in the first quarter, the investment and short-term rise in working capital in the second quarter needed to be financed from monetary holdings.

The repayment of loans for Sellin resulted among other things in an outflow of funds of EUR –39 thousand. The successful implementation of a capital increase in June 2005 and the exercising of employee stock options in the second quarter resulted in an inflow of EUR 24,655 thousand after netting of the costs of the capital increase to date with the reserve.

The overall cash flow for the period is consequently EUR 22,019 thousand.

6.6. Total remuneration of the Supervisory Board and Management Board

The total remuneration of the Management Board in the period under review was EUR 263 thousand. The Shareholders' Meeting on May 3, 2005 moreover approved an annual remuneration of EUR 10 thousand per member and EUR 15 thousand for the Chairman, plus proven expenses, for the work of the Supervisory Board, until further notice. A performance-related payment was furthermore approved. Insofar as sales tax is due on the remuneration, the company is obliged to refund it. Supervisory Board members who have belonged to the Supervisory Board for only part of a financial year receive a pro rata payment. A sum of EUR 18 thousand was set aside in the period under review.



6.7. Related parties

Accounts receivable from members of the Board of Management totalled EUR 9 thousand. The following table shows the amounts due to related parties which diminished the result for 2005. The amounts concerned are in respect of consultancy fees and interest.

	30/06/2005 T€	30/06/2004 T€
GWU mbH (Managing Director Antje Stoltenberg, Supervisory Board member)	20	4
NIB (shareholder)	0	135
Total	20	139

GWU mbH provides general and tax consultancy services for the company.

The prices are in line with the market. The consultancy services are invoiced on the basis of hours worked, at hourly rates that are in line with the market, or on the basis of the applicable fee scales.

The business premises in Altenholz, near Kiel, which FLUXX AG occupied in May 2004, are rented from the shareholder DSM Direct Sales Marketing GmbH. A monthly rent of EUR 6 thousand, including ancillary costs, is paid. There were receivables totalling EUR 31 thousand from DSM Direct Sales Marketing GmbH.

6.8. Stock option plans

The Shareholders' Meetings of August 20, 1999, May 9, 2000, May 3, 2001 and May 3, 2005 passed resolutions

to increase the authorised but unissued capital stock by a total of up to 533,323 individual share certificates exclusively for the granting of subscription rights in the context of stock option schemes, as well as the basic framework for the stock option schemes to be established by the Management Board. The company has not yet made use of the authorisation by the Shareholders' Meeting of May 3, 2005.

The conditional increase in capital stock is only to be implemented insofar as the bearers of the stock options issued actually exercise their stock option in accordance with § 192 Para. 2 No. 3 of German Stock Corporation Law. The strike price corresponds to the actual market price at the time of the stock options' issue. The strike price for options issued before the initial public offering is EUR 3.85. A condition of exercising the options granted is that the share price must have reached at least 120 per cent of the share price at the time of issue (strike price).

An employee may exercise up to one-third of their stock options after a period of two years, in other words no earlier than 2001, up to two-thirds of their stock options after a further year and all their stock options after a period of five years. The options must be exercised within a period of no more than eight years. The above periods begin upon issue of the options. In each year, the options may only be exercised within two-week periods beginning on the ninth trading day

- After the Ordinary Shareholders' Meeting of the company,
- After the Annual Press Conference and
- After the day on which Deutsche Börse AG has made available the company's quarterly report to the public.

In the first half of 2005, 27,653 stock options were exchanged for shares in the company. At June 30, 2005 there remained 240,390 stock options issued under the various schemes.



The company has not yet made use of the authorisation by the Shareholders' Meeting of May 3, 2005. This authorisation specifies the following parameters for the establishment of a stock option scheme:

Stock options may be granted only to employees not under notice of the company or an affiliated company. The persons in questions need not yet have commenced their activity on the behalf of the company or the affiliated company. Of the aforementioned maximum number of stock options to be issued, up to 30 per cent may be granted to the members of the company's Management Board, up to 40 per cent to the managing directors or subsidiaries and up to 80 per cent to employees of the company and its subsidiaries. Stock options may be issued continuously. The stock options may only be exercised after having been held for a period of two years from the date of issue (vesting period). The stock options may be exercised in the three years following expiry of the vesting period. Stock options not exercised shall expire when five years from the time of their issue have elapsed.

After the vesting period has ended, the stock options may in each case be exercised during a period of three weeks

- Following publication of the quarterly reports for the 2nd and 3rd quarters, as well as
- After the holding of the Ordinary Shareholders' Meeting (exercise periods).

The Management Board, and also the Supervisory Board in respect of members of the Management Board, may appropriately extend or shorten the above exercise periods as required. The beneficiaries must furthermore observe the restrictions proceeding from general statutory provisions such as German Securities Trading Law (insider law). Each stock option bears an entitlement to acquire one share in the company at the strike price, if exercised. The strike price shall be the share price at the time of issue. For this purpose, the "share price" shall be the last minimum price determined and published by the Federal Supervisory Office for Financial Services according to the German Securities Acquisition and Takeover Act (WpÜG). The

options may only be exercised if the share price at the time of exercise reaches at least 115 per cent of the share price at the time of issue. For this purpose, the last minimum price determined and published on the internet by the Federal Supervisory Office for Financial Services according to the German Securities Acquisition and Takeover Act (WpÜG) shall likewise apply.

Pursuant to IFRS 2, for financial years from January 1, 2005 all options issued after November 7, 2002 and still subject to a vesting period at January 1, 2005 are to be measured and reported as salary expenses. For this purpose it is assumed that the value of the options – provided they are granted free of charge – represents remuneration for the period from the time the options were granted until the expiry of the vesting period. The value of the options is to be determined correspondingly and spread over the vesting period, taking account of such factors as fluctuation. As the options can be exchanged for shares in the company (equity settled) and are not redeemed in cash, the booking of salary expenses increases the additional paid-in capital. The expense entry simultaneously reduces the profit in the period when the expense is recorded, with the result that the shareholders' equity entry is corrected again.

A total of 188,851 options issued after November 7, 2002 fall under the rules of IFRS 2. Of these options, a total of 12,000 were issued to members of the Management Board at the start of 2003, as well as 101,851 options to members of the group in June/July 2004 and 34,749 options to members of the Management Board. A further 40,251 options were granted to the Management Board in the second quarter. The options were measured at market price upon issue, applying the Black-Scholes option price model. The weighted average share price upon issue of the shares was EUR 2.31. The money market interest rate was assumed to be 2.2 per cent and the volatility of the shares 65 per cent, based on current market data at the time of preparation of these accounts. The 20 per cent exercise threshold was taken into account in the calculating using the above model. The staggered vesting period and a fluctuation based on the average for the past 3 years of 20



per cent per year were likewise taken into account. On the basis of these parameters, the average option price was EUR 0.87 per option and the total value of all options EUR 129 thousand before fluctuation, over the entire term. The pro rata expense for the first half is EUR 34 thousand, taking fluctuation into account.

Of the total options issued, 184,885 remained in existence at the reporting date of June 30, 2005. No options had expired, and 3,966 had been exercised.

7. Other particulars

■ Corporate bodies

The members of the Management Board are

- Rainer Jacken, Graduate Designer, Spokesman
- Mathias Dahms, Information Technology Graduate
- Stefan Hänel, Graduate Economist

Members of the Supervisory Board

- Goetz Graf von Hardenberg, Hamburg, Chairman, company director
- Antje Stoltenberg, Kiel, auditor
- Frank Motte, Gerlingen, management member

In addition to their membership of the Supervisory Board of FLUXX.AG, the following persons hold other non-executive directorships as follows:

- Frank Motte: Weigl Group AG, Pöttmes

Mandate relationship with the auditor of the annual accounts, Susat & Partner oHG, Hamburg

Susat & Partner oHG was mandated in the first half of the year. The mandates issued related to an appraisal to substantiate the compensation claim against WEB.DE and the review of the quarterly accounts in the context of compiling the prospectus.

This company is in the first instance mandated by FLUXX to audit the annual accounts.

Altenholz, August 9, 2005

Rainer Jacken

Mathias Dahms

Stefan Hänel