

betandwin.com reports results for second quarter and first half year of 2004

Notes – Second quarter and First Half of 2004

In compliance with the requirements of companies listed on the prime market of the Vienna Stock Exchange, with effect from the report for Q1 2003, BETandWIN.com Interactive Entertainment AG now publishes more detailed (unaudited) information, including a complete consolidated balance sheet, a consolidated income statement, a consolidated cash flow statement, and a consolidated statement of changes in shareholders' equity. This move is designed to significantly improve the quality and transparency of the interim financial reporting on the Group's assets and profitability.

In order to ensure improved comparability with previous periods, betandwin now publishes selected key figures both in a „pro forma“ consolidated form and using the „at-equity“ method.

However, the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, and consolidated statement of changes in shareholders' equity are solely presented using the „at-equity“ method. This report contains statements about possible future developments that have been made on the basis of the information currently available. These statements reflect the opinion of the Executive Board with respect to such future events, and should not be taken as a guarantee of future performance, since they entail risks and uncertainties that are difficult to predict. For many different reasons, actual events or circumstances may differ significantly from the assumptions on which such statements are made.

Highlights

Q2 2004 (pro forma consolidated)

- Record quarterly turnover of over EUR 184 million; up 89% and 113%* respectively (Q2 2003 adjusted for third-party turnover)
- Net winnings after commission and taxes of EUR 11.6 million almost doubled; up 167%* compared to adjusted figure for Q2 2003
- Efficient marketing campaigns: internal objectives far exceeded with 107,000 new registrations
- Full earnings potential from new customers evident only in subsequent quarters: charge to result in current period

First Half of 2004 (pro forma consolidated)

- Record turnover of over EUR 320 million; up 71% and 95%* respectively (1-6/ 2003 adjusted for third-party turnover)
- Net winnings after commission and taxes of over EUR 20 million; up 75% and 136%* respectively (1-6/2003 adjusted for third-party turnover)
- Positive EBITDA of EUR 1.1 million despite pursuing growth strategy
- Liquid assets of EUR 28.2 million as of 30 June 2004 up 26%

Development of Business in Second quarter of 2004 (pro forma consolidated)

Record quarterly turnover of over EUR 184 million; up 89% and 113%* respectively (Q2 2003 adjusted for third-party turnover)

betandwin increased turnover from its betting and casino operations as well as lottery games to EUR 183.617 million, after a turnover of EUR 97.323* million in the same period the previous year. This represents a rise in turnover of EUR

86.294 million, or 88.7%. Adjusted for third-party turnover* – distribution partners also generated turnover up until June 2003 – this meant that turnover was up EUR 97.549 million, or 113.3%.

Partly due to the additional business created during the 2004 European Soccer Championships (EUR 13.637 million), turnover from betting operations grew to EUR 89.097 million (Q2 2003: EUR 44.155 million*; up EUR 44.942 million, or 101.8%). Adjusted for third-party turnover*, the increase in turnover was EUR 56.197 million, or 170.8%.

A rise in turnover from casino operations was reflected in record turnover of EUR 90.594 million (Q2 2003: EUR 53.168 million; up EUR 37.426 million, or 70.4%). Lottery games** developed slowly but steadily, generating turnover of EUR 3.926 million.

(*) Up to and including June 2003, the key indicators reported included sports betting turnover/net winnings after commission and taxes from a contract with a distribution partner. Turnover from sports betting generated by the distribution partner in the amount of EUR 11.3 million is reported in the period under review along with net winnings after commission and taxes of EUR 1.5 million.

(**) Lottery Games: A lottery-like product was added to the product portfolio in May 2003, initially as a pilot project. Due to the low volume of revenues generated, this was initially shown under casino operations, and has been separately reported only since Q3/2003.

Net winnings after commission and taxes of EUR 11.6 million almost doubled; up 167%* compared to adjusted figure for Q2 2003

Net winnings after commission and taxes from betting and casino operations as well as lottery games amounted to EUR 11.553 million in the second quarter of 2004 (Q2 2003: EUR

5.789 million*; up EUR 5.764 million, or 99.6%). Adjusted for third-party turnover*, this represented an increase of EUR 7.219 million, or 166.6%.

Net winnings after commission and taxes from betting operations totalled EUR 8.712 million (Q2 2003: EUR 4.461 million*; up EUR 4.251 million, or 95.3%). Adjusted for third-party net winnings after commission and taxes*, this increase was EUR 5.706 million, or 189.8%. Net winnings after commission and taxes from casino operations amounted to EUR 2.573 million (Q2 2003: EUR 1.328 million; up EUR 1.245 million, or 93.8%). The figure for lottery games** was EUR 0.268 million.

The net winnings margin after commission and taxes from betting and casino operations and lottery games was 6.3% (Q2 2003: 5.9% or 5.0% adjusted*). The net winnings margin after commission and taxes from betting operations was 9.8% (Q2 2003: 10.1%, or 9.1% adjusted*), that from casino operations 2.8% (Q2 2003: 2.5%), and that from lottery games** 6.8%.

Revenues totalled EUR 12.183 million (Q2 2003: EUR 6.376 million*; up EUR 5.807 million, or 91.1%). Apart from the above-mentioned net winnings after commission and taxes, they also include revenues from billing of payment charges, revenues from online gaming offerings based on third-party licences, and own work capitalized for software production.

Efficient marketing campaigns: internal objectives far exceeded with 107,000 new registrations

Taking advantage of the excitement and media interest surrounding the European Soccer Championships, the company invested some EUR 5.0 million in television and radio marketing, as well as print campaigns in Germany, Austria, Turkey and Greece, and mainly online advertising in France, Scandinavia, Spain, Poland and Italy. As a result of targeted campaigns, a total of 56,000 new registrations were recorded

in June, the month of the European Soccer Championships; 41,000 of these were also active online. A further 8,000 registered customers were also reactivated following an intensive effort aimed at the existing customer base.

For the remainder of the period under review, the development of new registrations was better than expected, due not least to extensive investment in brand building. The total number of registrations was 107,141 compared to 30,418 in Q2 2003, representing an increase of 76,723 registrations, or 252.2%.

The number of closed bets was also up to 10,439,891 (Q2 2003: 4,756,070), an increase of 119.5%.

Full earnings potential from new customers evident only in subsequent quarters: charge to result in current period

As far as revenues are concerned, the full potential of newly registered customers will be realised only in subsequent periods. Against this background, the result was negative as anticipated. EBITDA for Q2 2004 amounted to -EUR 1.563 million (Q2 2003: EUR 1.498 million; down EUR 3.061 million). EBIT amounted to -EUR 2.924 million (Q2 2003: EUR 0.645 million; down EUR 3.569 million). There was a rise in the amortisation of goodwill due to the acquisition in the second half of 2003 of Playit.com Ltd. and beteuropa.com (including all associated websites).

The company has consistently pursued the growth strategy announced at its Annual General Meeting, resulting in a rise in expenses for personnel, marketing and other expenses compared to the same period the previous year of EUR 8.868 million, or 181.8%, to EUR 13.746 million (Q2 2003: EUR 4.878 million).

Personnel expenses increased by EUR 0.689 million, or 43.4%, totalling EUR 2.276 million (Q2 2003: EUR 1.587 million). As at the reporting date of 30 June 2004, the company employed 163 people, including freelancers (30 June 2003: 123

employees; up 40). With the long-term development of the company in mind, in November 2003 a staff development programme was introduced with a special focus on promoting the sales department, product development, odds compilation and management and customer support. This programme has been consistently implemented, and the recruiting phase should be completed in the third quarter. Since the start of this programme in the fourth quarter of 2003, the company has taken on 39 new employees in Vienna and Gibraltar, and on site in defined core target markets, twelve of them in the last quarter alone.

Marketing expenses in the second quarter of 2004 totalled EUR 8.418 million as against EUR 1.600 million in the comparable period the previous year, an increase of EUR 6.818 million, or 426.1%. Apart from the company's investment to speed up the establishment of the betandwin brand as a leading European online gaming provider, and activities to grow market shares in core target markets, existing customers were reactivated by means of promotions around major events. Expenses on campaigns centring on the European Soccer Championships amounted to some EUR 5.0 million.

Other expenses include expenses for bank charges, IT services, external odds calculation, consulting and investor relations, and increased to EUR 3.052 million (Q2 2003: EUR 1.691 million; up EUR 1.361 million, or 80.5%). Amongst other things, these increases were attributable to a rise in expenses directly proportional to the expanding volume of business. Bank charges are an example, up by EUR 0.512 million, or 152.4%, from EUR 0.336 million in Q2 2003 to EUR 0.848 million.

In line with the company's communicated growth strategy, there was also an increase in expenses for consulting – mainly legal – travel and transport, as well as IT services.

betandwin reported a loss before tax for the second quarter of

-EUR 3.040 million (Q2 2003: EUR 1.069 million; down EUR 4.109 million). After taking minority interests into account and writing down deferred taxes, consolidated earnings after tax amounted to -EUR 4.277 million (Q2 2003: EUR 0.063 million; down EUR 4.340 million). Minority interests relate to third-party shares in the result – so-called earn-out agreements were made in connection with past investments/betandwin e.K. and acquisitions/Playit.com Ltd., beteurope.com. As reported in the financial statements for 2003 the Austrian government reduced the rate of corporation tax from 34 to 25% with a view to making Austria more attractive as a business location. This reduction resulted in deferred taxes in the amount of EUR 0.950 million, which were written back so as to affect net income.

Development of Business in the First Half of 2004 (pro forma consolidated)

Record turnover of over EUR 320 million; up 71% and 95%* respectively (1-6/2003 adjusted for third-party turnover)

In the first half of 2004, betandwin increased turnover from its betting and casino operations as well as lottery games to EUR 319.938 million after a turnover of EUR 187.278 million* in the first half of the previous year. This represents a rise in turnover of EUR 132.660 million, or 70.8%. Adjusted for third-party turnover* – turnover generated by distribution partners was also reported up until June 2003 – this meant that turnover was up EUR 155.655 million, or 94.7%.

In the first half year, turnover from betting operations totalled EUR 147.535 million (1-6/2003*: EUR 83.724 million; up EUR 63.811 million, or 76.2%). Adjusted for third-party turnover*, the increase in turnover was EUR 86.806 million, or 142.9%. Turnover from casino operations amounted to EUR 167.193 million (1-6/2003: EUR 103.554 million; up EUR 63.639 million, or 61.5%). The same figure for lottery games** was EUR 5.210 million.

(*) Up to and including June 2003, the key indicators reported included sports betting turnover/net winnings after commission and taxes from a contract with a distribution partner. Turnover from sports betting generated by the distribution partner in the amount of EUR 23.0 million is reported in the period under review along with net winnings after commission and taxes of EUR 3.0 million.

(**) Lottery Games: A lottery-like product was added to the product portfolio in May 2003, initially as a pilot project. Due to the low volume of revenues generated, this was initially shown under casino operations, and has been separately reported only since Q3/2003.

Net winnings after commission and taxes of over EUR 20 million; up 75% and 136%* respectively (1-6/2003 adjusted for third-party turnover)

Net winnings after commission and taxes from betting and casino operations as well as lottery games amounted to EUR 20.266 million in the first half of 2004 (1-6/2003: EUR 11.567 million*; up EUR 8.699 million, or 75.2%). Adjusted for third-party net winnings after commission and taxes*, this represented an increase of EUR 11.660 million, or 135.5%.

Net winnings after commission and taxes from betting operations totalled EUR 15.376 million in the first half year (1-6/2003: EUR 8.965 million*; up EUR 6.411 million, or 71.5%). Adjusted for third-party net winnings after commission and taxes*, this increase was EUR 9.372 million, or 156.1%. Net winnings after commission and taxes from casino operations amounted to EUR 4.537 million (1-6/2003: EUR 2.602 million; up EUR 1.935 million, or 74.4%). The figure for lottery games** was EUR 0.353 million.

The net winnings margin after commission and taxes from betting and casino operations and lottery games was 6.3% (1-6/2003: 6.2% or 5.2% adjusted*). The net winnings margin

after commission and taxes from betting operations was 10.4% (1-6/2003: 10.7%, or 9.9% adjusted*), that from casino operations 2.7% (1-6/2003: 2.5%), and that from lottery games** 6.8%.

Revenues totalled EUR 21.848 million (1-6/2003: EUR 12.632 million*; up EUR 9.216 million, or 73%). Apart from the above-mentioned net winnings after commission and taxes, they also include revenues from billing of charges, revenues from online gaming offerings based on third-party licences, and own work capitalized for software production.

In the first half of 2004 the number of registrations increased to 167,613 compared to 61,809 in the first half-year of 2003. This represents an increase of 105,804 registrations, or 171.2%.

The number of closed bets increased by 114% to 19,437,374 (1-6/2003: 9,084,199).

Positive EBITDA of EUR 1.1 million despite pursuing growth strategy

EBITDA for the first half of 2004 amounted to EUR 1.110 million (1-6/2003: EUR 3.017 million; down EUR 1.907 million, or 63.2%) with EBIT of -EUR 1.498 million (1-6/2003: EUR 0.649 million; down EUR 2.147 million).

Expenses for personnel, marketing and other expenses in the amount of EUR 20.738 million were up EUR 11.123 million, or 115.7%, compared to the same period the previous year (1-6/2003: EUR 9.615 million).

Due to the gradual increase in staffing levels, personnel expenses of EUR 4.206 million were up as forecast by EUR 1.199 million, or 39.9% (1-6/2003: EUR 3.007 million). As of the reporting date of 31 December 2003, the company employed 146 people including freelancers: as of 30 June 2004 staff totalled 163 people.

In line with the growth strategy communicated by the company, marketing expenses in the first half-year of 2004 totalled EUR 11.095 million, as against EUR 2.968 million in the comparable period the previous year, an increase of EUR 8.127 million, or 273.8%. This figure includes EUR 5.0 million in expenses related to marketing campaigns in connection with the 2004 European Soccer Championships.

Other expenses include expenses for bank charges, IT services, external odds calculation, consulting and investor relations, and increased to EUR 5.437 million (1-6/2003: EUR 3.640 million; up EUR 1.797 million, or 49.4%). Amongst other things, these increases were attributable largely to a rise in expenses directly proportional to the expanding volume of business. Bank charges are an example, up by EUR 0.825 million, or 135.7%, from EUR 0.608 million in the first half of 2003 to EUR 1.433 million.

In line with the company's communicated growth strategy, there was also an increase in expenses for consulting – mainly legal – travel and transport, as well as IT services.

betandwin reported a loss before tax for the half-year of -EUR 1.173 million (1-6/2003: EUR 1.247 million; down EUR 2.420 million). After taking minority interests into account and writing back deferred taxes in the amount of EUR 1.265 million (of which EUR 0.950 million due to a change in the Austrian corporation tax rate from 34 to 25%), consolidated earnings after tax in the first half year amounted to -EUR 3.532 million (1-6/2003: -EUR 0.493 million; down EUR 3.039 million).

Liquid assets of EUR 28.2 million as of 30 June 2004; up 26%

Liquid assets including short-term securities totalled EUR 28.160 million as of 30 June 2004 as compared to EUR 22.407 million as per 30 June 2003 (up EUR 5.753 million, or 25.7%). Partly due to the low outflow of funds from working capital,

liquid assets were up by EUR 0.315 million compared to 31 March 2004, an increase of 1.1%.

Outlook

The product segments sports betting and casino products have continued to experience substantial growth in recent weeks compared to the same period the previous year. Both the majority of new customers won in connection with the 2004 European Soccer Championships and reactivated customers subsequently took advantage of betandwin's attractive range of gaming entertainment. The development of business in recent weeks was correspondingly good, although the third quarter tends to be somewhat quieter due to the summer break taken by many European soccer leagues. To this extent, betandwin is confident that by the year 2007 it will be able to execute the strategy already communicated – such as a significant gain in market share with a view to catching up with the leading English online gaming providers.

In this connection, the most important drivers of growth will be the opening-up of alternative distribution channels, the gradual extension of the product portfolio, regional expansion (with a focus on continental Europe) and building the betandwin brand to become one of Europe's best recognised online gaming brands.

Distribution channels

Though any WAP-enabled mobile telephone can already be used to place tips online on all available types of bet, and to bet live on soccer, in the next few months betandwin customers will also be able to place live bets via their mobile phones on Formula I, baseball, volleyball and skiing. The company's efforts to achieve accelerated growth in the field of wireless distribution are underpinned by distribution agreements with major telecommunications providers like A1, Vodafone and E-plus.

Product portfolio

The first of the two person-to-person (P2P) applications announced for the year 2004 have already been available to betandwin customers since July 2004. The multiplayer poker application introduced under the brand name of „Poker Lounge“ is currently undergoing an extensive pilot phase on the betandwin domain www.playit.com. The experience gained during these trials will be used for the development of the versions offered at www.betandwin.com in the future; these will probably be made available in the course of the third quarter.

The betandwin portfolio has also been expanded with the addition of „Supertoto“, a pool betting product. The virtual tip sheet has a minimum stake of just 10 cents and offers 14 European soccer matches every week.

Regional expansion

Following the initial success of activities in France, Scandinavia, Spain, Poland and Italy, betandwin will be stepping up its investment in these promising markets during the next few months.

Brand building

Thanks to the conscientious management of the brand during the last four years with a view to enhancing the value of the company, an Austrian brand value survey published in July 2004 placed the value of the betandwin brand at EUR 822.7 million. This put betandwin in 14th place in the overall ranking of the top 50 brands of Austrian companies. In view of the steadily increasing importance of the monetary value of a brand in shareholders' interests, in the next few quarters an extensive investment will be made in positioning betandwin as the European online gaming brand.

Development of the European gaming market from the viewpoint of the European Betting Association

In the opinion of Didier Dewyn, secretary general of the European Betting Association (EBA), much progress has already been made in the liberalization of European sports betting markets. Following the Gambelli judgement by the European Court of Justice in November 2003, courts at national level are beginning to implement the ECJ's ruling. In this context, for example, in a verdict passed down in April this year the German supreme court expressed its doubts as to the compatibility of Germany's sports betting and lottery regulations with European Community law.

The same is true of the interim verdict passed by a Dutch court in Arnhem (Netherlands/June 2004), where the state betting provider had taken action against a privately owned British competitor. The court found that – even taking the government's freedom of interpretation into account – the Dutch policy on gaming as implemented in practice was not sufficiently restrictive to justify the ban on the operations of foreign gaming providers.

The European Commission has also instituted infringement proceedings against Greece and Denmark, and in the mean time private sports betting providers from Italy, Germany and the Netherlands have also lodged complaints with the Commission. Further complaints are currently being prepared by EBA members (betandwin is a founder member of the EBA). A clearer ruling on the treatment of games of chance in the EU is expected by the end of the year at the latest in a guideline on the provision of services in the single market.