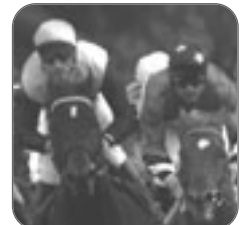


Nine month' report January 1 to September 30, 2006 (IFRS)

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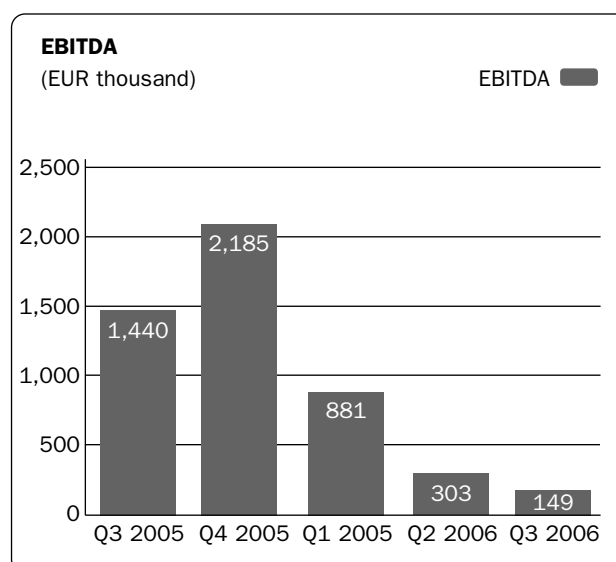
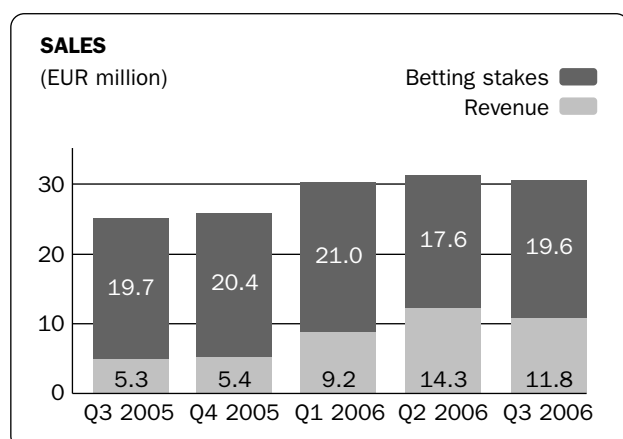


FLUXX Key data

FLUXX KEY DATA (IFRS)

INCOME STATEMENT	Q1-Q3 2006 T€	Q1-Q3 2005 T€	Q3 2006 T€	Q3 2005 T€	Q2 2006 T€	Q1 2006 T€
Gross sales	93,490	77,087	31,379	25,005	31,907	30,204
Betting stakes	58,195	60,577	19,560	19,693	17,615	21,020
Revenues	35,295	16,510	11,819	5,312	14,292	9,184
EBITDA	1,333	4,352	149	1,440	303	881
EBIT	-3,012	1,378	-1,464	428	-1,199	-349
Net result	-1,523	1,007	-792	467	-747	16
Earnings per share (€)						
Basic	-0.10	0.09	-0.05	0.034	-0.05	0.00
Diluted	-0.10	0.08	-0.05	0.030	-0.05	0.00
Employees (Average for the period)						
	124	94	137	94	121	112
Revenue per employee	285	176	86	57	118	82
Personnel expenses per employee	42	46	14	15	15	14
Balance Sheet						
	30/09/2006 T€	31/12/2005 T€				
Non-current assets	35,406	24,194				
Cash & cash equivalents (incl. securities)	17,283	24,282				
Shareholders' equity	46,940	47,572				
Balance sheet total	58,460	55,605				
Equity ratio	80.3%	85.6%				

FLUXX at a glance





Group Management Report of FLUXX AG at September 30, 2006

1. Business and general situation

a. Activities

The FLUXX Group is a leading provider of and agent for state-licensed gaming. The companies of the FLUXX Group offer every form of licensed gaming along a variety of sales channels, subject to the applicable legal constraints on gaming, or act as agent for these on behalf of state lottery and betting providers. In addition to the self-marketed services jaxx.de, jaxx.com, myBet.com and Telewette, 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 nine months of 2006 showed a 114 per cent rise on the prior-year period, to EUR 35.3 million. Both commissions and handling income from lottery agency business were up on the previous quarter thanks to healthy lottery business in the third quarter. As expected, the third quarter was unable to match the high level of revenue in the Sports Betting segment in the second quarter, during which the football World Cup took place.

The expenses for marketing and legal consultancy, which were already relatively high in the second quarter, rose further in the third quarter. The costs for legal consultancy and lobbying activities in particular continued to rise, against the backdrop of an ongoing political and legal debate on the future shape of the German and European gaming market. As a result, the consolidated earnings in both the third quarter and cumulatively for the nine-month period are clearly negative.

■ Sports betting

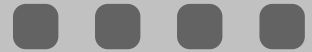
Along with the end of the football World Cup, revenue from the myBet.com internet platform and at the myBet betting shops initially experienced a slump. Business only picked up again with the start of the new Bundesliga season in August. Overall, the FLUXX Group generated a turnover of EUR 6.6 million in the Sports Betting segment in the third quarter, compared with EUR 9.3 million in the second quarter and EUR 3.9 million in the first quarter of 2006. The Sports Betting segment had not yet been generating revenue in the previous year. The bookmaking margin was 15 per cent in the third quarter.

Despite the company's view that it enjoys an unambiguous legal position under European law, several myBet sports betting shops in Germany were closed down by the regulatory authorities.

The sales activities were focused on those EU countries in which the offering of sports betting is already regulated.

■ Online processing

The high jackpots towards the end of the third quarter prompted an average rise of 20 per cent in the betting stakes handled by the online lottery platforms. This growth is, however, diluted compared with previous quarters because various non-recurring factors affect the figures. For example, horse betting that is now increasingly being handled by



our own bookmakers is allocated to revenue and not betting stakes, as a result of which the latter has fallen. At the same time, however, the gross income generated is significantly higher than from acting as an agent for the totaliser, which pays out an average commission of only nine per cent. The termination of the partnership with WEB.DE at the start of 2006 likewise has a negative impact on the year-on-year comparison for betting stakes.

At the end of June, the lottery company in Schleswig-Holstein served notice to terminate the agreement 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. However, a definitive decision is not expected until December. The hosting of the online platform of Lotto Brandenburg and the partnership with Lotto Mecklenburg-Vorpommern remain unaffected. The terminations of the agreements are in any case null and void as a result of the confirmation of the Federal Competition Authority's ruling by the Higher Regional Court of Düsseldorf.

The Spanish subsidiary Digidis succeeded in acquiring an initial major venture partner for the handling of Spanish lotteries and the pan-European "Euromillions" in the guise of the online portal Yahoo. Initial sales revenues from the partnership are already expected during the fourth quarter.

■ Syndicates

During the third quarter, syndicate business was boosted by almost 40 per cent compared with the previous quarter. The partnerships concluded with Burda Group Digital and Premiere at the start of the year contributed towards the successful development.

■ Lottery via retail outlets

In the third quarter too, the roll-out of the JAXX Lottery Service could not be continued at the scheduled pace due to further obstructive measures by the state lottery companies. The lottery companies had initially been successful with their appeal to the Higher Regional Court of Düsseldorf against immediate execution of the ruling by the Federal Competition Authority. Immediate execution was only reinstated at the end of October. The original plans had envisaged the delivery of 25 terminals per week in the event of a positive ruling by the competition authority. As a result of the suspension of immediate execution, it was not possible to maintain this rate. The number of outlets equipped consequently rose only slightly in the third quarter to around 200. Sales and the take-up rate of the terminals progressed very well, especially during the jackpot phase in September.

c. Development of the market

The downturn in the sales of German lottery companies continued in the third quarter of 2006. Despite the high jackpot, the betting stakes recorded by the lottery organisation were around 6 per cent down overall on the third quarter of 2005. By contrast, the gaming volume handled online rose yet again; according to estimates by FLUXX AG, it has now reached a level of around 5.7 per cent.

In the sports betting area, numerous different legal rulings mean that the situation remains unclear and difficult to plan for. However, a significant number of closing-down orders previously imposed on sports betting shops were lifted again in the third quarter.

■ Resolution of the Federal Competition Authority

The third quarter of 2006 as a whole was dominated by the political and legal debate concerning the future shape of the German and European gaming market. At the end of August, the Federal Competition Authority had issued an



immediately executable ruling prohibiting the lottery companies from obstructing terrestrial sales by commercial agents of gaming, and from continuing to apply certain aspects of the Regionalisation State Treaty and regionalism principle. The lottery companies had appealed to the Higher Regional Court of Düsseldorf against immediate execution of the ruling. In view of the complex nature of the issue, the Higher Regional Court had then initially repealed the immediate execution order, then finally reinstated it at the end of October following intensive investigation, and comprehensively endorsed all key aspects of the Federal Competition Authority's ruling.

■ **Draft State Treaty on gaming**

At the start of September the federal states Bavaria and North Rhine-Westphalia presented the draft of a new State Treaty on gaming that envisages drastic restrictions on the business activities of private sports betting providers and commercial gaming agents. The new State Treaty is to be approved by the Prime Ministers of the federal states in December, then ratified by the parliaments of the individual states. It is envisaged to take effect on January 1, 2008.

The federal states argue that the ruling by the Federal Constitutional Court (BVerfG) at the end of March renders the State Treaty necessary. In its high-profile ruling on sports betting, the BVerfG had established that the previous legal position on sports betting in Germany infringes the freedom of occupation of private agents and is therefore incompatible with the constitution. This ruling was confirmed by the decisions of the BVerfG on July 4, 2006 and August 2, 2006. According to the regular legal position of the BVerfG, the federal states and their lottery companies are therefore running an unconstitutional monopoly on sports betting, because the activities of private agents are excluded due to the fiscal interests of the state. In accordance with the stipulations of the BVerfG, either central government or the federal states must therefore redefine sports betting law by the end of 2007. In legal terms, the BVerfG leaves the federal states with only two options: either a tightly drawn state monopoly of the sports betting market – focusing systematically on the prevention of

addiction – or a regulated opening of the market, to which private organisers and agents are admitted. The BVerfG consequently deduced no obligation to impose a monopoly from the possibly existing risks of addiction to sports betting. Experts in competition and European law moreover believe the draft State Treaty to be untenable, and EU Internal Market Commissioner Charlie McCreevy has already announced and initiated legal action against the Federal Republic of Germany. Notwithstanding this, a majority of the federal states still intends to approve the State Treaty on gaming in December.



2. Financial performance

Consolidated revenues rose by 122 per cent in the third quarter of 2006 compared with the prior-year quarter, from EUR 5.3 million to EUR 11.8 million. This figure includes bookmaking revenues of EUR 6.9 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 approximately on a par with the prior-year quarter, at EUR 19.5 million. After elimination of one-off effects such as the termination of the partnership with WEB.DE and the increased handling of horse betting for own account, the volume handled rose by around 20 per cent in line with the market. Gross consolidated sales (revenues plus betting stakes handled) were increased by 25 per cent as a result of the sharp rise in betting stakes, from EUR 25.0 per cent in the third quarter of 2005 to EUR 31.3 million in the third quarter of 2006.

Compared with the first nine months of 2005, net revenues rose by 114 per cent from EUR 16.5 million to EUR 35.3 million. Betting stakes handled fell by 4 per cent, from EUR 60.6 million to EUR 58.2 million, as a result of the aforementioned one-off effects. Gross consolidated sales were up 21 per cent, from EUR 77.1 million to EUR 93.5 million.

56 per cent of revenue for the first nine months of the year stemmed from sports betting, 14 per cent from commissions on lottery stakes and 25 per cent from handling fees.



Further proceeds were generated in the form of fees for software development and licence income. The B2C segment accounted for 23 per cent of cash inflow, the B2B segment for 26 per cent and sports betting business for 51 per cent.

In line with the sports betting stakes, the cost of materials – which include the betting winnings paid out – showed a significant rise on the previous year. The cost of materials amounted to EUR 5.6 million in the third quarter. The bookmaking margin was 15 per cent. The cumulative cost of materials for the first nine months was EUR 16.8 million, and the bookkeeping margin likewise 15 per cent.

Personnel expenses rose from EUR 1.4 million in the third quarter of 2005 to EUR 1.9 million in the third quarter of 2006 largely as a result of the takeover of myBet.com and the progress of the Direct Lotto project, and the average number of employees jumped from 94 to 137. Per capita expenditure fell from EUR 15.3 thousand in the third quarter of 2005 to EUR 13.9 thousand in the third quarter of 2006. Per capita revenues rose from EUR 56.5 thousand to EUR 86.3 thousand in particular as a result of the high volume of bets.

In the nine-month comparison, personnel expenses rose by 23 per cent from EUR 4.3 million to EUR 5.2 million, and the average number of employees from 94 to 124. The personnel expenses ratio was reduced from 26 per cent to 15 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 doubled to EUR 4.8 million in the third quarter of this year, from EUR 2.4 million in the corresponding period of the previous year. In addition to agency commission on the lottery and betting stakes due to partner organisations (EUR 1.2 million), there was a sharp

rise particularly in the costs of marketing, legal consultancy and lobbying activities (EUR 2.2 million) and the loss on receivables following the closing-down of some betting shops.

Compared with the first nine months of 2005, other operating expenses rose by 71 per cent from EUR 8.0 million to EUR 13.7 million. The expenses ratio fell from 48 to 39 per cent. Marketing costs as a proportion of revenue remained unchanged at around 14 per cent.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell as a result of the higher expenses from EUR 1.4 million in the third quarter of 2005 to EUR 149 thousand in the third quarter of 2006. EBITDA was down from EUR 4.4 million in the first nine months of the previous year to EUR 1.3 million.

Depreciation and amortisation rose from EUR 1.0 million in the second quarter of 2005 to EUR 1.6 million in the third quarter of 2006 as a result of capitalisation of the acquisition costs for syndicate contracts. Cumulative depreciation and amortisation rose from EUR 3.0 million to EUR 4.3 million. Earnings before interest and taxes (EBIT) consequently fell from EUR 428 thousand in the third quarter of 2005 to EUR –1,464 thousand in the third quarter of 2006. EBITDA was down from EUR 1.4 million for the first nine months of the previous year to EUR –2.8 million for the first nine months of 2006.

The consolidated result for the third quarter was EUR –792 thousand. This compares with a profit of EUR 467 thousand in the prior-year quarter. The result for the first nine months fell from EUR 1,007 thousand in the previous year to EUR –1,523 thousand. Earnings per share amounted to EUR –0.10, compared with EUR 0.09 in the first nine months of 2005.



3. Financial position

Operating activities during the first nine 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 overall cash flow for the first nine months of 2006 amounted to EUR –6.6 million. Cash and cash equivalents reached EUR 19.7 million at September 30, 2006, of which EUR 2.4 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.

capitalisation of syndicate contracts. Current assets fell by EUR 8.5 million as a result of investing activities.

The accumulated shareholders' equity showed a fall of EUR 0.6 million since the reporting date of December 31, 2005, to EUR 46.9 million. With a balance sheet total of EUR 58.1 million, the equity ratio is 80.3 per cent.

Non-current liabilities have risen by EUR 2 million to EUR 4.3 million, as the Direct Lotto terminals acquired in the previous year are now financed via a lease agreement. The current liabilities rose by EUR 1.4 million to EUR 7.1 million at September 30, 2006.

Capital stock, shareholder structure

The free float accounted for 100 per cent of the capital stock of FLUXX AG totalling EUR 14,560,896 at September 30, 2006.

4. Net worth

The net worth rose by EUR 11.3 million in the first nine months of 2006. The rise stems largely from the capitalisation of the investment in QED Ltd. (myBet.com) and the

Directors' holdings

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

Name	Position	Type of security	Position at 31/12/2005	Additions	Disposals	Position at 30/09/2006
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	5,193	0	7,906
		Options	27,667	0	5,193	22,474
Stefan Hänel	Management Board member	Shares	0	5,220	0	5,220
		Options	27,700	0	5,220	22,480
Frank Motte	Supervisory Board	Shares	2,972	2,000	0	4,972



5. Report on post-balance sheet date events

By resolution dated October 23, 2006, the Superior Cartel Senate of the Higher Regional Court of Düsseldorf reinstated immediate execution of the Federal Competition Authority's ruling, which had initially been revoked at the start of September. As expected, the lottery companies consequently lodged an appeal with the Federal Supreme Court.

6. Risk report

a. Market risks

The German gaming market, which is the primary market addressed by the FLUXX group, is going through a period of change. The ruling of the Federal Constitutional Court and the draft State Treaty on gaming based on it have cast considerable uncertainty over the future development of the market. If the State Treaty should take effect on January 1, 2008 in its present form, a marked drop in lottery sales in Germany and a shift in sports betting sales abroad are to be expected; these would have a considerable impact on the long-term strategic direction of the FLUXX Group and would necessitate radical cutbacks to business operations in the short term.

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 envisaged State Treaty on gaming is implemented, albeit in contravention of European law, the project would be drastically restricted and obstructed. It would probably only be possible to push it through after laborious legal proceedings.

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 restricted. Although the Federal Competition Authority had declared the terminations by the lottery companies to be null and void in its ruling dated August 23, 2006 and the Higher Regional Court of Düsseldorf confirmed this position, the possibility cannot be excluded that the lottery companies will circumvent the ruling. 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 not to threaten the very survival of its core business area.



Defending our advantage as first mover, together with our superior development know-how 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 light of the present draft version of the State Treaty on gaming, such considerations are however of a more hypothetical nature, as no additional competitors will be venturing into the market in the present circumstances.

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, the situation has become clearer and more predictable following the ruling of the Federal Constitutional Court, even though considerable legal risks continue to exist as a result of the fragmented legal decisions. 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. On this basis, the federal states presented the draft of a new State Treaty on gaming that envisages a marked restriction in the scope for marketing and acting as agent for gaming. If the State Treaty should take effect on January 1, 2007 in its present form, this could result in a significant downturn in lottery stakes, affecting both the core business of the FLUXX Group and forward-looking projects such as Direct Lotto and sports betting to a high degree. Although there are considerable doubts as to the lawfulness of the State Treaty under European and competition law, it is nevertheless impossible to exclude a scenario where the treaty may initially take effect and then only be repealed in certain respects following lengthy legal proceedings.

The unclear regulatory development on the German gaming market has already had negative effects on the earnings of the FLUXX Group. Above-average expenditure for legal consultancy and lobbying activities and obstacles to further expansion of the Direct Lotto and sports betting areas are on the one hand holding back the development in revenue and on the other hand imposing a burden on the costs structure.

In the event of the State Treaty on gaming taking effect, the FLUXX Group would have to modify a significant part of its business model in order to comply with national regulations and above all use new opportunities in the international context. This would initially have a considerable negative impact on the development in revenue and income. Only a European-wide presence and strategy can safeguard the financial performance of the FLUXX Group in the medium term.

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 fourth quarter of 2006 will continue to be dominated by the debate concerning the future shape of the German gaming market. The Prime Ministers of the federal states intend to approve the new State Treaty on gaming on December 13 and initiate the ratification process. If the treaty should take effect on January 1, 2008 in its present form, this would have marked negative consequences for the business of the FLUXX Group. In close cooperation with the Federation of Lottery Agents, there are therefore plans to launch a broad-based campaign to highlight the devastating macroeconomic consequences and legal implications of the State Treaty on gaming. This will prompt a renewed significant rise in marketing and consultancy expenses in the fourth quarter.

In operating terms, a slight rise in revenue is expected compared with the third quarter, as the fourth quarter began with a record jackpot and the syndicates, sports betting and Direct Lotto areas all continue to make positive progress. The roll-out of lottery terminals gathered considerable pace once more following the ruling of the Higher Regional Court of Düsseldorf, with the result that terminals should be delivered at the rate of around 50 a week by the end of the year.

The growth target of 110 to 130 per cent for 2006 as a whole still appears to be realistic. With regard to earnings, the Management Board of FLUXX AG now expects the result to be clearly negative due to political and legal factors. The expectation had previously been that the company would break even for 2006 as a whole.

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”, “assess” 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, November 8, 2006

Rainer Jacken

Mathias Dahms

Stefan Hänel



Consolidated Balance Sheet at September 30, 2006

ASSETS	Note	30/09/2006 T€	31/12/2005 T€
A. NON-CURRENT ASSETS		35,406	24,194
I. Intangible assets	5.1.1	16,510	9,072
1. Goodwill		11,325	6,139
2. Other intangible assets		5,185	2,933
II. Property, plant and equipment	5.1.1	5,593	3,860
1. Land and buildings		998	1,016
2. Other plant and equipment		2,304	527
3. Payments on account		2,291	2,317
III. Investments	5.1.1	3	3
Subsidiaries		3	3
IV. Deferred taxes	5.1.1	13,300	11,259
B. CURRENT ASSETS		23,054	31,411
I. Inventories	5.1.2	43	0
II. Receivables and other assets	5.1.2	3,288	5,171
1. Trade accounts receivable		1,956	1,430
2. Receivables from investments		0	0
3. Miscellaneous assets		1,332	3,741
III. Cash on hand, cash in banks	5.1.2	19,678	26,230
of which freely available (net cash)		17,283	24,282
IV. Prepaid expenses	5.1.2	45	10
TOTAL ASSETS		58,460	55,605



Consolidated Balance Sheet at September 30, 2006

SHAREHOLDERS' EQUITY AND LIABILITIES	Note	30/09/2006 T€	31/12/2005 T€
A. SHAREHOLDERS' EQUITY		46,940	47,572
I. Share capital	5.2.1	14,561	14,523
II. Additional paid-in capital	5.2.1	52,049	51,989
III. Accounting loss	5.2.1	-20,173	-19,045
IV. Minority interest	5.2.1	503	105
B. NON-CURRENT LIABILITIES		4,333	2,339
1. Deferred tax liabilities	5.2.2	372	245
2. Tax on profit	5.2.2	99	0
3. Finance lease liabilities	5.2.2	1,807	0
4. Bonds	5.2.2	87	89
5. Due to banks	5.2.2	1,968	2,005
C. CURRENT LIABILITIES		7,187	5,694
1. Due to banks	5.2.3	60	59
2. Current finance lease liabilities	5.2.3	679	0
3. Trade accounts payable	5.2.3	2,130	1,578
4. Other liabilities	5.2.3	3,028	2,640
5. Other accruals	5.2.3	1,171	1,417
6. Deferred tax liabilities	5.2.3	119	0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		58,460	55,605



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

	Note	30/09/2006 T€	30/09/2005 T€
Gross sales		93,490	77,087
Betting stakes		58,195	60,577
1. Sales	5.3.1	35,295	16,510
2. Changes in inventories	5.3.2	28	0
3. Production for own assets capitalised	5.3.3	441	238
4. Other operating income	5.3.4	1,255	288
5. Cost of purchased materials	5.3.5	16,808	429
a) Raw material and supplies		0	71
b) Cost of purchased services		16,808	358
6. Personnel expenses	5.3.6	5,243	4,278
a) Wages and salaries		4,507	3,675
b) Social insurance		736	603
7. Depreciation and amortisation on intangible assets and on property, plant and equipment	5.3.7	4,345	2,974
8. Other operating expenses	5.3.8	13,635	7,977
Operating profit/loss		-3,012	1,378
9. Other interest and similar income	5.3.9	682	171
10. Amortisation of marketable securities	5.3.10	37	0
11. Interest and similar expenses	5.3.10	432	148
Finance result		213	23
12. Result before tax	5.3.11	-2,799	1,401
13. Income tax	5.3.12	1,276	-395
14. Other tax	5.3.13	0	1
15. Net income/loss for the period	5.3.14	-1,523	1,007
16. Minority interest in earnings		395	0
17. Earnings after minority interest		-1,128	0
18. Loss carry-forward from previous year		-19,045	-20,779
19. Accounting loss		-20,173	-19,772
20. Earnings per share			
Basic earnings per share (€)		-0.10	0.09
Diluted earnings per share (€)		-0.10	0.08



Consolidated Income Statements for the period Juli 1 to September 30, 2006

	Note	Q3 2006 T€	Q3 2005 T€	Q2 2006 T€	Q1 2006 T€
Gross sales		31,379	25,005	31,907	30,204
Betting stakes		19,560	19,693	17,615	21,020
1. Sales	5.3.1	11,819	5,312	14,292	9,184
2. Changes in inventories	5.3.2	13	0	-8	23
3. Production for own assets capitalised	5.3.3	205	91	102	134
4. Other operating income	5.3.4	383	26	383	489
5. Cost of purchased materials	5.3.5	5,573	156	7,945	3,290
a) Raw material and supplies		0	54	0	0
b) Cost of purchased services		5,573	102	7,945	3,290
6. Personnel expenses	5.3.6	1,900	1,435	1,764	1,579
a) Wages and salaries		1,635	1,238	1,522	1,351
b) Social insurance		266	197	242	228
7. Depreciation and amortisation on intangible assets and on property, plant and equipment	5.3.7	1,613	1,012	1,502	1,230
8. Other operating expenses	5.3.8	4,798	2,398	4,757	4,080
Operating profit/loss		-1,464	428	-1,199	-349
9. Other interest and similar income	5.3.9	196	143	256	230
10. Amortisation of marketable securities	5.3.10	9	0	28	0
11. Interest and similar expenses	5.3.10	93	37	291	48
Finance result		94	106	-63	182
12. Result before tax	5.3.11	-1,370	534	-1,262	-167
13. Income tax	5.3.12	578	-67	515	183
14. Other tax	5.3.13	0	0	0	0
15. Net income/loss for the period	5.3.14	-792	467	-747	16
16. Minority interest in earnings		149	0	156	90
17. Earnings after minority interest		-643	0	-591	106
18. Loss carry-forward from previous quarter		-19,530	-20,239	-18,939	-19,045
19. Accounting loss		-20,173	-19,772	-19,530	-18,939
20. Earnings per share					
Basic earnings per share (€)		-0.05	0.034	-0.015	0.000
Diluted earnings per share (€)		-0.05	0.030	-0.015	0.000



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

	30/09/2006 T€	30/09/2005 T€
<ul style="list-style-type: none"> • Net income/loss for the period • Depreciation on fixed assets • Amortisation and write-down on financial assets and marketable securities • Increase/decrease in long-term accruals • Finance income • Interest expense • Other non-cash expenses and income/deferred taxes • Profit/loss from the disposal of fixed assets 	-1,523 4,345 0 225 -682 432 -1,391 -975	1,007 2,974 0 144 -171 148 110 0
Cash flow before changes to working capital	431	4,212
<ul style="list-style-type: none"> • Change in inventories, receivables and other assets • Change in liabilities and other items on the shareholders' equity and liabilities side • Increase/decrease in short-term accruals 	1,804 1,060 -245	-926 -2,731 0
Cash flow from operating activities	3,050	555
<ul style="list-style-type: none"> • Interest paid • Income taxes paid 	-420 0	-98 0
Cash flow from operating activities	2,630	457
<ul style="list-style-type: none"> • Cash receipts from disposals of fixed assets • Cash payments for investments in fixed assets • Cash payments for investments in consolidated companies • Cash payments for investments in subsidiaries • Acquisition of investments and other financial assets • Interest received 	975 -7,380 0 -3,000 0 588	0 -4,740 0 0 0 106
Cash flow from investing activities	-8,817	-4,634
<ul style="list-style-type: none"> • Cash receipts from capital increases • Other cash receipts for capital • Cash receipts/payments from the issue of bonds and from the raising of loans • Repayments of bonds and loans 	0 0 2,813 -363	3,238 21,417 24 -45
Cash flow from financing activities	2,450	24,634
<ul style="list-style-type: none"> • Change in consolidated companies 	-2,814	0
Overall effective adjustment	-6,552	20,457
<ul style="list-style-type: none"> • Cash and cash equivalents at the start of the period 	26,230	7,756
Cash and cash equivalents at the end of the period	19,678	28,213
<ul style="list-style-type: none"> • Progression from financial resources to net cash position • Betting stakes passed on • Securities provided 	19,678 2,331 63	28,213 1,866 189
Net cash position	17,283	26,158



Cash Flow Statement for the period Juli 1 to September 30, 2006

	Q3 2006 T€	Q3 2005 T€	Q2 2006 T€	Q1 2006 T€
• Net income/loss for the period before extraordinary expenses	-792	467	-747	16
• Depreciation on fixed assets	1,613	1,012	1,502	1,230
• Amortisation and write-down on financial assets and marketable securities	0	0	0	0
• Increase/decrease in long-term accruals	117	54	68	41
• Finance income	-196	-143	-256	-230
• Interest expense	93	37	291	48
• Other non-cash expenses and income/deferred taxes	-821	-7	-590	21
• Profit/loss from the disposal of fixed assets	-375	0	-300	-300
Cash flow before changes to working capital	-361	1,420	-31	826
• Change in inventories, receivables and other assets	68	107	2,306	-571
• Change in liabilities and other items on the shareholders' equity and liabilities side	54	-724	183	823
• Increase/decrease in short-term accruals	108	157	-122	-232
Cash flow from operating activities	131	960	2,336	846
• Interest paid	-89	-33	-287	-44
• Income taxes paid	0	0	0	0
Cash flow from operating activities	-220	927	2,049	802
• Cash receipts from disposals of fixed assets	375	0	300	300
• Cash payments for investments in fixed assets	-2,840	-2,585	-2,304	-2,236
• Cash payments for investments in consolidated companies	0	0	0	0
• Cash payments for investments in subsidiaries	0	0	0	-3,000
• Acquisition of investments and other financial assets	1,191	0	-1,191	0
• Interest received	199	78	176	213
Cash flow from investing activities	-1,075	-2,507	-3,019	-4,723
• Cash receipts from capital increases	0	0	0	0
• Other cash receipts for capital	0	0	0	0
• Cash receipts/payments from the issue of bonds and from the raising of loans	0	24	0	2,813
• Repayments of bonds and loans	-174	-6	-173	-16
Cash flow from financing activities	-174	18	-173	2,797
• Change in consolidated companies	0	0	0	-2,814
Overall effective adjustment	-1,469	-1,562	-1,143	-3,938
• Cash and cash equivalents at the start of the period	21,148	0	22,292	26,230
Cash and cash equivalents at the end of the period	19,679	-1,562	21,148	22,292
• Progression from financial resources to net cash position	19,679	-1,562	21,148	22,292
• Betting stakes passed on	-395	622	517	2,209
• Securities provided	0	0	0	63
Net cash position	20,074	-2,184	20,631	20,020

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

T€	Share capital	Additional paid-in capital	Accounting loss	Minority interest	Total	Bonds convertible
Position 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	
Result for 1st quarter of 2005			362		362	
Position 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	
Exercising of employee stock 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	
Position 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	
Position 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	
Exercising of employee stock 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	
Position 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 remainder of interjockey.com				5	5	
Acquisition of investment in myBet.com				788	788	
Result for 1st quarter of 2006			106	-90	16	
Position 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	0	0			0	
Exercising of employee stock 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	
Position at June 30, 2006	14,529	52,020	-19,530	652	47,671	87
Conversion of bond at August 20, 2006	0	0			0	
Dilution compensation for convertible bond	0	0			0	
Exercising of employee stock options	32	19			51	
Interest on bond					0	
Premiums earned from employee stock options		10			10	
Earnings for 3rd quarter of 2006			-643	-149	-792	
Position at September 30, 2006	14,561	52,049	-20,173	503	46,940	87



FLUXX AG – Consolidated Financial Statements at September 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 Kl., 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 the Spanish company DIGIDIS S.L. in the fourth quarter of 2005, FLUXX AG placed its business model on a broader European footing. On the basis of the products and solutions developed and offered, FLUXX is in a position 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 September 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 quarterly 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 figures for the quarter ending on September 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 ten 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 com-

pany 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 –1,407 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 AG owns a 100 per cent stake in this holding company. These companies are not currently operational. The remaining 14.54% stake in JAXX GmbH (formerly interjockey.com horsebet GmbH) was acquired in full on January 1, 2006. In the third quarter, QED set up a further subsidiary in Austria with the objective of establishing the betting shop concept there.



SUMMARY OF INVESTMENTS	Registered office	Nominal capital T€	Proportionate interest %
Parent company FLUXX AG	Altenholz	14,561	–
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, Spain	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 (vormals: interjockey.com horsebet GmbH)	Lustenau, Austria	400	100.00
DSM Lottoservice GmbH	Lustenau, Austria	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
MYBET GmbH	Vienna, Austria	35	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 441 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. In the third quarter, the historical figures for cost and for amortisation in the Assets Movement Schedule were adjusted in line with the average six-monthly amortisation period.

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 short-term realisation does not appear to be possible. There exist no interest rate risks.

■ Deferred taxes

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

A total rate of corporation and trade tax of 38 per cent (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 September 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 September 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 following 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 over future years. As a result of the clear obstruction of sports betting business by the authorities in the third quarter and the resulting limited expansion of new business, coupled with the current trend towards monopolistic reforms of gaming in Germany, the realisation of this plan in the short term currently appears to be less likely. The

company nevertheless continues to perceive value in the loss carry-forwards, but now expects to realise this value more in the medium term. 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 16,510 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 4,314 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 852 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 937 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 2,291 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 30/09/2006 T€	Position at 01/01/2006 T€	Changes in consoli- dated companies T€	Additions T€	Disposals T€	Position at 30/09/2006 T€	Carrying value 30/09/2006 T€	Carrying value 31/12/2005 T€
I. Intangible assets												
1. Licences, software, rights of use and customer base	10,752	489	5,658	3,071 (A)	13,828	8,635	85	3,862	3,068	9,514	4,314	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	441	0	1,674	637	0	185	0	822	852	596
	21,300	489	11,385	3,372	29,802	12,228	85	4,047	3,068	13,292	16,510	9,072
II. Property, plant and equipment												
1. Real estate and buildings	1,327	0	0	0	1,327	311	0	18	0	329	998	1,016
2. Other assets, fixtures and fittings	2,771	158	1,949	0	4,878	2,244	50	280	0	2,574	2,304	527
3. Payments on account and construction in progress	2,317	0	762	788 (U)	2,291	0	0	0	0	0	2,291	2,317
	6,415	158	2,711	788	8,496	2,555	50	298	0	2,903	5,593	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	14,096	4,160	38,301	14,783	135	4,345	3,068	16,195	22,106	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 13,300 thousand were capitalised on the usable fiscal loss carry-forwards of EUR 35 thousand. 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 1,376 thousand are attributable to the fiscal results of the subsidiaries for the period from January 1, 2006 to September 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 now expected that the deferred tax credit balances will only be realised in the medium term. The company 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 30/09/2006	Total 31/12/2005	Term to maturity over 1 year
1. Trade accounts receivable		1,956	1,430	0
2. Receivables from investments		0	0	0
3. Miscellaneous assets		1,332	3,741	0
		3,288	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 still reported at the end of the first half of 2006 was entirely liquidated. The item reported here, shares in DAX companies held for trading, acquired in the course of exercising options, was sold off in entirety.

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

This item totalling EUR 19,678 thousand includes cash in banks of EUR 2,395 thousand which is not freely accessible due to the security rights of third parties. At September 30, 2006 the freely available cash position including securities amounted to EUR 17,283 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 14,560,896 and is divided into the same num-

ber of individual share certificates with no par value. The changeover from bearer shares to registered shares took place on September 25, 2006.

■ **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 3,156,762 convertible bonds in



2004, 2005 and 2006 into 3,156,762 individual share certificates, plus 12,571 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 55,667 (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 142,766 (authorised but unissued capital 1999/III).

The Ordinary Shareholders' Meeting on May 9, 2000 in addition increased the capital stock by a further authorised but unissued amount of EUR 210,000 to grant permission to issue subscription rights to the management and

employees of the company and of affiliated companies. Following its partial cancellation, this authorised but unissued capital now totals EUR 25,114 (authorised but unissued capital 2000/I).

The capital stock was increased by a further authorised but unissued amount of EUR 55,800 at the Ordinary Shareholders' Meeting on May 3, 2001. This is to service the subscription rights of employees of the company and of its affiliated companies which were promised to these employees before the initial public offering and confirmed by the conclusion of stock option agreements dated January 31, 2000. Following 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 52,049 thousand. No further reserves exist.



■ Accounting loss

The accounting loss is comprised as follows:

BILANZVERLUST	30/09/2006 T€
Loss carry-forward at 01/01/06	-19,045
Minority interest in earnings	395
Net result 2006	-1,523
Accounting loss at 30/06/2006	-20,173

■ 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 conso- lidated companies	Consumed	Reversed	Allocated	Position at 30/09/2006
1. Deferred taxes	245	9	0	71	189	372
2. Tax on profit	0	0	0	0	99	99
	245	9	0	71	288	471



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	Total	With a term to maturity of		
	30/09/2006	31/12/2005	less than 1 year	1–5 year	> 5 year
1. Finance lease liabilities	2,486	0	679	1,807	0
2. Bonds	87	89	0	87	0
3. Due to banks	2,028	2,058	60	1,968	0
	4,601	2,147	739	3,862	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 rollout 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 1,007 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 30/09/2006
1. Personnel cost	427	0	402	12	358	371
2. Suppliers' invoices	493	58	461	20	172	242
3. Costs of annual accounts and audit	58	10	59	3	62	68
4. JAXX-points and bonus points	393	0	0	115	186	464
5. Litigation costs	0	0	0	0	0	0
6. Remuneration of Supervisory Board	46	0	46	0	26	26
	1,417	68	968	150	804	1,171

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 ex-

penses 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	Total	With a term to maturity of		
	30/09/2006	31/12/2005	less than 1 year	1–5 years	> 5 years
1. Due to banks	0	6	0	0	0
2. Trade accounts payable	2,130	1,578	2,130	0	0
3. Other liabilities	3,028	2,640	3,028	0	0
	5,158	4,224	5,158	0	0



■ Trade accounts payable

The trade accounts payable totalling EUR 2,130 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	30/09/2006 T€	31/12/2005 T€
Liabilities from lottery players	2,357	1,839
Sales tax	361	475
Income tax and church tax	72	96
Social security contributions	2	113
Other	236	117
	3,028	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. 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	30/09/2006 T€	30/09/2005 T€
Commissions	4,985	5,321
Handling fees	8,739	9,608
Licence sales	420	230
Fees	196	477
Betting stakes	19,820	395
Production output	351	118
Other	784	361
	35,295	16,510

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

After a very weak second quarter without any jackpots, proceeds from agency business for lotteries picked up again slightly in the third quarter. The proceeds from commissions and handling operations are consequently on a par with the first quarter of 2006. Overall, however, the prior-year figures for the first nine months of 2005 are not emulated. A significant expansion in the portfolio for syndicate business compared with the first and second quarters did not suffice to counterbalance the negative overall trend. However new, high growth from this highly profitable product is expected for the coming quarters, and particularly in 2007.

High growth in sales was again achieved in the sports betting area. The start of the Bundesliga's new season following the summer break and the World Cup saw betting sta-



kes rise 68 per cent on the first quarter, from EUR 3,923 thousand to EUR 6,585 thousand. It was, however, not possible to match the high revenues of the second quarter, during which the World Cup took place. The main reason was obstruction – illegally, in the opinion of the company – by the state gaming monopoly in Germany. Despite the clear fundamental position under European law, the handling and interpretation of the legal position by the regulatory agencies of the federal states is resulting in a harsh restriction of betting business. For example, over 50 per cent of the shops which had been open in the first half of 2006 have now been closed. Advertising for the online portal mybet.com has also been drastically reduced. On the other hand, the development of the sports betting business area in other European jurisdictions such as Austria and Spain is not yet sufficiently advanced to compensate for the loss of revenue in Germany. In the first nine months of 2006, betting stakes amounted to EUR 19,820 thousand. Total sales were up 114% on the previous year to EUR 35,295 thousand.

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.

5.3.4. Other operating income

OTHER OPERATING INCOME	30/09/2006 T€	30/09/2005 T€
Income from the reversal of accruals	150	204
Income from the write-down of allowances on receivables	0	0
Income from the disposal of assets	975	0
Other income	130	84
	1,255	288

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 71 thousand) and the cost of purchased services totalled EUR 16,808 thousand (previous year EUR 358 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 4,507 thousand (previous year EUR 3,675 thousand), and social insurance contributions and expenses EUR 736 thousand (previous year EUR 603 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 38 thousand.

There were 141 employees at the reporting date (previous year 85). The average number of employees was 124 (previous year 94). The rise results principally from the consolidation of myBet.com.

5.3.7. Depreciation and amortisation

Depreciation and amortisation totalling EUR 4,345 thousand (previous year EUR 2,974 thousand) includes EUR 4,047 thousand for amortisation of intangible assets and EUR 298 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	30/09/2006 T€	30/09/2005 T€
Marketing	4,783	2,384
Commissions	3,980	2,517
Expenses for premises	488	295
Collection charges	460	297
Rental for fixtures and fittings	12	23
Losses on receivables	774	268
Costs of annual accounts and audit	72	37
Legal and consultancy costs	1,023	343
Vehicle costs	133	129
Insurance, donations, membership fees	254	114
Postage	393	337
Other personnel costs	66	0
Telephone costs	118	83
Fees for data lines	127	110
Travel and entertaining expenses	284	183
Periodicals and books	13	7
Incidental costs of monetary transactions	65	45
Office supplies	48	40
Other costs	542	765
	13,635	7,977

The rise in marketing expenses of around EUR 2.4 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 1,463 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.

At the end of the third quarter, the marketing budgets were already drastically cut, in some cases by up to 50 per cent.

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 119 thousand in the financial year, and the expense from tenancy agreements EUR 311 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	30/09/2006 T€	30/09/2005 T€
Tenancy agreements		
Term up to 1 year	229	144
Term 1 to 5 years	0	0
Lease agreements		
Term up to 1 year	0	4
Term 1 to 5 years	350	378

5.3.9. Other interest and similar income

The other interest and similar income amounts to EUR 682 thousand (previous year EUR 171 thousand). It consists of interest on bank credit balances 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

The interest and similar expenses relate to interest expenses for non-current loans and imputed interest of EUR 3 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 247 thousand in premiums earned for options which had to be issued in May and June 2006 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 432 thousand (previous year EUR 148 thousand), an amount of EUR 420 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 -2,799 thousand, compared with EUR 1,401 thousand for the first nine months of 2005.



5.3.12. Income tax

INCOME TAX T€	30/09/2006 Assessment base	30/09/2006 Tax expense	30/09/2005 Assessment base	30/09/2005 Tax expense
Result before tax	-2,799		1,401	
Other tax			-1	
IAS accounting profit	-2,799	-904	1,400	579
Fiscally unrecognised goodwill amortisation	0	0	0	0
Fiscally recognised amortisation on investments	0	0	0	0
Other differences from consolidation	-1,294	-418	-2,014	-833
Fiscally unrecognised business expenses	99	32	72	30
Temporary differences (intangible assets)	-256	-83	-142	-59
Tax result	-4,250	-1,373	-684	-283
Tax rebate for previous years				1
Deferred taxes on temporary differences and loss carry-forwards from previous years		97		387
Reduction in deferred tax items due to tax rate change in Austria		0		290
Reported income tax expense (-) = income		-1,276		395

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 no significant amounts of the deferred tax assets recognised will be realised within 12 months. EUR 117 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 –1,523 thousand, as against EUR 1,007 thousand for the prior-year period.

5.3.15. Earnings per share

EARNINGS PER SHARE	30/09/2006 T€	30/09/2005 T€
Consolidated earnings	–1,523	1,007
Weighted average number of ordinary shares outstanding during the period under review	14,530	11,819
Basic earnings per share in €	–0.10	0.09
Number of dilutive shares under option	250	827
Number of shares that would have been issued at fair value	–104	–230
Total	14,675	12,416
Consolidated earnings (€ thousand)	–1,523	1,007
Number of shares	14,675	12,416
Diluted earnings per share €	–0.10	0.08

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 long-term loan agreements with fixed interest rates. No hedging of the interest rate risk is therefore practised.

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

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 nine months 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. The positions had expired at September 30, 2006, with the result that the option premium could be collected with an effect on income.

6.3. Other financial obligations

The company must spend EUR 2,018 thousand (previous year: EUR 9,292 thousand) in the future for rent and similar obligations, EUR 1,000 thousand of which result from the obligation from the fulfilment of the purchase agreement with QED Ventures Ltd., Malta (myBet.com). EUR 223 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	8,298	9,144	17,850	3	0	35,295
30/09/2005	7,533	8,936		41	0	16,510
Sales with other segments	5,986	2,695	0	2,282	-10,963	0
30/09/2005	3,104	2,636		790	-6,530	0
Total sales	14,284	11,839	17,850	2,285	-10,963	35,295
30/09/2005	10,637	11,572		831	-6,530	16,510
Gross income	10,503	11,799	2,779	455	-6,580	18,956
30/09/2005	10,240	11,095		645	-5,661	16,319
EBITDA	4,240	1,618	-1,799	-2,617	-109	1,333
30/09/2005	3,630	2,333		-2,409	798	4,352
Result for segment before interest and taxes	391	99	-1,982	-2,674	1,154	-3,012
30/09/2005	726	1,075		-2,436	2,013	1,378
Net interest	-621	-881	-25	1,739	1	213
30/09/2005	-590	-834		1,447	0	23
Income taxes	183	344	599	346	-196	1,276
30/09/2005	-37	-108		373	-623	-395
Net profit or loss for the period	-47	-437	-1,407	-589	957	-1,523
30/09/2005	99	134		-617	1,391	1,007
Gross carrying value of assets	14,940	20,810	6,256	68,089	-51,633	58,460
31/12/2005	12,302	19,174		66,600	-42,570	55,506
Liabilities	21,524	26,702	1,179	3,043	-40,926	11,522
31/12/2005	18,269	23,740		937	-34,912	8,034
Investment	4,534	4,383	1,326	6,210	-2,799	13,654
30/09/2005	2,716	969		1,343	-50	4,978
Depreciation and amortisation	3,849	1,520	181	57	-1,262	4,345
30/09/2005	2,904	1,257		27	-1,214	2,974
Non-cash expenses	11	148	70	0	0	229
30/09/2005	0	-209		126	44	-39



The segment generating the highest sales remains the Sports Betting segment, with 51 per cent of total sales, as a result of the high betting stakes. The core business segments B2C and B2B account for 23 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, even if the regulatory framework conditions in Germany are deteriorating.

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 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 and on building up a European structure, as a result of which elevated costs as well as high sales growth are to be expected, with a negative effect on the result.

The B2B and B2C segments have remained flat or achieved only mild growth 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 nine months, in order to strengthen these business areas in their competitive context.

The B2B segment fundamentally 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 in 2002. 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 still 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 reporting period, FLUXX AG accrued a minor amount of cash from earnings before depreciation and amortisation, deferred tax, interest and other non-cash expenses of EUR 431 thousand. The reduction of accounts receivable and other assets as well as the increase in liabilities resulted in a further inflow of EUR 2,864 thousand, whereas the reduction of accruals led to an outflow of EUR –245 thousand. Further funds totalling EUR –420 thousand were used for interest payments. The cash flow from operating activities amounted to EUR 2,630 thousand.

A sum of EUR –7,380 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 975 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. The result is a cash flow from investing activities of EUR –8,817 thousand.

The net cash flow before investing activities is thus EUR –6,187 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 –363 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 –6,552 thousand.

6.6. Total remuneration of the Supervisory Board and Management Board

The total remuneration of the Management Board amounted to EUR 571 thousand in the period under review, including EUR 150 thousand in performance-related 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 26 thousand was set aside in the period under review.

6.7. Related parties

Accounts receivable from members of the Management Board totalled EUR 22 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.

	30/09/2006 T€	30/09/2005 T€
GWU mbH (Managing Director Antje Stoltenberg, Supervisory Board member)	3	22
Total	3	22

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. Aktienoptionspläne

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 2006, 35,072 stock options had been exchanged for shares in the company by September 30, and 7,476 options expired in the first nine months of 2006. At September 30, 2006, 178,695 stock options had been 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 139,247 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 %
Exercised in Q3/2006	-35,072	0.90 €	-31,565 €	2.31 €	
30/09/2006 Volume of options scheme	139,247	1.27 €	177,437 €	3.81 €	
Cost in 2005			58,587 €		
Cost in Q1 2006			14,309 €		
Cost in Q2 2006			14,257 €		
Cost in Q3 2006			10,960 €		
Cost in financial year 2006			39,526 €		



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 38 thousand were recorded in the period of 2006 under review for the auditing of the annual accounts.

Altenholz, November 8, 2006

Rainer Jacken

Mathias Dahms

Stefan Hänel