Six month' report
January 1 to June 30, 2006
(IFRS)

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FLUXX Key data

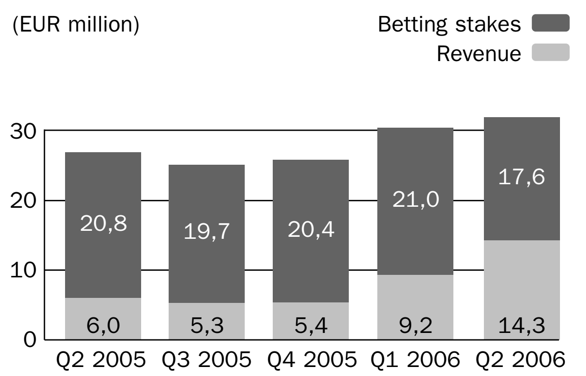
FLUXX KEY DATA (IFRS)

INCOME STATEMENT	**1st half 2006 T€**	**1st half 2005 T€**	**Q2 2006 T€**	**Q2 2005 T€**	**Q1 2006 T€**
Gross sales	62,111	52,082	31,907	26,791	30,204
Betting stakes	38,635	40,884	17,615	20,819	21,020
Revenues	23,476	11,198	14,292	5,972	9,184
EBITDA	1,184	2,912	303	1,565	881
EBIT	–1,548	950	–1,199	533	–349
Net result	–731	540	–747	178	16
Earnings per Share (€)					
Basic	–0.05	0.05	–0.05	0.015	0.00
Diluted	–0.05	0.05	–0.05	0.015	0.00
Employees (average for the period)	117	95	121	94	112
Revenue per employee	201	118	118	63	82
Personnel expenses per employee	29	30	15	15	14

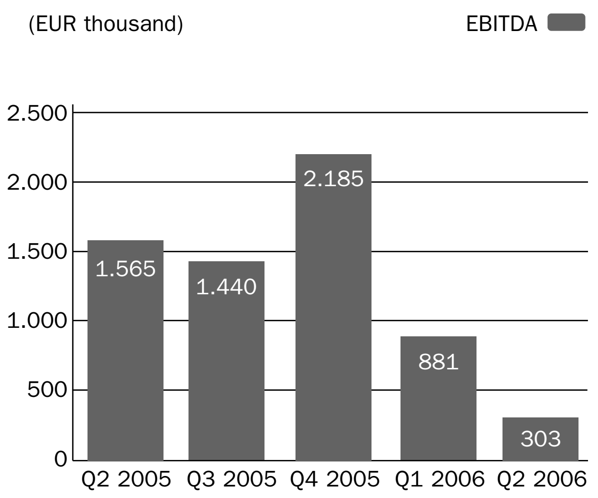
Balance Sheet	**30/06/2006 T€**	**31/12/2005 T€**
Non-current assets	33,303	31,411
Cash & cash equivalents (incl. securities)	19,550	24,282
Shareholders' equity	47,671	47,572
Balance sheet total	59,088	55,605
Equity ratio	80.7%	85.6%

FLUXX at a glance

SALES
(EUR million)



EBITDA
(EUR thousand)



Group Management Report of FLUXX AG at June 30, 2006

1. Business and general situation

a. Activities

The FLUXX Group is a leading provider of and agent for statelicensed gaming. The necessary rights and licences and the technical and marketrelevant expertise place the companies of the FLUXX Group in a position to be able to arrange any form of licensed gaming, along a variety of sales channels, between the consumer and the stateowned lotteries and betting providers. In addition to the self-marketed services jaxx.de, jaxx.com, myBet.com and Tele-wette, FLUXX makes its products and services available to other companies and organisations with extensive customer contacts. These include online portals (AOL, freenet.de, Lycos), TV stations (Premiere), publishers (Burda), retail chains and filling stations (EDEKA, OIL!, Orlen) and the lottery companies in the states of Schleswig-Holstein, Brandenburg and Mecklenburg-Western Pomerania.

The group management has its registered office in Altenholz, near Kiel.

b. Business progress

The revenues of the FLUXX Group in the first half of 2006 showed a 110 per cent rise on the prior-year period, to EUR 23.5 million. The principal driving force behind this growth was the range of sports betting products from myBet.com, which succeeded in more than doubling its betting stakes in the second quarter of 2006 compared with the first quarter of 2006, by virtue of a substantially larger customer base.

On the other hand, an exceptionally weak quarter for lotteries resulted in a downturn in betting stakes handled and in the commissions and handling fees that result from them. This was substantially due to a contraction in the overall lottery market by around ten per cent, which was attributable to the absence of major jackpots and the cutback in marketing activities by lottery companies following the ruling by the Federal Constitutional Court.

The successful acquisition of new customers for the sports betting segment in the second quarter in addition necessitated high marketing expenditure, with the result that both earnings for the second quarter and the cumulative earnings for the first half of 2006 are negative.

Sports betting

The football World Cup was a huge success for FLUXX's newest subsidiary, myBet. Sales in the sports betting segment reached EUR 8.5 million in the second quarter of 2006, equivalent to an increase of 130 per cent on the first quarter of this year. However, the cost of materials, under which betting winnings paid out are reported, also rose correspondingly. The gross margin amounted in the second quarter to 15 per cent.

Increased marketing expenses for the successful acquisition of new customers resulted in a clearly negative contribution to the overall result. 40,000 new customers were acquired in the second quarter.

Online processing

In contrast to vigorous growth of the sports betting segment, the weak quarter for lotteries likewise prompted a fall in sales via the online lottery services operated by the FLUXX Group. The betting stakes handled in the second quarter were around 15 per cent down on the second quarter of the previous year, at EUR 17.6 million. The betting stakes handled for the year to date were down by just under six per cent compared with the previous year. After adjustment to reflect the termination of the partnership with WEB.DE at the end of last year, betting stakes remained constant at the prior-year level.

The new portals jaxx.com and bestwetten.de (Burda) were only launched in the course of the second quarter and have not yet made any significant contribution to sales.

At the end of June, the lottery company in Schleswig-Holstein served notice to terminate the agreements on the electronic acceptance of lottery tickets and the operation of the internet service lotto-sh.de with effect from December 31, 2006 to enable it fundamentally to renegotiate the operation of its online service. In parallel, the lottery company in Brandenburg served notice to terminate its agreement on the submission of lottery tickets, likewise with effect from December 31, 2006. Negotiations have now been held with Lotto Schleswig-Holstein on the continuation of the partnership beyond 2006, in particular in respect of the acceptance of lottery tickets, as it had not been the original intention to terminate that contractual component. Lotto Brandenburg, too, has offered to enter into negotiations. The hosting of the online platform of Lotto Brandenburg and the partnership with Lotto Mecklenburg-Vorpommern remain unaffected.

The Spanish subsidiary Digidis did not generate any significant contribution to sales in the second quarter. At distribution level, new venture partners for online lottery sales are expected to be recruited in the course of this year.

Syndicates

Against the market trend, syndicate business was boosted compared with the previous quarter as a result of the launching of partnerships with Premiere at the start of the second quarter. Collaboration with the new partner Burda Direct is expected to provide added growth.

Lottery via retail outlets

By the year’s mid-way mark, 150 outlets have been in the roll-out. The technical preparations are being made at further 300 locations.

The warning issued to the lottery companies by the Federal Competition Authority at the end of May, in which one of the criticisms raised by the competition authority was that individual lottery companies were hindering over-the-counter sales by FLUXX, initially hampered the intensification of the roll-out. The final order by the competition authority, which FLUXX expects will be issued at the end of August, should further accelerate the roll-out, which has in the meantime gathered pace again.

It is not currently possible to make any reliable forecasts as to the average level of utilisation of the installed terminals, as the fluctuation is to some extent considerable. Whereas one in ten shoppers buys a lottery ticket at certain locations when there are big jackpots to be won, there are also days when only a few tickets are purchased.

On the basis of an evaluation of the sales generated to date via the terminals already installed, locations can be divided into three categories: the top third is broadly in line with expectations, the middle third shows potential for development and the bottom third falls well short of the targets, either because the location is poor or because customer traffic is not sufficiently high. The installations in the latter locations will be gradually removed again and transferred to markets that meet the criteria of the top third.

c. Development of the market

The downturn in the sales of German lottery companies accelerated in the second quarter of 2006. Overall, betting stakes placed with the lottery organisation fell by more than ten per cent and were thus even lower than the already weak first quarter, at EUR 1.8 billion. This development was prompted by reduced advertising following the ruling of the Federal Constitutional Court, and the absence of jackpots. For the first time, the volume of betting stakes placed over the internet likewise fell. We believe that the proportion of betting stakes handled by online media remains at around five per cent.

The football World Cup fuelled growing enthusiasm for sports betting. The FLUXX subsidiary myBet.com as well as numerous other private sports betting providers, based mainly in other European countries, reported a sharp rise in betting stakes. By contrast, the state sports betting service „ODDSET“ suffered a marked fall in sales. Despite the football World Cup, its betting stakes fell by 26 per cent, from EUR 94 million in the first quarter to EUR 70 million in the second.

In a leading decision announced at the end of March, the Federal Constitutional Court had ruled that the state sports betting monopoly in its present form is not compatible with the constitutional right to freedom of occupation. The judges ruled that a constitutional position can be achieved both through the clear application of the betting monopoly in a way that focuses systematically on preventing addiction, and through the legally standardised, controlled authorisation of commercial services by private betting companies. The Federal Constitutional Court gave the legislative body until the end of 2007 to put the requirements into practice.

In response to this ruling, the state sports betting service ODDSET curtailed its marketing activities, nevertheless maintaining them at an unconstitutional level in order to satisfy the requirements for the state monopoly to be upheld. The drastic fall in sales in the second quarter, however, demonstrates revealingly that the exacting requirements for a monopoly laid down by the Federal Constitutional Court are not compatible with a commercially successful sports betting service. The losers consequently also include sports associations, whose grants from licence payments received by ODDSET will now be substantially lower.

Following the ruling by the Federal Constitutional Court, individual federal states and municipalities had instructed the closing-down of private sports betting shops. Appeals were generally lodged against these closing-down orders. A large number of courts have been involved in these cases, but no uniform pattern of court rulings has as yet been identified.

FLUXX is responding to the still uncertain legal position by stepping up its activities outside Germany. Initial sports betting shops have consequently now been opened in Greece, Austria and other European countries.

2. Financial performance

Consolidated revenues rose by 139 per cent in the second quarter of 2006 compared with the prior-year quarter, from EUR 6.0 million to EUR 14.3 million. This figure includes bookmaking revenues of EUR 9.3 million generated largely via the betting operations of myBet.com. The betting stakes processed by the FLUXX Group on behalf of the lottery companies were down approximately 15 per cent on the prior-year quarter to EUR 17.6 million (EUR 20.8 million). The downturn is the result of an exceptionally weak quarter for lotteries, with no significant jackpots, and the termination of the partnership with WEB.DE at the end of last year. Gross consolidated sales (revenues plus betting stakes handled) were nevertheless increased by almost six per cent as a result of the sharp rise in betting stakes, from EUR 26.8 per cent in the second quarter of 2005 to EUR 31.9 million in the second quarter of 2006.

Compared with the first half of 2005, net revenues rose by 110 per cent from EUR 11.2 million to EUR 23.5 million. Betting stakes handled fell by 5.5 per cent, from EUR 40.9 million to EUR 38.6 million. Gross consolidated sales were up 19 per cent, from EUR 52.1 million to EUR 62.1 million.

The principal sources of revenue in the first half of the year were betting stakes for sports bets (56 per cent of sales), commissions from lottery companies and racecourses (14 per cent) and handling fees (24 per cent) for betting stakes. Further proceeds were generated in the form of fees for software development and licence income. The B2C segment accounted for 22 per cent of cash inflow, the B2B segment for 26 per cent and sports betting business for 52 per cent.

As a result of the substantial increase in betting stakes, the cost of materials, under which betting winnings paid out are reported, also rose. The cost of materials amounted to EUR 7.9 million in the second quarter. Despite wins by many of the favourites and a large number of individual bets during the football World Cup, the bookmaking margin was in the second quarter of 2006 by 15 per cent. The cost of materials cumulatively for the first half of 2006 was EUR 11.2 million, and the bookkeeping margin 15 per cent.

Personnel expenses rose by 24 per cent, from EUR 1.4 million in the second quarter of 2005 to EUR 1.8 million in the second quarter of 2006, as a result of the takeover of myBet.com, and the average number of employees rose from 94 to 121. Per capita expenditure fell slightly from EUR 15.2 thousand in the second quarter of 2005 to EUR 14.6 thousand in the second quarter of 2006. Per capita revenues rose from EUR 63 thousand to EUR 118 thousand as a result of the high volume of bets.

In the half-year comparison, personnel expenses rose by 18 per cent from EUR 2.8 million to EUR 3.3 million, and the average number of employees from 95 to 117. The personnel expenses ratio was reduced from 25 per cent to 14 per cent. In addition to performance-related pay components, the Management Board, managing directors and employees are able to share in the company’s economic development via a stock options scheme. The stock options schemes are explained in the notes to the consolidated financial statements, in section 6.8.

Other operating expenses showed a sharp 53 per cent year-on-year rise in the second quarter, from EUR 3.1 million to EUR 4.8 million. The biggest items here were marketing costs (EUR 1.5 million) and commissions on lottery and betting stakes to be passed on to venture partners (EUR 1.8 million). The acquisition of new customers in the sports betting segment and flanking measures for the roll-out phase for over-the-counter sales account for a large share of the marketing costs. Expenses for legal consultancy in connection with the proceedings at the Federal Constitutional Court and Federal Competition Authority have moreover risen sharply. The expenses for preparing and staging the Shareholders' Meeting in May are of a typical magnitude for the quarter.

Compared with the first half of 2005, other operating expenses rose by 58 per cent from EUR 5.6 million to EUR 8.8 million. The expenses ratio fell from 50 to 38 per cent. Marketing costs' share of revenue fell from 18 per cent in the first half of 2005 to 13 per cent in the first half of 2006.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell as a result of the higher expenses from EUR 1.6 million in the second quarter of 2005 to EUR 303 thousand in the second quarter of 2006. EBITDA was down from EUR 2.9 million in the first half of the previous year to EUR 1.2 million.

Depreciation and amortisation rose from EUR 1.0 million in the second quarter of 2005 to EUR 1.5 million in the second quarter of 2006 as a result of the capitalisation of the acquisition costs for syndicate contracts. Cumulative depreciation and amortisation rose from EUR 2.0 million to EUR 2.7 million. Earnings before interest and taxes (EBIT) consequently fell from EUR 533 thousand in the second quarter of 2005 to EUR –1,199 thousand in the second quarter of 2006. EBITDA was down from EUR 950 thousand for the first half of the previous year to EUR –1.5 million for the first six months of 2006.

The consolidated result for the second quarter was EUR –747 thousand. This compares with a profit of EUR 178 thousand in the prior-year quarter. The result for the first half fell from EUR 540 thousand in the previous year to EUR –731 thousand. Earnings per share were EUR –0.05, compared with EUR 0.05 Euro in the first half of 2005.

3. Financial position

Operating activities during the first six months were financed largely from cash flow from operations. The expenditure resulting from acquisitions and investment spending was financed from monetary holdings and through leases. The acquisition of the 77 per cent stake in QED Ltd. (myBet.com) was likewise paid from monetary holdings.

The overall cash flow in the first half of 2006 amounted to EUR –5.1 million. Cash and cash equivalents including securities amounted to EUR 22.3 million at June 30, 2006, of which EUR 2.7 million is not freely accessible due to the security rights of third parties. In its finance management approach, FLUXX strives for predominantly short-term investments of a money market character with a balanced risk/reward ratio. Over and above this, it invests to a limited extent in financial instruments in order to optimise the low performance of the assets over the full year.

4. Net worth

The net worth rose by EUR 9.1 million in the first half of 2006. The rise stems largely from the capitalisation of the investment in QEE Ltd. (myBet.com) and the capitalisation of syndicate contracts. Current assets fell by EUR 5.6 million as a result of investing activities.

The accumulated shareholders' equity showed only a marginal rise of EUR 99 thousand since the reporting date of December 31, 2005, to EUR 47.7 million. With a balance sheet total of EUR 59.1 million, the equity ratio is 80.7 per cent.

Non-current liabilities have risen by EUR 2.1 million to EUR 4.4 million, as the Direct Lotto terminals acquired in the previous year are now financed via a lease agreement. The current liabilities rose by EUR 1.3 million to EUR 7.0 million at June 30, 2006.

Capital stock, shareholder structure

The free float accounted for 100 per cent of the capital stock of FLUXX AG totalling EUR 14,528,661 at June 30, 2006. In June, DWS Investment GmbH reported that it had fallen below the reporting threshold of five per cent of the voting rights in FLUXX AG and now holds 4.23 per cent of the voting rights. In May, FMR Corp. (Fidelity) reported that it had fallen below the threshold of five per cent and now holds 4.9 per cent of the voting rights.

Directors' holdings

The shareholdings of directors on either corporate body at June 30, 2006 are as follows:

Name	Position	Type of security	Position at 31/12/2005	Addition	Disposal	Position at 30/06/2006
Rainer Jacken	Management Board spokesman	Shares	1,333	0	0	1,333
		Options	27,667	0	0	27,667
Mathias Dahms	Management Board member	Shares	2,713	1,333	0	4,046
		Options	27,667	0	1,333	26,334
Stefan Hänel	Management Board member	Shares	0	1,360	0	1,360
		Options	27,700	0	1,360	26,340
Frank Motte	Supervisory Board	Shares	2,972	2,000	0	4,972

5. Report on post-balance sheet date events

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

6. Risk report

a. Market risks

The German gaming market, which is the primary market addressed by the FLUXX Group, can be described as constant, as a result of which developments can generally be forecast with some reliability, even if the ruling of the Federal Constitutional Court has cast some uncertainty over the future development of the market. Individual segments are moreover subject to annual fluctuations which, particularly in the lottery sector, depend on the level of the jackpots available to play for, and are therefore more difficult to plan for. The online area is highly dependent on the spread of use of the internet, consumer confidence and the readiness of users to conduct transactions via the medium. The proportion of lottery and betting stakes handled over the internet can only be planned with difficulty, as there are few reliable studies on this market.

The development of the sports betting segment is even more difficult to assess, as legal and regulatory aspects on the one hand (see also d. „Legal and regulatory risks“) and competitive factors on the other (see also b. „Competitive risks“) can strongly influence how the market develops.

With regard to over-the-counter sales of lottery products at retail outlets, although positive patterns of use are already emerging, it is currently not yet foreseeable how it will develop and whether the range will be received in the marketplace by consumers in the long run. It has been agreed with the partners in this venture to expand the sales network only gradually and to provide 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 negotiation with further venture partners which could potentially be suitable. It is not currently possible to predict whether the company will 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.

If the terminations of the agreements with the state lottery companies in Brandenburg and Schleswig-Holstein on the electronic acceptance of lottery tickets take effect from December 31, 2006, FLUXX's flexibility and independence in acting as an agent for tickets would be undermined, even though the Federal Competition Authority declared the behaviour of the lottery companies to be anti-competitive in the warning it issued at the end of May. If the terminations take effect, this could have an adverse impact on the processing of gaming both online and offline, and restrict its leeway when negotiating commissions. FLUXX is dependent on having at least one channel of access, the maintaining of which would probably have to be treated as a higher priority than the Direct Lotto project in order to protect the very survival of its core business area. On the other hand, FLUXX expects that the Federal Competition Authority's ruling scheduled for late August will go in its favour, and that this could then oblige the lottery companies to accept tickets and moreover result in the abolition of the regionalised structure of the lottery organisation. This would, in turn, substantially improve FLUXX's negotiating position and tendenially lead to higher commission rates.

Defending our advantage as first mover, together with our superior development knowhow and skills, is fundamentally 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.

b. Competitive risks

The competitive situation is on the whole positive for the FLUXX Group, as most of the products that FLUXX provides have been on the market for a number of years now, particularly in the lottery segment. There are nevertheless clear risks from being in competition with the products of the lottery companies themselves and with other private providers. The market is becoming less transparent and the probability of losing customers to competitors is rising, as is the risk that the market share will fall. Meanwhile the costs of marketing and conducting competitor analyses are on the increase.

Even if the online lottery market has been dominated by FLUXX, the lottery companies and the private operator Tipp24 AG in recent years, the possibility cannot be excluded that further competitors will seek a share of what is still a young, high-growth market or that competitors will succeed in capturing disproportionately high market shares at the expense of FLUXX. The barriers to market entry are relatively low.

In the European sports betting segment, in which the FLUXX Group is active with its own activities and via its investment in the sports betting service myBet.com, the level of competition is much higher. Several relatively major and a large number of small companies have already positioned themselves here, with the result that market success harbours greater risks in respect of recognition and product acceptance. In Germany, on the other hand, the competitive situation has become clearer and more predictable as a result of the ruling of the Federal Constitutional Court. Major foreign operators will continue to show restraint while the legal position remains unclear.

In the sphere of over-the-counter lottery sales, it is not currently foreseeable whether and, if so, how the competition will react to the Direct Lotto activities of the FLUXX Group. It is possible that individual competitors will develop a concept of their own, as a result of which the launch of our Direct Lotto system could be hindered.

c. Operating risks

With regard to operations, the FLUXX Group is exposed to a range of risks which can nevertheless be classed as slight thanks to the processes and systems that have been set up over several years. All the same, it cannot be excluded that deficiencies in software and hardware or in the service provided could result in recourse against FLUXX by its partners.

There furthermore exists a general risk in connection with the use of the internet. Technical bottlenecks due to the high growth in its use, temporary restrictions as a result of attacks, viruses or attempts to hack in and the growing complexity of the software could restrict use despite the fact that data transfer concepts are becoming increasingly efficient.

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.

d. Legal and regulatory risks

In a ruling on sports betting in March 2006, the Federal Constitutional Court gave the state licence-holders clear guidelines on the action required from them if they are to maintain their monopoly on gambling. As a reaction to this ruling, ODDSET drastically reduced the level to which it advertises the state betting service ODDSET, a course of action that will lead to a sharp fall in its betting stakes. This could also have a negative impact on FLUXX's business, even if the risk is limited because ODDSET accounts for less than five per cent of the total betting stakes handled by the FLUXX Group.

The conditions imposed by the Federal Constitutional Court requiring a marked reduction in marketing activities could, however, also affect other state-licensed forms of gaming such as Lotto. If the scope for advertising lotteries were to be drastically reduced, this could result in a significant downturn in lottery stakes, which would also affect the core business of the FLUXX Group.

The FLUXX Group intends to expand the Direct Lotto sales system gradually nationwide, in coordination with the regional lottery companies. Individual lottery companies are now trying to obstruct the spread of the FLUXX Group's Direct Lotto sales network by refusing to accept tickets. In this connection, the lottery company in Lower Saxony has terminated the arrangement whereby tickets can be submitted by the FLUXX subsidiary ANYBET via electronic link. Although the Federal Competition Authority has indicated that the resistance organised by the lottery companies infringes current competition law, at present it is not possible to rule out a situation where FLUXX will continue to be prevented by individual lottery companies from extending its Direct Lotto sales network throughout all of Germany and where a broad-based sales launch will thus be hindered or delayed. The notices of termination by Lotto Brandenburg and Lotto Schleswig-Holstein are among these acts of hindrance.

On the basis of the authorising provision in Section 15 of the State Treaty on lotteries, certain federal states have 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 as to which block companies may be served (exclusively) by the handling agent. On the other hand, the company believes that such regulations imply a legal entitlement to access to the central system of the lottery company in the individual federal states. 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.

It cannot at present be excluded that the intensive examination and tracking of the proceedings at the Federal Constitutional Court and Federal Competition Authority could adversely affect the roll-out of the Direct Lotto project in terms of both cost and timescale.

e. Financial market risks

The current development in the FLUXX share price, which has suffered substantial setbacks in particular as a result of the considerable uncertainty surrounding the legal position of gaming products, above all sports betting, and the associated overall development in the market segment, is proving a major obstacle to the scope for refinancing on the capital market.

The FLUXX Group is nevertheless equipped for further growth thanks to its comfortable level of monetary holdings. The high equity ratio and relatively low level of loan liabilities likewise give FLUXX an improved basis for potential financing with outside capital. As a growth company, FLUXX is nevertheless to be placed in a risk-exposed market context, as a result of which raising outside capital in particular could prove difficult. A protracted period of weakness in the capital market environment in general and for the gaming industry in specific may moreover hamper or prevent access to further funds with which to finance growth.

f. Risk management system of FLUXX AG

The risk management system of FLUXX AG takes the form of a score card. Potential risks are registered and analysed with the aid of key data and reports from the individual sections of the company, which are prepared on a monthly basis. In addition to predefined risk categories, the reporting corporate units bear a high degree of individual responsibility for registering potential new risks on their own initiative, and independently of central guidelines.

7. Report on expected developments

The third quarter of 2006 started with a jackpot of EUR 21 million, which noticeably revitalised FLUXX's online and over-the-counter business. Along with the start of the new football season in Germany in mid-August, the phase of low sales in the sports betting segment in the wake of the football World Cup will be brought to an end.

The company's legal advisors believe that the ruling expected from the Federal Competition Authority at the end of August will prove positive for FLUXX, with a considerable impact on the pace at which the Direct Lotto terminals will be rolled out. If sales are able to progress unhindered, the target is to equip 25 locations per week. In total, some 2,000 locations are to be equipped by the end of 2007.

At the start of July, an online agency partnership for lottery tickets was concluded between the drugstore Schlecker and jaxx.de. Talks are currently in progress on pilot over-the-counter sales at a number of Schlecker branches.

The very successful progress with the establishment of the Sports Betting segment and the high level of acceptance of myBet.com products have prompted the Management Board of FLUXX AG to step up its investment in the acquisition of new customers and the expansion of the business area in the latter half of 2006. Thanks to the very competitive nature of myBet products, a significant increase in the number of registered and active users was achieved during the football World Cup. The aim is now to generate further growth on this sound basis, increase market shares and add new products such as casino and poker to the range. Sales growth for 2006 is consequently expected to be much higher than originally forecast. With regard to earnings, the overall increase of 70 to 80 per cent forecast for the year as a whole will have to be revised downwards in view of the increased marketing and sales budget for the second half of 2006.

Revenue growth of between 110 and 130 per cent is now expected for 2006 as a whole, with consolidated earnings breaking even.

This Quarterly Report contains predictive statements and information – in other words, statements about events that lie ahead rather than in the past. These predictive statements can be identified by words such as „expect“, „anticipate“, „intend“, „plan“, „believe“, „aim“, „estimate“, „intend“ and similar. Such predictive statements are based on our present expectations and on certain assumptions. They therefore entail a number of risks and uncertain factors. The business activities, success, business strategy and results of FLUXX are influenced by a great many factors, many of which are beyond the control of FLUXX. These factors may mean that the actual results, achievements and performance of the FLUXX Group could depart substantially from the figures used to indicate results, achievements or performance, whether explicitly or implicitly, in the predictive statements.

Altenholz, August 9, 2006

Rainer Jacken   Mathias Dahms   Stefan Hänel

Consolidated Balance Sheet at June 30, 2006

ASSETS	Notes	30/06/2006 T€	31/12/2005 T€
A. NON-CURRENT ASSETS		**33,303**	**24,194**
I. Intangible assets	**5.1.1**	**15,440**	**9,072**
1. Goodwill		11,325	6,139
2. Other intangible assets		4,115	2,933
II. Property, plant and equipment	**5.1.1**	**5,233**	**3,860**
1. Land and buildings		1,004	1,016
2. Other plant and equipment		1,443	527
3. Payments on account		2,786	2,317
III. Investments	**5.1.1**	**3**	**3**
Subsidiaries		3	3
IV. Deferred taxes	**5.1.1**	**12,627**	**11,259**
B. CURRENT ASSETS		**25,785**	**31,411**
I. Inventories	**5.1.2**	**30**	**0**
II. Receivables and other assets	**5.1.2**	**3,374**	**5,171**
1. Trade accounts receivable		2,019	1,430
2. Receivables from investments		0	0
3. Miscellaneous assets		1,355	3,741
III. Securities	**5.1.2**	**1,191**	**0**
Other securities		1,191	0
IV. Cash on hand, cash in banks	**5.1.2**	**21,148**	**26,230**
of which freely available (net cash)		18,359	24,282
V. Prepaid expenses	**5.1.2**	**42**	**10**
TOTAL ASSETS		**59,088**	**55,605**

Consolidated Balance Sheet at June 30, 2006

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	30/06/2006 T€	31/12/2005 T€
A. SHAREHOLDERS' EQUITY		**47,671**	**47,572**
I. Share capital	5.2.1	14,529	14,523
II. Additional paid-in capital	5.2.1	52,020	51,989
III. Accounting loss	5.2.1	–19,530	– 19,045
IV. Minority interest	5.2.1	652	105
B. NON-CURRENT LIABILITIES		**4,403**	**2.339**
1. Deferred tax liabilities	5.2.2	320	245
2. Tax on profits	5.2.2	34	0
3. Finance lease liabilities	5.2.2	1,979	0
4. Bonds	5.2.2	87	89
5. Due to banks	5.2.2	1,983	2,005
C. CURRENT LIABILITIES		**7,014**	**5,694**
1. Due to banks	5.2.3	55	59
2. Current finance lease liabilities	5.2.2	671	0
3. Trade accounts payable	5.2.3	1,488	1,578
4. Other liabilities	5.2.3	3,679	2,640
5. Other accruals	5.2.3	1,063	1,417
6. Deferred tax liabilities	5.2.3	58	0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**59,088**	**55,605**

Consolidated Income Statements for the period January 1 to June 30, 2006

	Note	30/06/2006 T€	30/06/2005 T€
Gross sales		**62,111**	**52,082**
Betting stakes		**38,635**	**40,884**
1. Sales	**5.3.1**	**23,476**	**11,198**
2. Changes in inventories	**5.3.2**	**15**	**0**
3. Production for own assets capitalised	**5.3.3**	**236**	**147**
4. Other operating income	**5.3.4**	**872**	**262**
5. Cost of purchased materials	**5.3.5**	**11,235**	**273**
a) Raw material and supplies		0	17
b) Cost of purchased services		11,235	256
6. Personnel expenses	**5.3.6**	**3,343**	**2,843**
a) Wages and salaries		2,873	2,437
b) Social insurance		470	406
7. Depreciation and amortisation on intangible assets and on property, plant and equipment	**5.3.7**	**2,732**	**1,962**
8. Other operating expenses	**5.3.8**	**8,837**	**5,579**
Result from operating activities		**–1,548**	**950**
9. Other interest and similar income	**5.3.9**	**486**	**28**
10. Amortisation of marketable securities	**5.3.10**	**28**	**0**
11. Interest and similar expenses	**5.3.10**	**339**	**111**
Finance result		**119**	**–83**
12. Result before tax	**5.3.11**	**–1,429**	**867**
13. Income tax	**5.3.12**	**698**	**–328**
14. Other tax	**5.3.13**	**0**	**1**
15. Net result	**5.3.14**	**–731**	**540**
16. Minority interest in earnings		246	0
17. Earnings including minority interest		–485	0
18. Loss carry-forward from previous year		**–19,045**	**–20,779**
19. Accounting loss		**–19,530**	**–20,239**
20. Earnings per share			
Basic earnings per share (€)		–0.05	0.05
Diluted earnings per share (€)		–0.05	0.05

Consolidated Income Statements for the period April 1 to June 30, 2006

	Note	Q2 2006 T€	Q2 2005 T€	Q1 2006 T€
Gross sales		**31,907**	**26,791**	**30,204**
Betting stakes		**17,615**	**20,819**	**21,020**
1. Sales	**5.3.1**	**14,292**	**5,972**	**9,184**
2. Changes in inventories	**5.3.2**	**–8**	**0**	**23**
3. Production for own assets capitalised	**5.3.3**	**102**	**89**	**134**
4. Other operating income	**5.3.4**	**383**	**163**	**489**
5. Cost of purchased materials	**5.3.5**	**7,945**	**131**	**3,290**
a) Raw material and supplies		0	10	0
b) Cost of purchased services		**7,945**	**121**	**3,290**
6. Personnel expenses	**5.3.6**	**1,764**	**1,426**	**1,579**
a) Wages and salaries		1,522	1,225	1,351
b) Social insurance		242	201	228
7. Depreciation and amortisation on intangible assets and on property, plant and equipment	**5.3.7**	**1,502**	**1,032**	**1,230**
8. Other operating expenses	**5.3.8**	**4,757**	**3,102**	**4,080**
Result from operating activities		**–1,199**	**533**	**–349**
9. Other interest and similar income	**5.3.9**	**256**	**14**	**230**
10. Amortisation of marketable securities	**5.3.10**	**28**	**0**	**0**
11. Interest and similar expenses	**5.3.10**	**291**	**45**	**48**
Finance result		**–63**	**–31**	**182**
12. Result before tax	**5.3.11**	**–1,262**	**502**	**–167**
13. Income tax	**5.3.12**	**515**	**–324**	**183**
14. Other tax	**5.3.13**	**0**	**0**	**0**
15. Net result	**5.3.14**	**–747**	**178**	**16**
16. Minority interest in earnings		156	0	90
17. Earnings including minority interest		–591	0	106
18. Loss carry-forward from previous year		**–18,939**	**–20,417**	**–19,045**
19. Accounting loss		**–19,530**	**–20,239**	**–18,939**
20. Earnings per share				
Basic earnings per share (€)		–0.050	0.015	0.00
Diluted earnings per share (€)		–0.050	0.015	0.00

Cash Flow Statement for the period January 1 to June 30, 2006

	30/06/2006 T€	30/06/2005 T€
• Net result	–731	540
• Depreciation on fixed assets	2,732	1,962
• Amortisation and write-down on financial assets and marketable securities	0	0
• Increase/decrease in long-term accruals	109	90
• Finance income	–486	–28
• Interest expense	339	111
• Other non-cash expenses and income/deferred taxes	–569	117
• Profit/loss from the disposal of fixed assets	–600	0
Cash flow before changes to working capital	**794**	**2,792**
• Change in inventories, receivables and other assets	1,735	–1,032
• Change in liabilities and other items on the shareholders' equity and liabilities side	1,006	–2,007
• Increase/decrease in short-term accruals	–354	–157
Cash flow from operating activities	**3,181**	**–404**
• Interest paid	–331	–65
• Income taxes paid	0	0
Cash flow from operating activities	**2,850**	**–469**
• Cash receipts from disposals of fixed assets	600	0
• Cash payments for investments in fixed assets	–4,540	–2,155
• Cash payments for investments in consolidated companies	0	0
• Cash payments for investments in subsidiaries	–3,000	0
• Cash payments for securities	–1,191	0
• Interest received	389	28
Cash flow from investing activities	**–7,742**	**–2,127**
• Cash receipts from capital increases	0	3,238
• Other cash receipts for capital	0	21,417
• Cash receipts/payments from the issue of bonds and from the raising of loans	2,813	0
• Repayments of bonds and loans	–189	–39
Cash flow from financing activities	**2,624**	**24,616**
• Change in consolidated companies	–2,814	0
Overall effective adjustment	**–5,082**	**22,020**
• Cash and cash equivalents at the start of the period	26,230	7,756
Cash and cash equivalents at the end of the period	**21,148**	**29,776**
• Progression from financial resources to net cash position	21,148	29,776
• Betting stakes passed on	2,726	1,244
• Securities provided	63	189
Net cash position	**18,359**	**28,343**

Cash Flow Statement for the period April 1 to June 30, 2006

	Q2 2006 T€	Q2 2005 T€	Q1 2006 T€
• Net result	–747	178	16
• Depreciation on fixed assets	1,502	1,032	1,230
• Amortisation and write-down on financial assets and marketable securities	0	0	0
• Increase/decrease in long-term accruals	68	80	41
• Finance income	–256	–14	–230
• Interest expense	291	45	48
• Other non-cash expenses and income/deferred taxes	–590	162	21
• Profit/loss from the disposal of fixed assets	–300	0	–300
Cash flow before changes to working capital	**–31**	**1,483**	**826**
• Change in inventories, receivables and other assets	2,306	–966	–571
• Change in liabilities and other items on the shareholders' equity and liabilities side	183	–1,169	823
• Increase/decrease in short-term accruals	–122	–139	–232
Cash flow from operating activities	**2,336**	**–791**	**846**
• Interest paid	–287	–32	–44
• Income taxes paid	0	0	0
Cash flow from operating activities	**2,049**	**–823**	**802**
• Cash receipts from disposals of fixed assets	300	0	300
• Cash payments for investments in fixed assets	–2,304	–1,570	–2,236
• Cash payments for investments in consolidated companies	0	0	0
• Cash payments for investments in subsidiaries	0	0	–3,000
• Acquisition of investments and other financial assets	–1,191	0	0
• Interest received	176	14	213
Cash flow from investing activities	**–3,019**	**–1,556**	**–4,723**
• Cash receipts from capital increases	0	3,238	0
• Other cash receipts for capital	0	21,417	0
• Cash receipts/payments from the issue of bonds and from the raising of loans	0	0	2,813
• Repayments of bonds and loans	–173	–15	–16
Cash flow from financing activities	**–173**	**24,640**	**2,797**
• Change in consolidated companies	0	0	–2,814
Overall effective adjustment	**–1,143**	**22,061**	**–3,938**
• Cash and cash equivalents at the start of the period	22,292	0	26,230
Cash and cash equivalents at the end of the period	**21,148**	**22,261**	**22,292**
• Progression from financial resources to net cash position	21,148	22,261	22,292
• Betting stakes passed on	517	–1,484	2,209
• Securities provided	0	0	63
Net cash position	**20,631**	**23,745**	**20,020**

Development in capital accounts for the period January 1, 2006 to June 30, 2006

T€	Share Capital	Additional-paid-in capital	Accounting loss	Minority interest	**Total**	Bonds convertible
Postition at December 31, 2004	9,409	28,600	–20,779	5	**17,235**	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**	
Earnings for 1st quarter of 2005			362		**362**	
Postition at March 31, 2005	10,637	29,686	–20,417	5	**19,911**	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 options	28	49			**77**	
Capital increase for cash	3,210	22,245			**25,455**	
Costs of raising equity		–544			**–544**	
Earnings for 2nd quarter of 2005			178		**178**	
Postition at June 30, 2005	14,445	51,949	–20,239	5	**46,160**	210
Conversion of bond at August 20, 2005	64	58			**122**	–122
Dilution compensation for convertible bond	12	–12			**0**	
Interest on bond						2
Premiums earned from employee stock options		10			**10**	
Earnings for 3rd quarter of 2005			467		**467**	
Postition at September 30, 2005	14,521	52,005	–19,772	5	**46,759**	90
Conversion of bond at November 20, 2005	1	1			**2**	–2
Dilution compensation for convertible bond	0	0			**0**	
Interest on bond					**0**	1
Premiums earned from employee stock options		14			**14**	
From employee options	1	2			**3**	
Costs of raising equity		–33			**–33**	
Acquisition of subsidiary DigiDis				115	**115**	
Earnings for 4th quarter of 2005			727	–15	**712**	
Postition at December 31, 2005	14,523	51,989	–19,045	105	**47,572**	89
Conversion of bond at February 20, 2006	1	1			**2**	–2
Dilution compensation for convertible bond	0	0			**0**	
Interest on bond					**0**	1
Premiums earned from employee stock options		14			**14**	
Acquisition of remaining interest in interjockey.com				5	**5**	
Acquisition of subsidiary myBet.com				788	**788**	
Earnings for 1st quarter of 2006			106	–90	**16**	
Postition at March 31, 2006	14,524	52,004	–18,939	808	**48,397**	88
Conversion of bond at May 20, 2006	1	1			**2**	–2
Dilution compensation for convertible bond						
From employee options	4	1			**5**	
Interest on bond					**0**	1
Premiums earned from employee stock options		14			**14**	
Earnings for 2nd quarter of 2006			–591	–156	**–747**	
Postition at June 30, 2006	14,529	52,020	–19,530	652	**47,671**	87

FLUXX AG – Consolidated Financial Statements at June 30, 2006 (IFRS)

FLUXX AG, with registered office in Altenholz, Ostpreussenplatz 10, on the Commercial Register of the Local Court of Kiel under Entry No. 5038 KI., is a leading agent for licensed gaming, currently focusing on the German and European market. It handles in essence the products of the German lottery and pools organisation, and arranges and also acts as agent principally for horse and sports betting on the basis of existing bookmaking and sports betting licences. Along with its entry into the Spanish market through the acquisition of a majority interest in a Spanish company in the fourth quarter of 2005, FLUXX AG placed its business model on a broader European footing and was already able to acquire its first commercial customers in time for the draw for the Spanish Christmas lottery. On the basis of the products and solutions developed and offered, FLUXX is in a position to be able to arrange any form of licensed gaming, along a variety of sales channels, between the consumer and the state-owned lottery and betting providers, and also to accept bets in its own right.

In addition to the self-marketed services jaxx.de, jaxx.com, myBet.com, interjockey.com and Telewette, FLUXX makes its products and services available to other companies and organisations with extensive customer contacts. The latter include the online portals freenet.de, AOL and Lycos, Premiere Win, Burda Direct and 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, 2006 are in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). They are prepared in accordance with the IFRS rules that are to be applied in the EU, as well as with the requirements of commercial law pursuant to Section 315a Para.1 of German Commercial Code. It is consequently not necessary to prepare separate consolidated financial statements or a group management report in accordance with the requirements of German Commercial Code. The Consolidated Financial Statements comply with all IFRS the application of which was mandatory by the balance sheet date.

The application of the following International Accounting Standards (IAS) and IFRS results in discrepancies between the result for the period and the German Commercial Code accounts:

IFRS 2:	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.

Changes in recognition and measurement principles

The IASB (International Accounting Standards Board) has passed a large number of amendments to existing standards which are to be applied for the first time for financial years beginning January 1, 2005. The new versions of the following standards are being applied for the first time in these interim financial statements, following their application for the first time in 2005:

IAS 1 (2003:) Presentation of Financial Statements

IAS 8 (2003): Accounting Policies, Changes in Accounting Estimates, and Errors

IAS 16 (2003): Property, Plant and Equipment

IAS 17 (2003): Leases

IAS 24 (2003): Related Party Disclosures

IAS 27 (2003): Consolidated and Separate Financial Statements

IAS 32 (2003): Financial Instruments: Disclosure and Presentation

IAS 33 (2003): Earnings Per Share

IAS 39 (2003): Financial Instruments: Recognition and Measurement:

With regard to the evaluation of year-on-year comparisons, it should be noted that QED Ventures Ltd., Malta (QED) together with its subsidiaries (also referred to hereinafter as myBet.com), which was included in consolidation for the first time at January 1, 2006, is not present in the first-half figures at June 30, 2005. Because of this, the scope for comparison between the periods is limited.

New accounting standards

In December 2004, the IASB published changes to IAS 19 that are to be applied to financial years beginning on or after January 1, 2006. These changes will in future permit the recognition of actuarial gains and losses within equity. Additional information on pension liabilities will moreover be required in the Notes. As FLUXX does not report any pension liabilities, the changed standard will not have any effect on the future IFRS Consolidated Financial Statements.

In April 2005, the IASB published changes to IAS 39 that are to be applied to financial years beginning on or after January 1, 2006. The changes relate to the disclosure of hedging relationships within the group, which do not occur in FLUXX's case. Other changes to IAS 39 (and correspondingly IFRS 4) relate to financial guarantees. These changes apply to financial years beginning on or after January 1, 2006. As expected, these rules likewise have no impact on FLUXX's net worth, financial position and financial performance.

IFRS 7 „Financial Instruments: Disclosures“ was approved by the IASB in 2004. It applies to financial years beginning on or after January 1, 2007. IFRS 7 relates in particular to explanatory representations of financial instruments, which will be satisfied by FLUXX when application of the standard becomes mandatory.

In December 2004, the IASB furthermore approved IFRS 6 "Exploration for and Evaluation of Mineral Assets", which is to be applied to financial years beginning on or after January 1, 2006. This standard will likewise have no effect on FLUXX in the future, as it will not be applicable in view of the business activities in question.

In 2005 the IASB published the following new interpretations that were approved by endorsement until preparation of the summary:

IFRIC 4	Determining Whether an Arrangement Contains a Lease (applicable for financial years beginning on or after January 1, 2006)
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (applicable for financial years beginning on or after January 1, 2006)
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (applicable for financial years beginning on or after December 31, 2005)

The following has not yet been recognised by the EU:

IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (applicable for financial years beginning on or after March 1, 2006)

It is expected that all these interpretations will have no impact on the net worth, financial position and financial performance of FLUXX.

2. Consolidated companies

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

At the start of the new financial year, FLUXX AG acquired a majority interest of 77 per cent in the Maltese holding company QED. QED holds 100 per cent of the shares of SWS Wettshop Service GmbH, Berlin and PEI Personal Exchange International Ltd., which operates an international sports betting service under the brand of myBet.com. The purchase price was EUR 6,000 thousand. The acquired assets amounted to EUR 4,469 thousand at the time of the takeover, comprising EUR 1,381 thousand in fixed assets (predominantly software and deferred tax assets), EUR 1,088 thousand in cash and cash equivalents and receivables, and other assets amounting to EUR 1,814 thousand. The liabilities amount to EUR 1,000 thousand and comprise EUR 82 thousand in accruals, EUR 126 thousand in trade liabilities and EUR 791 thousand in other liabilities. These reflect the fair values at the time of acquisition.

Within the context of the purchase of QED, a customer base and software were acquired. The fair values of the customer base could not be reliably determined, as no historical data regarding the value of customers and their gaming behaviour is as yet available. The software was capitalised in accordance with IAS 38. No hidden reserves over and above this could be identified.

The contribution of QED to the result for the period was EUR –883 thousand.

A further holding company established in Malta in 2005, which in turn has three fully-owned subsidiaries with licences for sports betting, casinos and lotteries respectively, has the purpose of paving the way for an international presence. FLUXX owns a 100 per cent stake in this holding company. These companies are not currently operational. The remaining 14.54per cent stake in JAXX GmbH (formerly interjockey.com horsebet GmbH) was acquired in full on January 1, 2006.

SUMMARY OF INVESTMENTS	Registrated office	Nominal capital T€	Proportionate intrest %
Parent company			
FLUXX AG	Altenholz	14,529	–
Direct investments			
ANYBET GmbH	Hamburg	110	100.00
JAXX GmbH	Hamburg	110	100.00
DSM Lottoservice GmbH	Hamburg	30	100.00
DigiDis S. L.	Madrid, Spanien	182	72.50
JAXX.COM Holding Ltd.	Malta	1	100.00
QED Ventures Ltd.	Malta	4	77.00
Indirect investments			
book + data Software-Entwicklung GmbH	Altenholz	25	100.00
fluxx.com Telewette GmbH	Hamburg	51	80.00
JAXX GmbH (formerly interjockey.com horsebet GmbH)	Lustenau, Östereich	400	100.00
DSM Lottoservice GmbH	Lustenau, Östereich	35	100.00
JAXX.COM Casino Ltd.	Malta	20	100.00
JAXX.COM Sportsbetting Ltd.	Malta	20	100.00
JAXX.COM Lottery Ltd.	Malta	10	100.00
PEI Ltd.	Malta	3	77.00
SWS Wettshopservice GmbH	Berlin	25	77.00

3. Consolidation principles

The consolidation of capital has been performed pursuant to IAS 22.32 in accordance with benchmark treatment (carrying at proportionate revalued amounts), taking account of IAS 22.12, reverse acquisition. Subsidiaries acquired after April 1, 2004 are included in the Consolidated Financial Statements by the purchase method, pursuant to IFRS 3.

Recognisable assets and liabilities are recognised at their fair values upon initial consolidation. 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 tested for impairment yearly, as well as whenever it is indicated, and amortised as necessary (impairment test).

Intermediate gains or losses, sales, expenditure and earnings, together with receivables and liabilities between the consolidated companies, are eliminated. Deferred tax is recognised on temporary differences.

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

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. Self-created software to the value of EUR 236 thousand was capitalised in the period under review, and will be amortised over a useful life of four years.

Under IFRS 3, the derivative goodwill resulting from the acquisition of subsidiaries is no longer amortised, but instead subjected to an impairment test on a regular basis as well as when indicated. There is currently no need for an adjustment in its value.

Syndicate contracts were acquired from third parties by DSM Lottoservice GmbH, Hamburg and Lustenau, and capitalised at cost pursuant to IAS 38. These contracts increasingly include the acquisition of addresses. The average useful economic life of these contracts, including address data, based on the current contractual terms of three to 36 months is taken as the basis for the amortisation period. Including a deduction as a precautionary measure, the amortisation period thus determined is six months.

Addresses bases generated independently of the contracts are amortised over two years in line with their expected usage. 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.

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 Consolidated Income Statement under interest expense.

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 is measured at acquisition cost, less depreciation. No borrowing costs were to be capitalised. 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 ten 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. Results from the disposal of assets are shown in the Consolidated Income Statement.

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

Investments

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. Fair value adjustments are therefore recognised within equity.

The company's financial assets are to be categorised as available for sale if shortterm 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 (Austria 25 per cent, Spain and Malta 30 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 allowances.

Securities are classified as held for trading and recognised at cost, then subsequently at fair value.

Prepaid expenses

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.

Liabilities

Financial liabilities, trade accounts payable and other liabilities are measured at amortised cost.

Contingent liabilities and other financial obligations

Contingent liabilities are potential obligations towards third parties or actual obligations where an outflow of resources is unlikely. They are not recognised in the Consolidated Balance Sheet, but explained in the Notes.

A summary of the contingent liabilities and other financial commitments at June 30, 2006 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. 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.

Leases

The lease agreements concluded by the company consist of both operating lease agreements and finance lease agreements. In the first quarter of 2006, FLUXX concluded an agreement on the financing of the Direct Lotto project with a leasing company. This agreement is to be classified as a finance lease because the economic interest has passed to FLUXX. At the start of the lease, the leased asset is therefore capitalised at the present value of the lease payments or at a lower fair value, pursuant to IAS 17. The corresponding payment obligations from the future lease payments are recognised as a liability. The leased assets are reported under fixed assets.

Lease payments from operating leases are to be recognised as an expense in the income statement pursuant to IAS 17.33.

Details of the expenditure arising in subsequent periods are provided in Section 5.3.8.

Events occurring after the balance sheet date

There were no disclosable events occurring after June 30, 2006, as defined in IAS 10.

Discretionary decisions in the application of the recognition and measurement principles

Discretionary decisions are required in applying the recognition and measurement principles. This is particularly the case regarding the matter:

Past statistical data was used in measuring the accrual for bonus points.

Estimates and evaluations by the management

The preparation of the Consolidated Financial Statements necessitates certain assumptions and estimates that apply to the carrying amounts of the assets, liabilities, income and expenditure recognised in the accounts.

Impairment test for goodwill

The impairment test for goodwill is based on forward-looking assumptions. These assumptions have been made on the basis of the estimated situation at the balance sheet date. An assumption on the future development of the economic context that was considered to be realistic at that point in time was moreover taken into account in estimating future business development. The actual amounts may differ from the estimates as a result of differences between actual developments in the underlying situation and the assumed developments. In such instances the assumptions and, if necessary, the carrying amounts of the assets and liabilities in question, are adjusted.

Deferred tax on loss carry-forwards

The loss carry-forwards exist predominantly in Germany and can be carried forward without restriction. On the basis of our business plan, the company is working on the assumption that the loss carry-forwards can be reduced significantly over future years. The business plans are likewise based on forward-looking assumptions. The assumed and actual amounts may diverge if the actual development differs. In this instance, the assumptions and, if necessary, the carrying amounts of the assets will be adjusted.

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 15,440 thousand include both acquired and self-created assets. Acquired software and licences, including payments on account for these, as well as customer bases (syndicate contracts) and rights of use for addresses account for EUR 3,379 thousand of this total. The goodwill of EUR 11,325 thousand includes the addition of EUR 5,123 thousand from the 77 per cent interest in QED Ltd., Malta. An amount of EUR 717 thousand was capitalised for internally produced software.

The software and licence purchases are generally amortised by the straight-line method over a useful life of three years. The syndicate contracts and the rights of use for the addresses are amortised over a useful life of 6-24 months.

The goodwill differences from the consolidation of capital of investments were amortised over a period of between five and six years up until December 31, 2004, and in some cases a reduction for impairment recognised.
From January 1, 2005 goodwill amortisation is no longer performed, 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. Instead, it is tested annually for impairment. If it had been amortised, the volume of amortisation in the period under review would have totalled EUR 612 thousand.

The goodwill has been allocated to the cash-generating units in order to perform the impairment test. The cash-generating units generally comprise subsidiaries. For testing the DSM goodwill for impairment, both DSM companies were grouped together as a single cash-generating unit. The goodwill of DSM totals EUR 5,206 thousand, as in the previous year. For ANYBET, there likewise exists goodwill unchanged from the previous year of EUR 603 thousand.

In the impairment test, the recoverable amount for the cash-generating units is determined from the fair value less disposal costs or the value in use. The value in use is the present value of future cash flows that the cash-generating unit is expected to be able to generate. The value in use is determined on the basis of a company valuation model. This model is based on internal corporate planning up until 2010. The planning data is based on past experience and future expectations. The capitalisation interest rates are determined on the basis of the productive value method using a risk-free interest rate of four per cent, a borrowed-capital interest rate of eight per cent, a beta of one and a market risk premium of 20 per cent, and amount to 14.8 per cent for the cash-generating units. No growth rate has been assumed for the present value of the perpetual pension.

The reconciliation of goodwill 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 amounts shown on the balance sheet. However, the general state of the economy and the unfavourable investment climate in Germany mean that a sale still cannot be expected in the short term.

The largest single item under Property, plant and equipment is the item Payments on account and construction in progress, amounting to EUR 2,786 thousand. This includes the lottery terminals that still remain to be installed at retail chains and filling stations as part of the Direct Lotto project. Terminals already installed are recognised and depreciated under the item Other assets, fixtures and fittings. The infrastructure acquired to date was financed under a finance lease.

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 ten years.

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

Investments

The investment in Seepark Sellin AG is shown under financial assets.

Consolidated Assets Movement Schedule

	COST					DEPRECIATION AND AMORTISATION						
	Position at 01/01/2006 T€	Changes in consoli-dated companies T€	Additions T€	Disposals (A) reclasses (U) T€	Position at 30/06/2006 T€	Position at 01/01/2006 T€	Changes in consoli-so-dated companies T€	Additions T€	Disposals T€	Position at 30/06/2006 T€	Carrying value 30/06/2006 T€	Carrying value 31/12/2005 T€
I. Intangible assets												
1. Licences, software, rights of use and customer base	10,752	489	3,296	600 (A)	13,937	8,635	85	2,438	600	10,558	3,379	2,117
2. Goodwill	9,095	0	5,186	0	14,281	2,956	0	0	0	2,956	11,325	6,139
3. Payments on account	220	0	100	301 (U)	19	0	0	0	0	0	19	220
4. Self-created software	1,233	0	236	0	1,469	637	0	115	0	752	717	596
	21,300	**489**	**8,818**	**901**	**29,706**	**12,228**	**85**	**2,553**	**600**	**14,266**	**15,440**	**9,072**
II. Property, plant and equipment												
1. Real estate and buildings	1,327	0	0	0	1,327	311	0	12	0	323	1,004	1,016
2. Other assets, fixtures and fittings	2,771	158	976	0	3,905	2,244	51	167	0	2,462	1,443	527
3. Payments on account and construction in progress	2,317		821	352 (U)	2,786	0		0	0	0	2,786	2,317
	6,415	**158**	**1,797**	**352**	**8,018**	**2,555**	**51**	**179**	**0**	**2,785**	**5,233**	**3,860**
III. Investments												
1. Subsidiaries	3	0	0	0	3	0	0	0	0	0	3	3
	3	**0**	**0**	**0**	**3**	**0**	**0**	**0**	**0**	**0**	**3**	**3**
Total Consolidated Assets Movements	**27,718**	**647**	**10,615**	**1,253**	**37,727**	**14,783**	**136**	**2,732**	**600**	**17,051**	**20,676**	**12,935**

Deferred taxes

Deferred taxes are recognised using the balance sheet liability method. Deferred tax assets on loss carry-forwards are recognised where use of the loss carry-forwards is expected.

The tax effects on the temporary differences from capitalised self-created intangible assets are shown under the deferred tax liabilities.

A total rate of corporation and trade tax of 38 per cent in Germany, 25 per cent in Austria and 30 per cent in Spain and Malta was used as the basis.

Deferred taxes totalling EUR 12,627 thousand were capitalised on the usable fiscal loss carry-forwards of EUR 33 million. Compared with the previous year, this item has risen as a result of the consolidation of the loss carry-forwards from previous years recognised for myBet, and as a result of ongoing tax losses. EUR 767 thousand are attributable to the fiscal results of the subsidiaries for the period from January 1, 2006 to June 30, 2006.

As a result of the expansion of business in Spain and the anticipated start-up losses from the investment in QED Ltd., Malta (myBet.com) in January 2006, it is no longer expected that the deferred tax credit balances can be realised in the short term by 2008. The company is, however, assuming that they can be realised in the medium term and considers the loss carry-forwards as entirely sound.

We refer to Section 5.3.12 by way of supplementary information.

5.1.2. Current assets

Inventories

Inventories include infrastructure components for betting shops that are sold to the shops' franchisees.

Payments on account, receivables and other assets, prepaid expenses

The receivables and other assets are made up as follows:

RECEIVABLES AND OTHER ASSETS	T€	Total 30/06/2006	Total 31/12/2005	Term to maturity over 1 year
1. Trade accounts receivable		**2,019**	1,430	**0**
2. Receivables from investments		**0**	0	**0**
3. Miscellaneous assets		**1,355**	3,741	**0**
		3,374	5,171	**0**

This item comprises trade accounts receivable originating primarily from syndicate business and sales of licences, as well as miscellaneous assets. These include among other things receivables from payments of withholding tax, sales tax, guarantees and credit card payments. No impairment losses were recognised.

Securities

The item securities includes shares in DAX companies held for trading, acquired in the course of exercising options. The sharp fall in stock markets in May and June meant that the options strategy of realising exclusively premiums could not be implemented. As a result, the shares were in some cases offered and acquired. As a result of the assigning of call options to the underlying securities and the general trend on the stock markets, the losses that arose here during the second quarter have latterly been made good.

Cash and cash equivalents, cash on hand, cash in banks

This item totalling EUR 21,148 thousand includes cash in banks of EUR 2,789 thousand which is not freely accessible due to the security rights of third parties. At June 30, 2006 the freely available cash position including securities amounted to EUR 19,550 thousand. The item includes investments in money market funds and other investments of a money market character (commercial papers).

5.2. Shareholders' equity and liabilities

5.2.1. Capital and reserves, minority interest

Share capital

Following the further conversion of debentures from the convertible bond issued in summer 2004 and the exercise of employee stock options, the share capital of FLUXX AG totals EUR 14,528,661 and is divided into the same number of individual share certificates with no par value.

Approved capital

The company has approved capital of EUR 2,107,602, as approved at the Shareholders' Meeting on May 3, 2005. The authorisation period was simultaneously extended to May 2, 2010. The Management Board is authorised to increase the capital stock 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 were entered on 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. 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 3,156,714 convertible bonds in 2004, 2005 and 2006 into 3,156,714 bearer individual share certificates, plus 12,563 bearer individual share certificates which were issued to bearers of debentures by way of dilution compensation, and the topping-up of the authorised but unissued capital by EUR 25,000 by the Shareholders' Meeting on May 17, 2006, the authorised but unissued capital now totals EUR 55,723 (authorised but unissued capital 2004/I).

The authorised but unissued capital 2005/II of EUR 4,100,000 for the issuing of convertible bonds was cancelled by the Shareholders' Meeting on May 17, 2006.

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 2006 financial year, this authorised but unissued capital now totals EUR 167,939 (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 (authorised but unissued capital 2000/1).

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 the issue of pre-emptive shares in the 2005 financial year and their partial cancellation, this authorised but unissued capital now totals EUR 21,459 (authorised but unissued capital 2001/I).

Furthermore, 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 (authorised but unissued capital 2005/I).

Finally, the Ordinary Shareholders' Meeting on May 17, 2006 increased the capital stock by a further authorised but unissued amount of EUR 500,000 to grant permission to issue subscription rights to the management and employees of the company and of affiliated companies (authorised but unissued capital 2005/I).

Reserves

The company has additional paid-in capital pursuant to Section 272 (2) of German Commercial Code totalling EUR 52,020 thousand. No further reserves exist.

Accounting loss

The accounting loss is comprised as follows:

	30/06/2006 T€
Loss carry-forward at 01/01/06	–19,045
Minority interest in earnings	246
Net result	–731
Accounting loss at 30/06/2006	**–19,530**

Minority interest

Interests of minority shareholders in the share capital and the additional paid-in capital are reported here. Minority interest in the result for the period relates to the other shareholders of the Spanish subsidiary DIGIDIS and of QED Ltd., Malta. There was no netting of other interests in earnings, as the other minority shareholders do not respectively participate in earnings.

5.2.2. Non-current liabilities

Deferred tax liabilities, tax on profit

DEFERRED TAX LIABILITIES T€	Position at 01/01/2006	Change in consolidated companies	Consumed	Reversed	Allocated	Position at 30/06/2006
1. Deferred taxes	245	9	0	43	109	320
2. Tax on profit	0	0	0	0	34	34
	245	9	0	43	143	354

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 IFRS terms, but not fiscally in the period in which capitalisation takes place. A deferred tax expense is recognised on this difference. Amortisation in subsequent periods results in fiscally non-deductible expenses. The commercial result is consequently lower than the fiscal result and deferred tax liabilities from capitalisation are correspondingly reversed again.

The use of loss carry-forwards for DSM Lottoservice GmbH, Hamburg, results in the recognition of an accrual for corporation and trade tax.

Loans and bonds

LOANS AND BONDS T€	Total 30/06/2006	Total 31/12/2005	With a term to maturity of less than 1 year	1–5 year	> 5 year
1. Finance lease liabilities	**2,650**	0	**671**	**1,979**	**0**
2. Bonds	**87**	89	**0**	**87**	**0**
3. Due to banks	**2,038**	2,058	**55**	**1,983**	**0**
	4,775	2,147	**726**	**4,049**	**0**

Liabilities from lease agreements

This item relates to the liability from the financing (present value of lease payments) of an initial portion of the infrastructure for a total of around 1,000 terminals that are to be installed over the next few months as part of the roll-out of Direct Lotto. The liability was measured at the present value of the lease payments. The corresponding assets are reported under property, plant and equipment. The company has received a commitment for an amount of EUR 5.0 million from the leasing company. The term of the tranches is 48 months, at an effective interest rate of 4.72 per cent.

A minimum equity ratio of 30 per cent was agreed with the lessor.

Non-current loans

Amounts due to banks totalling EUR 1,020 thousand are secured by mortgages. These relate exclusively to the holiday apartments in Sellin.

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

5.2.3. Current liabilities

Accrued expenses

The accrued expenses are comprised as follows:

SCHEDULE OF ACCRUALS T€	Position at 01/01/2006	Changes in consolidated companies	Con-sumed	Re-versed	Allo-cated	Position at 30/06/2006
1. Personnel cost	427	0	402	12	186	199
2. Suppliers' invoices	493	58	456	20	288	363
3. Costs of annual accounts and audit	58	10	54	3	47	58
4. JAXX-points and bonus points	393	0	0	115	147	425
5. Litigation costs	0	0	0	0	0	0
6. Remuneration of Supervisory Board	46	0	46	0	18	18
	1,417	**68**	**958**	**150**	**686**	**1,063**

The accruals for personnel costs substantially comprise obligations for outstanding vacation leave, bonuses and industrial accident insurance contributions.

The accruals for suppliers' invoices relate for example to marketing expenses not yet invoiced, and legal fees. 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 30/06/2006	Total 31/12/2005	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	**1,488**	1,578	**1,488**	**0**	**0**
3. Other liabilities	**3,679**	2,640	**3,679**	**0**	**0**
	5,167	4,224	**5,167**	**0**	**0**

Trade accounts payable

The trade accounts payable totalling EUR 1,488 thousand (previous year EUR 1,578 thousand) have a term of up to one year. They are secured to the customary extent by retention of title.

Other liabilities

Other liabilities are comprised as follows:

OTHER LIABILITIES	30/06/2006 T€	31/12/2005 T€
Liabilities from lottery players	3,054	1,839
Sales tax	291	475
Income tax and church tax	101	96
Social security contributions	4	113
Other	229	117
	3,679	**2,640**

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 sharp rise results from the debiting of players for games in July already on June 30. Of the other liabilities, EUR 133 thousand relate to guarantee payments received from betting shops.

Deferred tax liabilities

Game fees that have already been collected but do not produce revenue until the subsequent period are reported under this item.

5.3. Consolidated Income Statement

5.3.1. Sales

Sales include revenue from the handling of lottery and horse betting, as well as from sales of licences and betting stakes for sports betting.

SALES	30/06/2006 T€	30/06/2005 T€
Commissions	3,348	3,586
Handling fees	5,637	6,623
Licence sales	420	0
Fees	147	379
Betting stakes	13,235	289
Production output	351	91
Other	338	230
	23,476	**11,198**

As a result of a very weak second quarter without any substantial jackpots, income from commissions and handling fees was down on the first quarter. The prior-year figures for the first half of 2005, which included an exceptionally strong second quarter, were consequently missed by some distance. An only slight positive development in syndicate business was unable to compensate for the negative overall trend.

Extremely high growth in sales was achieved in the sports betting area. As a result of the expansion of online and shop activities and prompted by the 2006 World Cup, betting stakes consequently rose 137 per cent on the first quarter, from EUR 3,923 thousand to EUR 9,312 thousand. Betting sales for the first half therefore reached EUR 13,235 thousand. Total sales were up 110 per cent on the previous year to EUR 23,476 thousand. Sales in the second quarter were up 55 per cent on the first quarter of 2006.

When analysing sales, it should fundamentally be noted that the comparative figures for the previous year did not yet include sports betting business.

5.3.2. Changes in inventories

This item includes the growth in inventories for infrastructure components for betting shops.

5.3.3. 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.

OTHER OPERATING INCOME	30/06/2006 T€	30/06/2005 T€
Income from the reversal of accruals	150	203
Income from the write-down of allowances on receivables	0	0
Income from the disposal of assets	600	0
Other income	122	59
	872	**262**

5.3.4. Other operating income

The other operating income results among other things from the reversal of accruals and the sale of old syndicate portfolios.

5.3.5. Cost of purchased materials

In the period under review, the cost of raw materials and supplies amounted to EUR 0 thousand (previous year EUR 17 thousand) and the cost of purchased services totalled EUR 11,235 thousand (previous year EUR 256 thousand). The items relate to purchased services, the cost of which was passed on, as well as to betting winnings paid out. The latter rose drastically as a result of the integration of myBet.com. The margin on betting stakes in the period under review was 15 per cent and therefore currently still falls short of the target margin expected for 2006 of 18 per cent due to betting patterns during the 2006 World Cup (high proportion of one-off bets).

5.3.6. Personnel expenses

Expenses for wages and salaries totalled EUR 2,873 thousand (previous year EUR 2,437 thousand), and social insurance contributions and expenses EUR 470 thousand (previous year EUR 406 thousand). No additional expenses for retirement benefits and maintenance payments were incurred.

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 28 thousand.

There were 125 employees at the reporting date (previous year 97). The average number of employees for the quarter was 117 (previous year 95). The rise results principally from the consolidation of myBet.com.

5.3.7. Depreciation and amortisation

Depreciation and amortisation totalling EUR 2,732 thousand (previous year EUR 1,962 thousand) includes EUR 2,553 thousand for amortisation of intangible assets and EUR 179 thousand for depreciation of property, plant and equipment. The increase stems 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 probably increase further in the future. As a result of syndicate business and the new Direct Lotto sales channel, there will be a further appreciable rise in the need for investment in forthcoming periods. Depreciation of property, plant and equipment in particular has consequently risen. Essential expenditure on replacement equipment and promising investments in expanding the field of business will be stepped up in future.

5.3.8. Other operating expenses

OTHER OPERATING EXPENSES	30/06/2006 T€	30/06/2005 T€
Marketing	2,951	1,983
Commissions	2,654	1,827
Expenses for premises	330	193
Collection charges	292	201
Rental for fixtures and fittings	9	15
Losses on receivables	295	211
Costs of annual accounts and audit	54	25
Legal and consultancy costs	733	256
Vehicle costs	85	70
Insurance, donations, membership fees	169	86
Postage	385	227
Other personnel costs	38	7
Telephone costs	75	52
Fees for data lines	76	85
Travel and entertaining expenses	168	109
Periodicals and books	14	6
Incidental costs of monetary transactions	28	5
Office supplies	33	27
Other costs	448	194
	8,837	**5,579**

The rise in marketing expenses of around EUR 1 million, particularly in connection with promotional activities to coincide with the 2006 World Cup, to strengthen our own jaxx.de end consumer platform and to flank the Direct Lotto roll-out, as well as an EUR 827 thousand increase in commissions, were the principal reason for the sharp increase in other operating expenses and therefore the main cause of the sharply diminished result. Legal and consultancy costs likewise imposed a considerable burden on the result. The rises in the other expense items are largely attributable to the consolidation of myBet.com, so for the most part there exists no correlation to sales.

The company leases vehicles, office machinery and telecommunications systems through operating lease agreements. The agreements concluded have residual terms of between one and five years. The expense from these operating lease agreements and from tenancy agreements for furniture and fittings totalled EUR 66 thousand in the reporting period, and the expense from tenancy agreements EUR 195 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	30/06/2006 T€	30/06/2005 T€
Tenancy agreements		
Term up to 1 year	**258**	**190**
Term 1 to 5 years	**0**	**0**
Lease agreements		
Term up to 1 year	**0**	**18**
Term 1 to 5 years	**368**	**358**

5.3.9. Other interest and similar income

The other interest and similar income amounts to EUR 486 thousand (previous year EUR 28 thousand). It consists of interest on bank credit balances and loans extended, as well as option premiums earned on the basis of a conservative investment strategy with a view to improving the interest result.

The interest and premiums were largely collected during the reporting period.

5.3.10. Interest and similar expenses as well as amortisation of marketable securities

The interest and similar expenses relate to interest expenses for non-current loans and imputed interest of EUR 2 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. The item in addition includes EUR 222 thousand in premiums earned for options which had to be issued in May and June as a result of the poor performance of the capital market in order to hedge the option premiums received.

Of the total interest expense of EUR 339 thousand (previous year EUR 111 thousand), an amount of EUR 331 thousand was booked against income in the period under review.

The amortisation of marketable securities consists of price adjustments for securities held.

5.3.11. Result before tax

The consolidated result for the period before tax is EUR -–1,429 thousand, compared with EUR 867 thousand for the first half of 2005.

5.3.12. Income tax

INCOME TAX T€	30/06/2006 Assessment base	30/06/2006 Tax expense	30/06/2005 Assessment base	30/06/2005 Tax expense
Result before tax Other tax	–1,429		867 0	
IAS accounting profit	**–1.429**	**–463**	**867**	**329**
Fiscally unrecognised goodwill amortisation	0	0	0	0
Fiscally recognised amortisation on investments	0	0	0	0
Other differences from consolidation	–822	–267	–1,653	–645
Fiscally unrecognised business expenses	73	24	51	19
Temporary differences (intangible assets)	–184	–60	–84	–32
Tax result	**–2,362**	**–767**	**–819**	**–329**
Tax rebate for previous years				1
Deferred taxes on temporary differences and loss carry-forwards from previous years		69		366
Reduction in deferred tax items due to tax rate change in Austria		0		290
Reported income tax expense (–) = income		**–698**		**328**

The income tax comprises the deferred tax expense from the reversal of deferred tax assets, and tax on production for own assets capitalised and on the amortisation on this. The unrecognised business expenses result predominantly from the fiscal non-recognition of interest payments between subsidiaries as a result of the new fiscal rules on shareholder debt financing (German Thin Capitalisation Rules).

All temporary differences are shown in the above table. The company expects that a sum of EUR 1,500 thousand of the deferred tax assets recognised will be realised within 12 months. EUR 102 thousand of the deferred tax liabilities are expected to be realised within 12 months.

5.3.13. Other tax

Other tax consists of motor vehicle tax and real property tax.

5.3.14. Net profit or loss for the period

The net profit for the period is EUR –731 thousand, as against EUR 540 thousand for the prior-year period.

5.3.15. Earnings per share

EARNINGS PER SHARE	30/06/2006 T€	30/06/2005 T€
Consolidated earnings	–731	540
Weighted average number of ordinary shares outstanding during the period under review	14,525	10,468
Basic earnings per share in €	**–0.05**	**0.05**
Number of dilutive shares under option	248	1,093
Number of shares that would have been issued at fair value	–84	–330
Total	**14,689**	**11,230**
Consolidated earnings (€ thousand)	–731	540
Number of shares	14,689	11,230
Diluted earnings per share €	**–0.05**	**0.05**

6. Further notes

6.1. Contingent liabilities

There are contingent liabilities totalling EUR 209 thousand; these consist of guarantees on tenancy agreements, among other things.

6.2. Hedging policy and derivative financial instruments

There exists no interest rate risk in view of the longterm 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.

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

In the first half of 2006, the company sold a small number of put options at the Eurex as part of a conservative options strategy and earned premiums in return. The short position entered into results in a legal obligation of the company towards the option holder. The company must sell the option instrument at the request of the option holder during the life of the option. Most positions had expired at June 30, 2006, with the result that the option premium could be collected with an effect on income. Premiums totalling EUR 79 thousand, which were recognised as income in view of the fair value of the underlying options, were collected for positions not yet closed. The settlement value at the balance sheet date for the open positions was EUR 61 thousand.

6.3. Other financial obligations

The company must spend EUR 2,569 thousand (previous year: EUR 9,292 thousand) in the future for rent and similar obligations, EUR 1,500 thousand of which results from the obligation from the fulfilment of the purchase agreement with QED Ventures Ltd., Malta (myBet.com). EUR 253 thousand result from future interest payments for finance leases.

6.4. Segment reporting

SEGMENT REPORTING T€	B2C	B2B	Sports Betting	Other	Consolidated transfers	Total
External sales	5,071	6,184	12,218	3	0	23,476
30/06/2005	5,190	6,007		1	0	11,198
Sales with other segments	3,580	1,709	0	2,143	–7,432	0
30/06/2005	2,113	1,750		570	–4,433	0
Total sales	8,651	7,893	12,218	2,146	–7,432	23,476
30/06/2005	7,303	7,756		572	–4,433	11,198
Gross income	6,772	7,836	1,794	345	–4,252	12,495
30/06/2005	7,044	7,460		462	–3,894	11,072
EBITDA	3,011	1,093	–1,166	–1,657	–98	1,183
30/06/2005	2,490	1,422		–1,842	843	2,913
Result for segment before interest and taxes	528	112	–1,250	–1,698	760	–1,548
30/06/2005	562	594		–1,859	1,653	950
Net interest	–407	–582	–10	1,077	41	119
30/06/2005	–388	–559		864	0	–83
Income taxes	–3	192	376	235	–101	698
30/06/2005	–55	–24		375	–623	–327
Net profit or loss for the period	118	–278	–883	–388	700	–731
30/06/2005	119	11		–620	1,030	540
Gross carrying value of assets	12,910	21,618	6,214	68,317	–49,971	59,088
31/12/2005	12,302	19,174		66,600	–42,570	55,506
Liabilities	19,359	26,989	1,194	3,142	–39,442	11,242
31/12/2005	18,269	23,740		937	–34,912	8,034
Investment	2,540	2,761	1,068	6,043	–1,150	11,262
30/06/2005	1,617	662		23	0	2,302
Depreciation and amortisation	2,484	980	83	41	–856	2,732
30/06/2005	1,927	828		17	–810	1,962
Non-cash expenses	8	124	112	0	75	319
30/06/2005	0	–209		124	34	–51

The segment generating the highest sales is the Sports Betting segment, with 52 per cent of total sales, as a result of the high betting stakes. The core business segments B2C and B2B account for 22 per cent and 26 per cent of the total respectively. Due to the high winnings paid out, however, the gross profit in the Sports Betting segment is lower than in the other segments. The B2B segment is the strongest in this respect, followed by B2C. The extremely steep growth of the Sports Betting segment nevertheless offers the prospect of this balance shifting in favour of sports betting in the future.

As expected, the Sports Betting segment is still making a negative contribution to the overall result. Above all intensive marketing activities to flank the 2006 World Cup, which have resulted in a trebling of the active customer base, imposed a disproportionately high burden on the segment's earnings and are one of the main reasons for the negative result of the group as a whole. The high-growth European sports betting market is still emerging. Investment spending on software development and the establishment of customer and sales relations will continue to burden the result during this early phase. In the next few quarters, FLUXX will be concentrating on extending the rapid growth it is enjoying in this segment, as a result of which elevated marketing expenditure as well as high sales growth are to be expected, with a negative effect on the result.

The B2B and B2C segments remain flat compared with the prior-year period. These segments that are considered to constitute our core business likewise spent relatively large amounts on marketing in the first half, in order to strengthen these business areas in their competitive context. 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 to 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. As a result of the expansion of syndicate business, coupled in particular with initial capital expenditure for Direct Lotto, capital expenditure in both segments has risen sharply, as has the raising of loans within the group in the B2C segment to finance capital expenditure.

Secondary data structured by geographical region has not been provided, since well over 90 per cent of sales are generated within Germany in the core business areas and the already broad European customer base in sports betting business does not permit a straightforward regional breakdown. Transactions between the segments were handled on the same basis as transactions with third parties.

6.5. Finance and investment

In the first half of 2006, FLUXX AG accrued a minor amount of cash from earnings before depreciation and amortisation, deferred tax, interest and other non-cash expenses of EUR 794 thousand. The reduction of accounts receivable and other assets as well as the increase in liabilities resulted in a further inflow of EUR 2,741 thousand, whereas the reduction of accruals led to an outflow of EUR –354 thousand. Further funds totalling EUR –331 thousand were used for interest payments. The cash flow from operating activities amounted to EUR 2,850 thousand.

A sum of EUR –4,540 thousand was used for capital expenditure on software, hardware infrastructure components, syndicate contracts and particularly payments on account for lottery terminals; this contrasts with interest receipts of EUR 389 thousand and receipts from the sale of assets of EUR 600 thousand. Furthermore, a payment of EUR –3,000 thousand was made for the acquisition of the investment in QED Ltd. Short-term investments in securities ties up EUR –1,191 thousand. The result is a cash flow from investing activities of EUR –7,742 thousand.

The net cash flow before investing activities is thus EUR –4,892 thousand. The repayment of loans for Sellin and interest payments for finance lease agreements resulted among other things in an outflow of funds of EUR –189 thousand.

The company accrued EUR 2,813 thousand through the financing of the Direct Lotto project via a finance lease. The change in the consolidated companies results in EUR –2,814 thousand. The overall cash flow for the period is consequently EUR –5,082 thousand.

6.6. Total remuneration of the Supervisory Board and Management Board

The total remuneration of the Management Board amounted to EUR 410 thousand in the period under review, including EUR 150 thousand in performancerelated pay for 2005. 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 Management Board totalled EUR 14 thousand. The following table shows the amounts due to related parties which diminished the result for 2006. The amounts concerned are in respect of consultancy services.

	30/06/2006 T€	30/06/2005 T€
GWU mbH (Managing Director Antje Stoltenberg, Supervisory Board member)	0	20
Total	**0**	**20**

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.

6.8. Stock option plans

The Shareholders' Meetings of August 20, 1999, May 9, 2000, May 3, 2001, May 3, 2005 and May 17, 2006 passed resolutions to increase the authorised but unissued capital stock by a total of up to 1,029,415 individual share certificates exclusively for the granting of subscription rights in the context of stock options schemes, as well as the basic framework for the stock options schemes to be established by the Management Board. 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 for the 1999, 2000 and 2001 stock options schemes corresponds respectively 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.

Stock options from the 2005 and 2006 stock options schemes 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 of subsidiaries and up to 80 per cent to employees of the company and its subsidiaries. Stock options may be issued continuously.

Each stock option bears an entitlement to acquire one share in the company at the strike price, if exercised. The exercise price for stock options from these schemes 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), upon issue of the stock options. 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.

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 second and third quarters, as well as
- After the holding of the Ordinary Shareholders' Meeting.

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).

In the first half of 2006, 2,893 stock options were exchanged for shares in the company, and 6,566 options expired in the first half of 2006. At June 30, 2006 there remained 211,784 stock options issued under the various schemes.

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 adjusted again. A total of 174,319 options which had been issued after November 7, 2002 and had not expired at the reporting date fall under the rules of IFRS 2. The options were measured at market price upon issue, applying the Black-Scholes option pricing model. The money market interest rate was assumed to be 2.2 per cent. The exercise threshold was taken into account in the calculation 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.

The development in the options to be reported pursuant to IFRS 2 is shown below:

	Total options	Average fair value	Total cost	Subscription price	Volatility
01/01/2005 Employees (2004 allocation)	101,851	0.90 €	91,326 €	2.31 €	65 %
Management Board (2004 allocation)	42,783	0.89 €	38,060 €	2.32 €	65 %
Expired options 2005/2006	–10,566	0.90 €	–9,474 €	2.31 €	65 %
Q3/2005 allocation to Management Board	40,251	2.21 €	89,089 €	7.47 €	45 %
30/06/2006 Volume of options scheme	174,319	1.20 €	209,002 €	3.51 €	
Cost in 2005			**58,587 €**		
Cost in Q1 2006			**14,309 €**		
Cost in Q2 2006			**14,257 €**		
Cost in financial year 2006			**28,566 €**		

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, management board member
- Antje Stoltenberg, Kiel, auditor
- Frank Motte, Aalen, managing partner

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

In the current 2006 financial year, Susat & Partner oHG was not mandated to perform any further tasks over and above the auditing of the annual accounts. Expenses of EUR 26 thousand were recorded in the first half of 2006 for the auditing of the annual accounts.

Altenholz, August 9, 2006

Rainer Jacken Mathias Dahms Stefan Hänel