



Annual Report 2006
bwin Interactive Entertainment AG

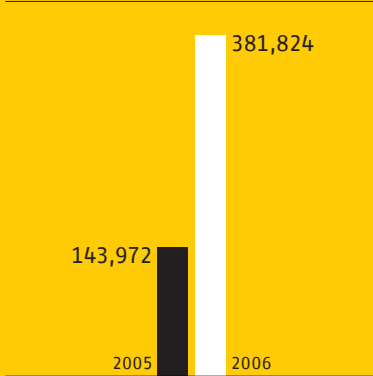
bwin^{com}

- AC Milan: bwin remains in the public eye.
- Soccer World Championships in Germany: For the first time ever, over a million bets were placed in one day.
- Successful rebrandings: betandwin becomes bwin.
- Legislative developments: Cause for concern but at the same time reason to be optimistic.

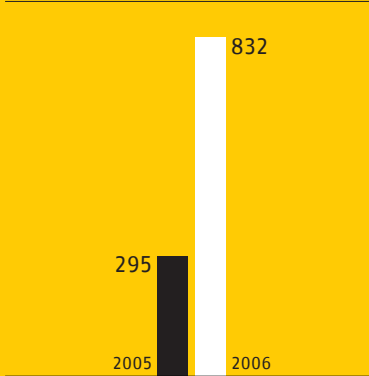
bwin at a glance

EUR 000 (except %)	2006	2005	2004	2003	2002
Key figures					
Gross gaming revenues	381,824	143,972	51,971	30,437	19,876
of which gross gaming revenue sports betting	174,618	94,767	37,552	23,891	16,609
Gross gaming revenue sports betting in %	8.8%	8.7%	9.9%	14.1%	15.9%
Total net gaming revenues	292,372	97,480	30,887	14,183	8,767
Other revenues	29,196	9,121	5,544	4,592	1,638
Expenses	-329,961	-93,174	-31,157	-15,214	-16,761
EBITDA	-8,393	13,427	5,274	3,561	-6,356
EBIT	-588,221	6,557	104	-327	-11,215
Consolidated profit/loss after tax	-539,599	6,377	-2,520	508	-13,349
Balance sheet total	277,552	113,708	56,209	48,967	38,821
Cash and cash equivalents and securities	60,395	41,324	31,516	23,154	17,912
Shareholder' equity	60,799	73,334	42,159	42,347	33,318
Employees at balance sheet date	832	295	156	103	79
New registrations	1,851,922	1,037,556	372,449	213,711	163,276
Number of bets placed (sports betting) in 000	225,021	126,956	48,892	22,122	12,112
Stock exchange indicators					
Yearly high	105.5	86.00	14.40	7.83	2.29
Yearly low	13.00	13.60	7.78	1.48	1.41
Closing (year end)	16.24	86.00	14.13	7.75	1.50
Highest annual price (per 26.03.07)	37.49				
Lowest annual price (per 26.03.07)	16.13				
Closing price (per 26.03.07)	36.05				
Market capitalization (year end)	529,386,843	2,158,193,220	345,209,717	172,824,009	32,043,000
Turnover volume	7,436,530,990	4,720,072,232	526,382,650	116,749,671	22,933,550
Earnings per share	-17.66	0.26	-0.11	0.03	-0.63
Average number of shares outstanding	30,554,177	24,426,198	23,841,218	21,806,394	21,243,094
Capital outstanding (year end)	32,603,048	25,095,270	24,086,040	23,386,286	21,008,714

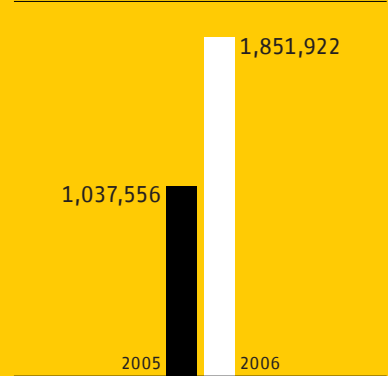
Gross gaming revenues



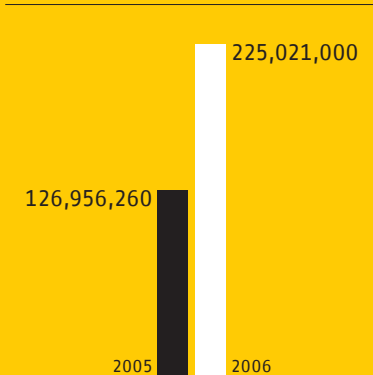
Employees at balance sheet date



New registrations

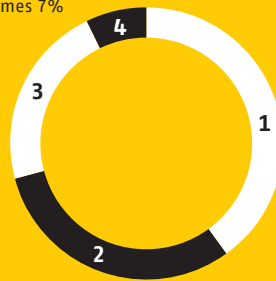


Number of bets placed



Online gaming market - product mix 2006

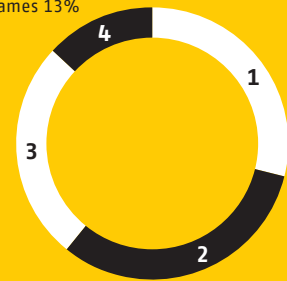
- 1 Sports betting 40%
- 2 Casino 31%
- 3 Poker 22%
- 4 Games 7%



Source: Global Betting and Gaming Consultants (Feb. 2007) excl. lotteries

Online gaming market - product mix 2012

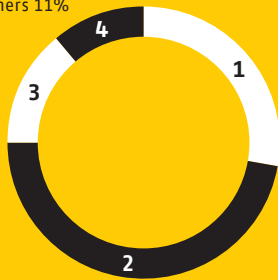
- 1 Sports betting 29%
- 2 Casino 32%
- 3 Poker 26%
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Source: Global Betting and Gaming Consultants (Feb. 2007) excl. lotteries

Online gaming market - geographic breakdown 2006

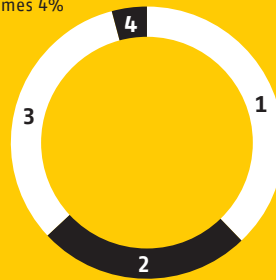
- 1 Europe 28%
- 2 North America 47%
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- 4 Others 11%



Source: Global Betting and Gaming Consultants (Feb. 2007)

Net gaming revenues - product mix 2006

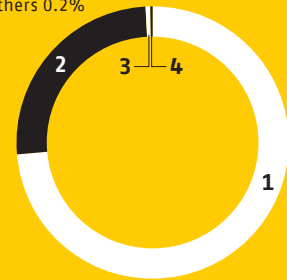
- 1 Sports betting 38%
- 2 Casino 25%
- 3 Poker 33%
- 4 Games 4%



Source: Global Betting and Gaming Consultants (Feb. 2007)

Net gaming revenues - geographic breakdown 2006

- 1 Europe 73%
- 2 America 25%
- 3 Asia 0.5%
- 4 Others 0.2%



Source: Global Betting and Gaming Consultants (Feb. 2007)





February 06
Magic Moments
of Sports

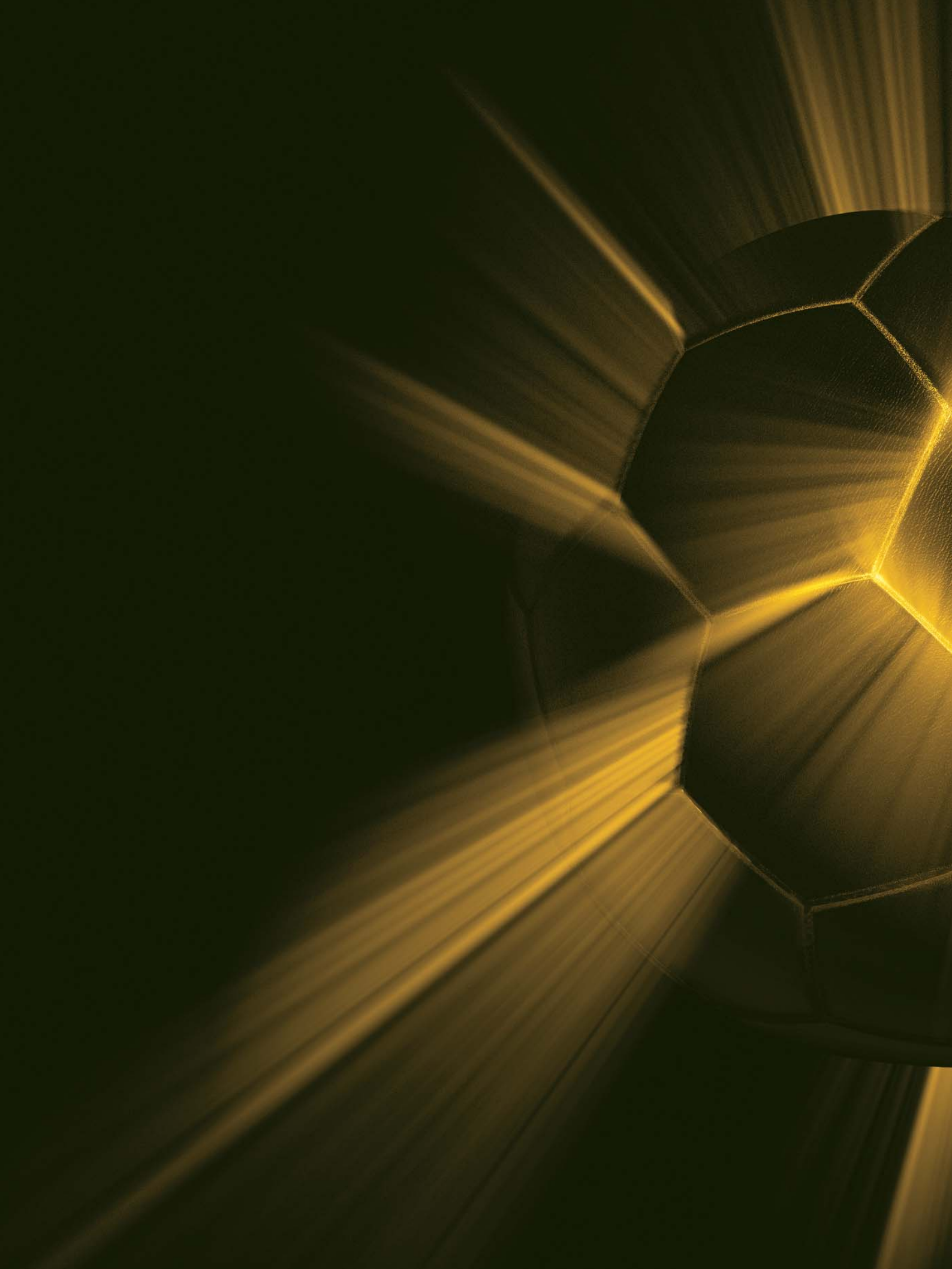
It's not only about betting. It's about more than that.
It's about the most exciting occasions, those
"Magic Moments of Sports". This remarkable campaign by
bwin has already won several awards.

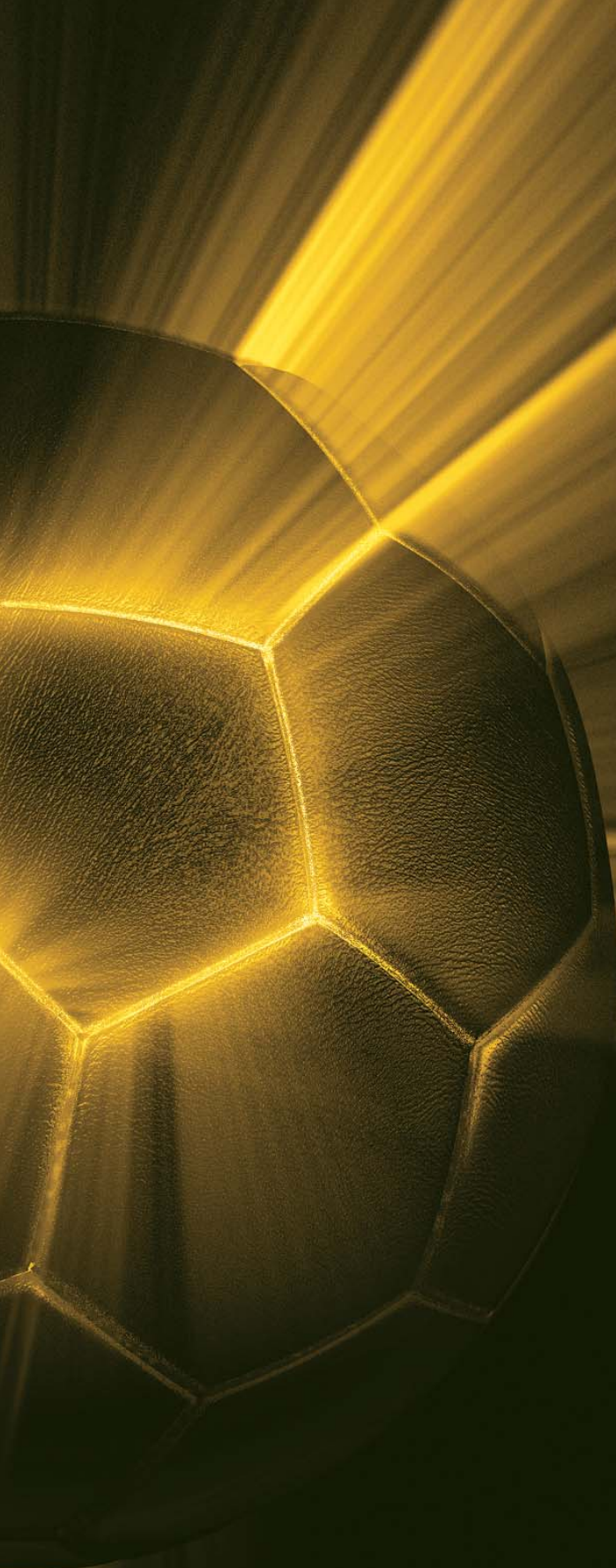
April 06 AC Milan

Only the best is good enough. Ever since the 2006/07 season, *bwin* has been a jersey sponsor of AC Milan, one of the world's most successful soccer associations. The club is precisely the right league for *bwin*, having won various championships, the Champions League and the World Cup many times.









July 06

World Cup 2006

Thanks to a massive Europe-wide World Cup campaign, during the course of the Soccer World Cup *bwin* was able to increase the number of active customers to an average of 182,000 per day.



August 06 Transition

Less is more. *bwin* has long been more than just betting: *bwin* is a new kind of online entertainment. It was high time communicate this in a big way.





August 06 MotoGP

By lending its support to the king class of motorcycle sports, *bwin* underlines its sporting expertise and highlights its leading market position.

bwin.com





FRANCE

TUR vs FRA

FRANCE

TPS star

FRANCE

TPS star

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September 06 Basketball World Championship

In 2006 *bwin* became an official partner of FIBA, the international basketball federation. The Company therefore also sponsors all men's tournaments organized by FIBA, like the 2006 World Championships in Japan.





September 06 Kite surfing

bwin is also involved in trend sports like kite surfing. For the second time in 2006, *bwin* hosted a world tour event of the Professional Kiteboard Riders Association for the elite of the international kite sport world in the Spanish resort of Tarifa.



October 06

Werder Bremen

As one of the main sponsors of Werder Bremen, *bwin* has also sent an unmistakable signal to the hotly contested German market. Even in a roundabout way: we win!!



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Norbert Teufelberger and Manfred Bodner

Letter from the Executive Board

Dear Shareholders,

2006 was extremely challenging, with both external and internal influences on the Company, its financial performance and focus. Nonetheless, the adjustment of the company's strategy to manage these influences has reinforced **bwin's** standing as the leading continental European online gaming operator, and will strengthen the Group's ability to retain existing and attract new customers in the markets where **bwin** operates.

bwin strengthened its position as continental Europe's leading online gaming operator.

Overcoming external pressures to deliver encouraging growth

Gross gaming revenues for FY 2006 totalled EUR 382 million, with more than 2 million active customers. These figures demonstrate the underlying solidity of the Group's core business, given that 2006 was a year of investment (expansion into the poker market, Soccer World Cup campaign), and given the legislative changes in Q4 which effectively forced **bwin** to withdraw its real-money gaming products from the US market.

Changes in the legal landscape

Legislative developments gave **bwin** both cause for concern and cause for optimism during the year under review.

The cause for concern was the introduction in the USA of the "Safe Port Act", which also contains several provisions of the "Unlawful Internet Gambling Enforcement Act", effectively prohibited payment transactions connected with online gaming. In response, **bwin** decided not to accept any US customers for its existing range of real-money gaming products. Until further notice, the Company will only be represented in the US market by its play-money offering.

2006 was characterized by substantial protectionist measures introduced by individual governments to protect state monopolies. This culminated in the brief detention of both of us for the alleged violation of French gaming law. In contrast, cause for optimism came from the "Placanica" ruling by the European Court of Justice (ECJ) in March 2007. The institution of infringement proceedings by the European Commission against nine member states in connection with gaming, was a further milestones on the road to opening up the European gaming market.

These cases not only confirm the correctness of the Group's legal opinion, but also should help to persuade EU Member States to desist from attempts to stifle free and fair competition in the gaming market. This can only be a positive development for online gaming in Europe and, in light of our new strategic focus, for the **bwin** Group.

Increased communication and lobbying activities

To capitalize on the favourable ruling by the ECJ, a coordinated, resolute approach by established licensed online gaming providers is essential. The joint activities of these providers are coordinated through the European Gaming and Betting Association (EGBA). The EGBA will be re-launched and will receive a significantly larger budget.

In parallel, **bwin** will continue its information activities in selected core markets. These efforts often accompany public information campaigns in which **bwin** presses for fair competition, and are aimed both at politicians and the general public, to explain the disadvantages to the consumer of a state monopoly. The objective is to establish market conditions under which contentious topics such as youth and consumer protection, responsible gaming and money laundering can be widely discussed in the best interests of all stakeholder groups.

bwin focused on its core products (sports betting and poker) and stepped up its communication activities.

Internal refocus to turn a challenge into an opportunity

As a proactive response to the external legal landscape, **bwin** adapted its strategic approach with effect from Q4 2006. A year earlier than originally planned, **bwin** shifted its aggressive growth strategy towards profit and cashflow generation. An efficiency enhancement programme embracing all areas of the Company has been initiated. The resulting savings should be reflected in the results with effect from Q1 2007.

Several key steps have been taken to implement the Company's new strategic focus.

To capitalize on the continued future growth potential of the online gaming industry, **bwin** is concentrating on its core products: sports betting and poker. The development of products of an unrivalled technical standard and content will continue to be a cornerstone of the Company's strategy. Since the PokerRoom.com website principally targeted the US market, additional language and currency options will be added to this site in 2007.

In the future, **bwin** will focus principally on its established markets in Europe (the EU and EFTA region), as well as markets where both licensing and taxation aspects are clearly regulated. This does not preclude the development of new markets: the Company will simply take a less aggressive approach to regional expansion. New markets with a clearly regulated licensing regime outside Europe such as Mexico, which **bwin** entered during the build-up to the Soccer World Cup, and more recently Argentina will continue to be identified and, if deemed legally possible, entered.

From the beginning of 2007, the **bwin** Group started to scale down investment in building and establishing the brand by means such as sports sponsorship and above-the-line activities. Previous brand-building investment, like the successful Soccer World Cup campaign, has resulted in comparatively high brand awareness for **bwin** compared to its competitors. According to an image tracking study by Fessel GfK, carried out after the re-branding of the Company from **betandwin** to **bwin**, recognition rates have doubled compared to 2005. During 2006, **bwin** also signed significant jersey sponsorship deals (e.g. AC Milan), which will continue to maintain the exposure of the **bwin** brand over several seasons, subject to local legal circumstances.

Scaling down the Company's marketing activities is expected to have a positive impact on the results of the next few quarters, while the sponsorship and other brand-building initiatives already in place will continue to reinforce **bwin**'s high profile amongst its key target audiences.

Building for the future

bwin's acquisition of Ogame (**bwin** Games) in March 2006 represents an important step in **bwin** Group's expansion into the poker market, and is consistent with the Company's strategy to work on a universal online gaming solution combining high-quality content with the latest technical standards. While the integration of **bwin** Games' operations into **bwin** Group posed its own challenges, the acquisition established **bwin** as a one-stop, global gaming and sports betting brand.

The Company's commitment to recruiting and retaining the best people, and giving them the right tools for the job, remains unchanged. With over 900 dedicated employees and continued investment in leading-edge IT systems, services and applications, **bwin** is well positioned to exploit its market leadership position.

A firm commitment to responsible gaming

While most companies operating in the online gaming market are only just beginning to tackle the subject of Corporate Social Responsibility (CSR), **bwin** is already setting the standard. At the beginning of 2006, **bwin** established a separate CSR department with a view to building social responsibility into its product range, and offering appropriate solutions in line with the status of international debate on this subject. The ongoing evaluation and adaptation of internal processes and the orientation of marketing campaigns are just two examples of this.

bwin also plays an active role in drawing up standards for the industry within the scope of joint ventures, which include the European Gaming and Betting Association (EGBA), the European Sports Security Association (ESSA) and the Company's participation in CSR organizations.

The Company bases its CSR strategy on research and factual reports, and can therefore position itself as a credible, socially responsible company interested in the development of society. **bwin** is also keen to make the knowledge generated publicly available, and to contribute to the drafting and implementation of a socially responsible framework.

In conclusion

While 2006 was a year of change and refocus for *bwin*, management anticipates that the impact on the *bwin* Group's business in Q4 following the changes in the US legal environment will be more than compensated over time as *bwin* focuses more closely on its core products and markets.

The arrival of new competition in Europe, caused in part by these changes, will increase public awareness of online gaming, which *bwin*'s experience, track record, unrivalled technical expertise and brand awareness in the region will allow the Group to exploit.

We would like to thank our dedicated staff for implementing the strategic changes required last year quickly and efficiently. We would also like to thank the supervisory board, particularly our chairman Dr. Androsch, whose strenuous efforts during our detention in France contributed significantly to the swift resolution of that situation; and all our shareholders for their continued confidence in *bwin* as we chart our course between the challenges around us.

We hope that all of you will continue to enjoy our journey together.

Co-CEOs



Norbert Teufelberger



Manfred Bodner

Corporate Governance

Corporate Governance Code:

Best practice principles for corporate management and control

The Executive Board of **bwin** Interactive Entertainment AG continually strives to manage the Company in such a way as to ensure a sustained and long-term increase in the value of the Company. The Austrian Corporate Governance Code not only describes the principles of good management as a confidence-building measure for interested parties (stakeholders), but also defines the distribution of responsibilities between Supervisory Board, Executive Board and Company owners. Strict principles of good corporate management and transparency, coupled with an optimal distribution of responsibilities, make a significant contribution towards the success of a Company with a focus on long-term added value.

Strengthening the Austrian capital market

Against the background of the growing internationalization of the world's markets, the Austrian Working Group on Corporate Governance developed a code that builds on the strengths of the Austrian system of corporate management and control, and also stands international comparison in the field of corporate governance systems. The introduction in October 2002 of an Austrian Corporate Governance Code based on the provisions of Austrian securities, stock exchange and capital market legislation represented the implementation of the OECD guidelines for corporate governance. The Corporate Governance Code was last revised in January 2006.

Both the Executive Board and the Supervisory Board of **bwin** Interactive Entertainment AG believe that the recommendations and suggestions of the Austrian Corporate Governance Code will help to make the Austrian capital market more attractive, particularly for foreign investors.

With the implementation of this code, Austria has established a standard for corporate management based on the interests of shareholders and other groups concerned about the welfare of the Company. To this extent, **bwin** Interactive Entertainment AG welcomed the introduction of this code: as an enterprise managed with the capital market in mind, many of the points contained in the code had already been implemented by the Company before the code was introduced.

Directors' dealing

Depending on the final version of the disclosure and reporting regulations, the disclosures stipulated by § 48 d, para. 4 of the Stock Exchange Act are either made by the Company on its **bwin** investor relations website at www.bwin.ag or by the Financial Market Authority.

Departures from selected recommendations contained in the Code

bwin Interactive Entertainment AG regards corporate governance as a universal quality yardstick applicable to all areas of the Company. All business activities are carried out in an atmosphere of trust between the Executive Board and the Supervisory Board, and characterized by openness and a sense of responsibility.

The Company has not complied with some of the points contained in the Corporate Governance Code. This is due partly to the successful management of the Company in practice and its present size, and partly to circumstances relating specifically to the online gaming industry. The latest version of the Austrian Corporate Governance Code can be found on the Company's investor relations website at www.bwin.ag. How the Company deals with those points with which it does not comply is described below.

Point 16: Appointment of an Executive Board chairman

This point is inconsistent with the Company's actual organizational structure, which features two co-CEOs who have been responsible for the Company's strategic orientation and development from its inception.

Point 18: Establishment of an internal audit department

The internal audit function falls within the controlling remit of the CFO. The establishment of a separate department is neither necessary nor expedient, either in view of the size of the Company, or for commercial reasons.

Point 28: AGM resolution on Employee Stock Option Plan

In the lead-up to the Company's IPO, an Employee Stock Option Plan (ESOP) was approved by the Annual General Meeting and introduced in February 2000, in order to bind employees and executives to the Company and allow them to share in its success. The options were originally designed to be serviced entirely using shares from the Company's authorized capital. Since the Stock Options Act came into force in May 2001, the Annual General Meeting of 23 May 2001 resolved that these options could also be serviced from conditional capital so as to ensure easier and more cost-effective handling.

The contingent capital required for this purpose was initially increased by the Annual General Meeting of 14 May 2004, and revised by the Annual General Meeting of 27 January 2006. Members of the Executive Board are granted option rights on the basis of performance criteria. Since the Supervisory Board is responsible for drafting Executive Board contracts (with regard to both fixed and variable elements), the Supervisory Board also determines the details of any stock option plans for members of the Executive Board, and any modifications to them. The Executive Board allocates options to employees, also on the basis of performance criteria. The relevant share option lockout periods and exercise periods associated with the exercise of such options are defined and communicated in the compliance guidelines.

Point 34: Rules of procedure for the Supervisory Board

The Supervisory Board of *bwin* Interactive Entertainment AG currently consists of only five members, so that the committees provided for are largely irrelevant. The Supervisory Board's rules of procedure do not therefore make any provision for the establishment of committees. To the extent that the establishment of committees is compulsory even with a Supervisory Board of only five members, the conditions of the Corporate Governance Code are directly applicable.

Point 38: Age limit for Executive Board members

The Articles of Association of *bwin* Interactive Entertainment AG do not stipulate any age limit for members of the Executive Board. The appointment of individuals to the Company's Executive Board depends entirely on their professional and personal qualifications.

Points 40, 41 and 43

In view of the fact that the Supervisory Board of *bwin* Interactive Entertainment AG consists only of five members, there are no committees established at present. The functions of the audit, nomination and remuneration committees are exercised by the whole Supervisory Board.

Point 57: Age limit for and number of Supervisory Board members

The Articles of Association do not currently stipulate an age limit for the appointment of Supervisory Board members; nor does this make sense from the Company's point of view. The individual members of the Supervisory Board observe the limitations of § 86 of the Companies Act with respect to the number of Supervisory Board members.

Points 67 and 80: Details of risks, risk management and evaluation

As far as the Company is concerned, risks are unexpected events and possible developments that may have a negative impact on the achievement of objectives, or on the financial situation of the Company. Apart from the risks resulting from economic and legislative developments, market competition and industry-related risks are also of relevance in this context.

Strict principles of good corporate management make a significant contribution to a company's success.

Specific online gaming risks

Taking appropriate measures to deal with specific online gaming risks in general and specific betting risks in particular is part of the normal business activity of *bwin* Interactive Entertainment AG. The ability to quote fair market odds for sporting events with a view to achieving the margins set and communicated by the Company necessitates the use of highly specialized and experienced bookmakers, and the implementation of special custom risk minimization software – which in the case of *bwin* Interactive Entertainment AG was developed in-house. The successful interplay of both factors in day-to-day business is therefore essential to achieve commercial success in the gaming industry. The Company describes the development of its business in sports betting, casinos and games in its regular quarterly reports. By international comparison, in previous reporting periods, the Company has always achieved above-average net winnings margins and net winnings margins after commission and taxes. For competitive and commercial considerations, the Company therefore prefers not to disclose details of its core competences and technical solutions to the outside world.

Regulatory risks

The Company provides information on general changes in international and European legislation in its quarterly reports and annual report (management report). Continually monitoring the changing legal regulations for online gaming throughout the world is a costly business: in Europe especially, legislation in this area is currently undergoing dramatic change. For commercial reasons, detailed legal analyses of individual markets carried out for the benefit of shareholders are not published, particularly since they represent the basis for strategic decisions: publication could put the Company at a competitive disadvantage to its rivals.

The Company's Boards

Executive Board

Manfred Bodner

Bachelor of Arts in
International Studies,
Webster University
St. Louis



Manfred Bodner has held a number of leading management positions since 1989, including membership of the Executive Board of Neckermann Handels AG. As a member of *bwin* Interactive Entertainment AG's Executive Board since June 1999, he has been responsible for Marketing and Sales from the Company's beginning. Since the end of June 2001, when he was appointed Co-CEO, he has also been in charge of Technology (Solution Development/Solution Management).

Norbert Teufelberger

Master of Social and
Economic Sciences,
Vienna University of
Economics and Business
Administration



Norbert Teufelberger entered the domestic and international casino and gaming business in 1989, holding positions with Casinos Austria and co-founding a US-listed casino company. On 19 January 2000, he was appointed to the Executive Board and is responsible for Finance and Investor Relations. In June 2001, he assumed the role of Co-CEO.

Marlon van der Goes



Marlon van der Goes has held a number of leading positions in well-known companies since 1993. Beside the position as executive director at Direct Mail Distribution NV, Belgium, he was also a member of the board at Neckermann Handels AG, Austria, responsible for the buying, marketing and distribution departments. In 2001 he held the position as executive director at Otto Versand GmbH, Austria, where he was also led brand management. Marlon van der Goes joined with the management team of *bwin* Interactive Entertainment AG as CSO on 15 March 2004.

Supervisory Board

Hannes Androsch, a chartered auditor and tax consultant, was elected a representative of the Austrian Parliament in 1967. He was Minister of Finance from 1970 till 1981 and Vice-Chancellor of the Republic of Austria from 1976 till 1981. He was subsequently General Manager of the CA-BV bank till 1988. Hannes Androsch later occupied senior positions with the OECD and the International Monetary Fund. In 1989 he founded AIC Androsch International Management Consulting GmbH in Vienna, and is now an industrialist (www.androsch.com).



Hannes Androsch

MBA, Vienna School of Economics
 PhD in economics,
 Vienna University of Economics and Business Administration

Alexander Knotek is a senior partner in the law firm AVIA LAW GROUP with offices in Vienna, Klagenfurt and Baden. In his many years of practice, he has specialized in corporate law, property and real estate law, insolvency law and business criminal law. He is also a member of the executive and supervisory boards of other various companies.



Alexander Knotek

PhD in law,
 Vienna University,
 practising lawyer since 1979

Johan Hörnell, born in 1976, was a member of the Board of **bwin** Games AB (former Ogame e-solutions AB). As former CFO and head of the finance department, Mr. Hörnell was responsible for overall financial management. Mr. Hörnell holds an MSc degree in Business and Economics from Uppsala University.



Johan Hörnell

Degree in Business and Economics,
 Uppsala University

Helmut Kern was appointed Managing Director of Deloitte Consulting in 1996, and was made a Global Partner in 1998. As a member of Deloitte Consulting's European Telecoms Leadership Group, in the year 2000 he became responsible for some 600 consultants. 100% of the shares in Deloitte Consulting GmbH, Vienna, were acquired in a management buy-out in the year 2003. The company was renamed "Beyond Consulting GmbH", and Helmut Kern appointed Managing Partner.



Helmut Kern

MBA, Vienna University of Economics and Business Administration

Georg Riedl has been a practicing attorney at law in Vienna since 1991. He specializes in company law and M&A, commercial law, capital market law, competition law, IT law, e-commerce, domain law, and private foundation law. Georg Riedl is a member of the executive or supervisory boards of various private foundations and companies.



Georg Riedl

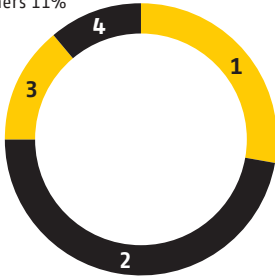
PhD in law,
 Vienna University

Group Management Report on the Financial Statements for 2006

Introduction

Online gaming market – geographic breakdown 2006

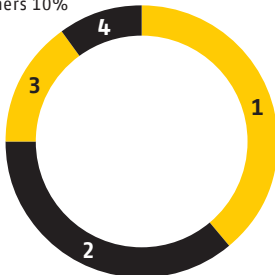
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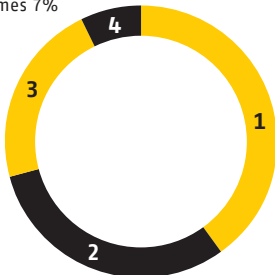
Online gaming market – geographic breakdown 2012

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Online gaming market – product mix 2006

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Source: Global Betting and Gaming Consultants (Feb. 2007)
excl. lotteries

bwin Interactive Entertainment AG can look back on a challenging year. External influences, such as changes to US gaming legislation, and the protectionist measures taken by individual governments to protect state monopolies, impacted **bwin's** financial performance and focus. Nonetheless, underlying business indicators were positive, and the **bwin** Group reported gross gaming revenues (the sum of gross gaming revenues from betting operations, casino, poker and games) for the year of EUR 381.8 million, an increase of EUR 237.9 million or 165.2% on the figure for FY 2005.

The development of gross gaming revenues was influenced by expansion into the poker market and the continued growth of all other product channels (such as sports betting, casino and games). US legislative changes in Q4 2006 effectively forced **bwin** to withdraw its real-money gaming products from that market, which accounted for about 19% of **bwin** Group's gross gaming revenues.

Successful strategies for the acquisition of new customers (e.g. the Soccer World Cup campaign) in combination with a strong brand led to a 141.2% increase in new active customers (including **bwin** Games – formerly Ogame e-solutions AB – and US customers), up to 1.3 million (FY 2005 0.5 million). Including **bwin** Games and US customers, the Company had over 11 million registered customers (including 7 million play money customers) as of 31 December 2006, of whom 1.9 million were new registrations from sports betting in FY 2006 (up 78.5% compared to 1.0 million new registrations in 2005).

Some 1.5 million customers were active in the sports betting segment alone (an active customer is defined as one who has placed a bet for real money at least once during the review period), placing a total of 225 million sports bets (2005: 0.7 million active sports betting customers and 127 million sports bets). Including **bwin** Games and US customers, some 2.1 million customers were active in 2006, an increase of 189.7% compared to the same period of the previous year.

Given that 2006 was a year of investment, and given the US legislative changes in Q4 2006, earnings before interest, taxes, depreciation and amortization were minus EUR 8.4 million, including restructuring of overheads and related costs amounting to approximately EUR 3.8 million. This compares to EUR 13.4 million in FY 2005. Following a profit of EUR 6.4 million in FY 2005, **bwin** reported a loss for the financial year 2006 of EUR 539.6 million, strongly impacted by the impairment charge of EUR 515.1 million as a result of the US regulatory changes in Q4 2006 following the acquisition of **bwin** Games. Further details are available in the Notes to the Financial Statements.

Review of the online gaming market

The online gaming industry is still maturing – the first online gaming offerings only appeared on the Internet in 1996 – and continues to develop rapidly.

According to the latest research (Feb. 2007) from Global Betting and Gaming Consultants (GBGC), in 2006 gross gaming revenues (defined as betting stakes less customer winnings) from all gaming (land-based and online) reached an estimated USD 279 billion worldwide.

GBGC estimates that the proportion of gross gaming revenues generated by online gaming products amounted to around USD 15.2 billion in the same period. This represents a 22.0% increase over 2005, with online gaming products accounting for 5.4% of the overall gaming market. Most analysts agree that online gaming continues to be the fastest-growing sector of

the gaming industry. GBGC predicts that gross online gaming revenues will amount to USD 26.1 billion by the year 2012, accounting for around 7.4% of the entire gaming market (including land-based and lotteries).

While GBGC expects the North American market to contract by 43% in 2007 compared to 2006 following the passing of the Unlawful Internet Gambling Enforcement Act of 2006, (the 'Act'), Europe is expected to enjoy 31% growth in 2007, supporting **bwin's** strategic decision to focus on the EU and EFTA region.

Growth factors include a continued rise in Internet penetration, together with accelerating broadband deployment and pricing reductions, which enable the rapid downloading of gaming software (e.g. poker, casino, games), improved video streaming (live betting), and the connection stability required for person-to-person applications like poker or games of skill.

Online sports betting market

Sports betting currently accounts for around 40% of total gross gaming revenues (excluding lotteries) generated online, which according to GBGC estimates amounted to some USD 14.1 billion in 2006. The underlying growth trend for sports betting is encouraging, especially in **bwin's** core European markets, where GBGC expects the market to have grown by 35% in 2006, enjoying further strong growth of 28% in the current financial year.

Europe is the largest and the most dynamic online gaming market.

Online poker market

GBGC assumes that poker revenue (fees charged for each poker hand played, or "rake") will reach USD 3.1 billion in 2006, or 22% of the total online gaming market excluding lotteries, with Europe enjoying 34% of the global poker market. This share is expected to increase strongly in 2007 to 47%, while the North American portion of this is expected to decline from 57% to 38% following the implementation of the Act, supporting **bwin's** efforts to make the PokerRoom.com site more international by adding new languages and currency capabilities.

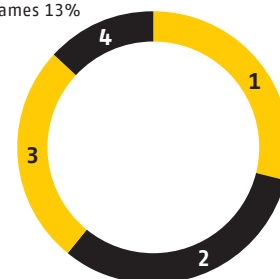
Online casino tables and games

According to GBGC, online casino games like blackjack, baccarat and roulette account for around 31% of the total online gaming market excluding lotteries. In absolute terms, GBGC estimates casino revenues will achieve USD 4.4 billion in 2006, an increase of 33% over 2005.

GBGC's estimate of the total revenue generated online in 2006 by "games" – which include lottery-like products, as well as online bingo applications and games of skill like backgammon – was USD 1.0 billion, with SkillGames showing the fastest rates of growth. In November 2006, **bwin** introduced 15 new SkillGames on the bwin.com site. The market for online games is expected to increase by USD 0.3 billion in 2007.

Online gaming market - product mix 2012

- 1 Sports betting 29%
- 2 Casino 32%
- 3 Poker 26%
- 4 Games 13%



Source: Global Betting and Gaming Consultants (Feb. 2007)
excl. lotteries

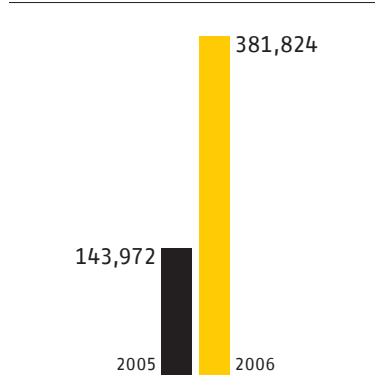
Online gaming market by regions

In 2006, the bulk of online gross gaming revenues – 47% – was generated in North America, while GBGC puts the European share of the market at 28%, followed by Asia with 14%. They assume that North America's share of the market will decline to 36% by the year 2012 following the introduction of the Act in 2006, while Europe will account for 39%, and Asia for 15% of all online gross gaming revenues.

Growing interest in online gaming products in continental Europe.

Development of Business

Gross gaming revenues



Development of gross gaming revenues

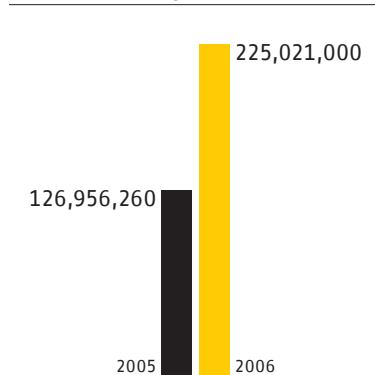
In 2006, **bwin** generated gross gaming revenues (betting stakes less customer winnings) of EUR 381.8 million from its sports betting, poker, casino and games operations.

This figure reflects a continued increase in new customers, driven by a growing interest in online gaming products in continental Europe, and by a successful marketing strategy, particularly the Soccer World Cup campaign. It is also the result of the Company's expansion into the poker market, with the inclusion of results from the initial consolidation of **bwin** Games AB from 1 January 2006 influencing both revenues and costs.

– Sports betting

Gross gaming revenues from sports betting totalled EUR 174.6 million in the year under review. This represented an increase of 84.3% compared to the previous year. Sports betting remained the largest individual business segment and accounted for some 45.7% of total gross gaming revenues in 2006. By comparison, in 2005 this figure was approximately 65.8%. Following the cessation of the US business, this number is again expected to rise above 50%.

Number of bets placed



In 2006, the Company reported a gross margin of 8.8% from sports betting. This figure is therefore within the communicated bandwidth of between 8 and 10%.

Live betting became ever more popular with customers during 2006. **bwin** was among the first online gaming companies to offer live video streams to customers, and continued to lead the market by enhancing the offer (e.g. more betting options), introducing improved video quality, and broadening the range of broadcasts available.

The highlight of the year in the sports betting area was without doubt the Soccer World Cup in Germany, the Company's most important market. For the first time, **bwin** recorded over 1 million bets placed in a single day, more than 10,000 different bets online, and over 500,000 bets on a single game.

– German Soccer League

bwin now holds the international marketing rights to the German Soccer League and Second Division (DFL), giving **bwin** customers an unique opportunity to watch the games streamed live on www.bwin.com outside Germany.

This complements other streaming services such as the Italian series A and B Soccer games, the **bwinLIGA** in Portugal, the UEFA Cup and qualifiers for the 2008 European Soccer Championships, not to mention the US Open (Tennis) and the full ATP Tennis Masters series.

– Poker

Poker turnover (fees charged for each poker hand played, or "rake") totalled EUR 114.7 million in the financial year under review, accounting for 30.1% of all gross gaming revenues. This corresponds to nearly a 12-fold increase compared to 2005's EUR 9.9 million turnover, and is the result of **bwin's** expansion into the poker market. Excluding the US business, poker turnover in 2006 was EUR 60.8 million, accounting for 19.7% of gross gaming revenues.

The steady development of the poker business in 2006 was also supported by increased media visibility for poker throughout Europe, with local TV shows helping to raise its profile, and by the increasing popularity of offline poker-related events.

The integration and launch of **bwin** Poker in August was completed successfully. Going forward, **bwin** will continue to focus on PokerRoom as the major poker brand within the Group. Since the PokerRoom.com website previous mainly targeted the US market, additional language and currency options will be added to the site in 2007.

The network business (b2b) continued to develop very satisfactorily. The Ogame poker network enjoys market-leading player liquidity, with up to 28,000 concurrent users.

– Casino

Sustained by the continued increase in new active customers for sports betting, a wider choice of casino games, as well as the **bwin** Games acquisition, casino turnover (defined as customer stakes less customer winnings) rose from EUR 33.8 million in 2005 to EUR 78.9 million in 2006. As in previous years, the casino product was not advertised externally in the year under review.

In the course of adapting the corporate strategy to focus on the core products of sports betting and poker, it was decided not to continue developing an in-house casino product, and to use licensed third-party software instead.

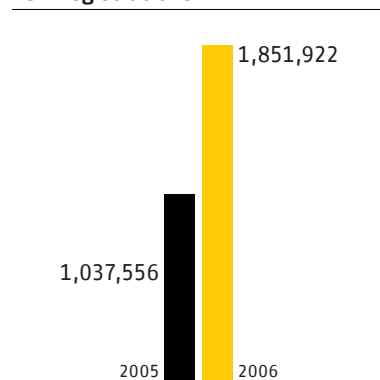
– Games

The Games product group generated turnover (equivalent to gross gaming revenue) of EUR 13.5 million in the year under review. Measured in terms of a turnover of EUR 5.5 million in 2005, this represents an increase of 145.9%. This increase can be attributed to the introduction of a variety of new games during 2006.

The games business at **bwin** is categorized into SoftGames (casino-type games of pure chance) and SkillGames (person-to-person games). 15 new SkillGames were introduced at the end of November 2006, offering a wide variety of competitive, head-to-head, single- and multiplayer games, as well as single- and multiplayer backgammon.

In terms of SoftGames, **bwin's** portfolio now contains three times more games than in 2005, with 21 games online as of February 2007. These games appeal to a much wider audience than just sports betting enthusiasts. 2006 also saw **bwin's** successful introduction of mini games, which offer those placing live bets the opportunity to play a mini game during pauses in live action, or if the live match is not particularly exciting.

New registrations



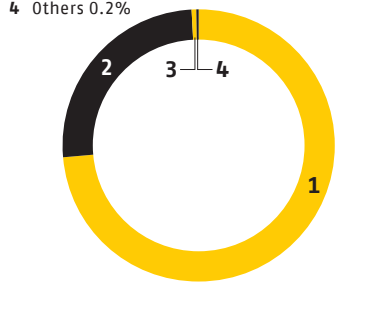
Development of the customer base

In the financial year under review, **bwin** is once again pleased to report strong growth in its customer base. Compared to 2005, the number of active sports betting customers increased by 0.8 million to 1.5 million, equivalent to an increase of 115.1% over 2005. Approximately 1.1 million of these were new active sports betting customers.

Excluding **bwin** Games, over 1.8 million new registrations were recorded in 2006, an increase of 78.5% compared to the 1.0 million new registrations in 2005, adding up to more than 3.9 million registrations in total. Including **bwin** Games and US customers, some 2.1 million customers were active in 2006, an increase of 189.7% compared to the same period of the previous year. Of these, 1.3 million were active for the first time.

Net gaming revenues - geographic breakdown 2006

- 1 Europe 75.0%
- 2 America 26.0%
- 3 Asia 0.5%
- 4 Others 0.2%



Expenses

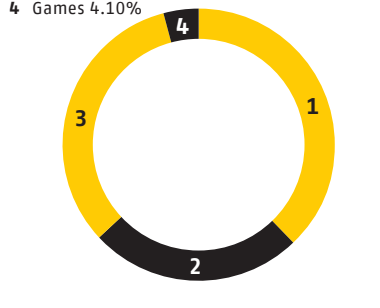
The Company's operating expenses relate to expenses for services rendered, personnel and marketing expenses, and other operating expenses. Expenses grew due to the successful implementation of the Company's growth strategy, and also as a result of the initial consolidation of **bwin** Games, rising to EUR 330.0 million.

To reinforce **bwin's** share of the booming European online gaming market, the marketing budget was up 223.1% over 2005, representing around 50.8% of total expenses. The Soccer World Cup campaign, together with sponsorship deals (including jersey sponsoring of AC Milan and other teams, as well as many other initiatives), accounted for a major part of the marketing investment.

The Company's continued expansion (in terms of both new markets and the **bwin** Games acquisition), and a continued rise in the volume of services offered, required a corresponding increase in personnel expenses, which rose from EUR 17.6 million in 2005 to EUR 52.5 million. This also included the application of IFRS 2 (Share-based Payment), with no impact on cashflow, in the amount of EUR 1.6 million.

Net gaming revenues - product mix 2006

- 1 Sports betting 38.00%
- 2 Casino 25.12%
- 3 Poker 32.82%
- 4 Games 4.10%



The development of bank charges – which were the largest item under other operating expenses, accounting for around 36.1% – was largely in line with the growing number of customers. Legal expenses increased from EUR 2.9 million in 2005 to EUR 17.8 million in 2006 (20.7% of other operating expenses), reflecting the challenging legal environment faced by **bwin** in the year under review. Office expenses and rent also increased from EUR 2.7 million in 2005 to EUR 14.3 million, due to the Company's expansion in 2006 (Stockholm and Vienna offices), accounting for 16.7% of other operating expenses, which totalled EUR 85.7 million.

Operating result and profit for the year

2006 was a year of investment (i.e. budgeted increases in marketing and personnel expenses, and expansion into the poker market). Following the cessation of the US business, **bwin** took an impairment charge of EUR 515.1 million due to the non-cash depreciation of the customer base and goodwill as a result of the **bwin** Games acquisition (these are detailed in the Notes to the Financial Statements). Due to regulatory changes in Turkey, resulting in the temporary withdrawal of **bwin's** range of online gaming products, **bwin** has completely impaired the Turkish customer base by EUR 1.6 million.

As a consequence, the operating result for the year 2006 declined to minus EUR 588.2 million compared to EUR 6.6 million in 2005. A loss after tax and minority interests of EUR 539.6 million was reported for financial year 2006, following a profit of EUR 6.4 million the previous year.

Legal developments in the USA led to the shutting down of US operations and an impairment charge for bwin Games.

Assets, shareholders' equity, cash and cash equivalents

The total assets of the Company increased by EUR 163.9 million during FY 2006 to EUR 277.6 million. This was mainly attributable to a rise in non-current assets in the amount of EUR 110.0 million. Long-term liabilities amounted to EUR 108.6 million, including EUR 31.4 million for the marketing rights to the German Soccer League and a EUR 74.0 million deferred contingent liability (earn-out) for the acquisition of **bwin** Games. Currently evaluating whether this contingent liability will be payable, or if parts of the purchase price already paid can be reclaimed. The Company's shareholders' equity decreased by EUR 12.5 million to EUR 60.8 million during the financial year under review, mainly due to the impairment of assets purchased.

The operational net cash flow for the year under review fell from EUR 22.2 million to minus EUR 11.0 million. Net cash flow from investments was minus EUR 236.0 million in 2006 due to the expansion into the poker market and the budgeted investments necessitated by the Company's growth. The Company reported negative net cash flow from investments of EUR 25.3 million for the previous year.

Apart from the expansion into the poker market, the increase in investments was attributable mainly to servers and server extensions ahead of the Soccer World Cup in Germany, as well as operating expenses and office equipment. Cash and cash equivalents of EUR 31.7 million as of 31 December 2006 were higher compared to the previous year (EUR 18.9 million).

Risk Report

General risks

Apart from regulatory risks and those specific to online gaming, the most significant risks to which the **bwin** Group is exposed are those of a general entrepreneurial nature. Managing the risks specific to online gaming in general, and betting risks in particular, is part of **bwin**'s day-to-day operations. Although providing poker and casino products entails comparatively little risk, quoting fair market odds for sporting events means **bwin** must not only employ highly qualified staff, but also implement appropriate processes and software solutions, most of them fully automated.

Amongst the measures designed to minimize the risks associated with betting operations are the registration of customers complete with name, address and date of birth; compulsory identification on first payout; payment of winnings only by bank transfer or through internationally recognized payment agents; and finally by excluding any sportsmen, managers, referees, etc. directly involved in a sporting event from betting on it.

Other risks associated with gaming operations such as betting fraud (e.g. by syndicates), credit card fraud and money laundering are reduced to a minimum under the watchful eye of the Company's Financial Services and Security departments.

Operational risks

Operational risk is defined as the potential occurrence of losses due to unforeseeable events; interruption of business; inadequate controls or failure of controls or systems associated with staff, customer relations or technology, business assets, other third parties or government agencies, or project and other risks.

Financial instruments

Please refer to the Other Information section to see the Company's report on the use of financial instruments.

bwin operates in 22 European countries serving customers around the globe.

Regulatory risks

The **bwin** Group currently operates in 22 European countries and serves customers around the globe via gaming platforms like www.bwin.com and www.pokerroom.com. All operational activities are handled by **bwin** International Ltd., a subsidiary located and licensed in Gibraltar on the basis of a sports betting and a casino licence, and Safepay Internacional S.R.L on the basis of a poker licence issued by the Kahnawake Gaming Commission.

Against the background of all the relevant judgements (particularly the verdict of the European Court of Justice in the Placanica and Gambelli cases), **bwin** is convinced that its product offerings comply with all legal regulations. Nevertheless, there are a number of uncertainties from a legal perspective, due partly to the fact that the legal framework for offering online gaming products is often inadequately defined. To a certain extent, this is because the Internet did not even exist when some of these national legal regulations were drawn up (see section on Regulatory Developments).

Business risks

General business risks mean the degree of uncertainty about the way business will develop due to changing circumstances such as the market environment, customer behaviour, and technological progress.

Principles of risk management

The heads of the various departments of the Company are responsible for ensuring that employees observe guidelines, licence limits and regulations. For example, certain predefined approval procedures and controls must be observed when making investments of a certain size. The fundamentals of any internal control system include the general principles of risk prevention, such as the separation of functions and the "four eyes" principle for important procedures, as well as guidelines for exchange rate risk management and financial investments.

A wide variety of highly sophisticated and partly automated software applications may also be employed to ensure effective risk management. These facilitate the systematic analysis of all business processes with respect to the anticipated outcome, and quantify all the risks associated with them. Trends may be recognized at an early stage, and are incorporated in the decision-making process in real time in the form of strategic decisions.

Management information system

In this context, *bwin's* management information system (CIS, or Central Information System) provides essential documentation for decision-makers at all executive levels within the Company, depending on their access level. Based on real-time data, the system is also an effective risk management tool.

Events after the reporting date

Please also refer to the Other Information section to see the Company's report on events after the reporting date.

Acquisitions, subsidiaries and associated companies

bwin Games AB

The completion of the acquisition of *bwin Games AB* (formerly Ogame e-solutions AB) marked an important step in the Company's expansion into the poker market, and is consistent with its strategy to work on a universal online gaming solution that offers high-quality content combined with the latest technical standards.

Despite some technical and operational challenges to the full integration of *bwin Games'* poker platform into the *bwin* portfolio, this process is now complete. The acquisition enabled *bwin* to establish itself as a one-stop, global gaming, poker and sports betting brand. Due to the cessation of the US business, *bwin* took an impairment charge on goodwill in the amount of EUR 372.4 million. The value of the acquired customer base was reduced by EUR 109.5 million, and the brand name was impaired by EUR 31.3 million. In total, EUR 515.1 million were written off from the asset base of *bwin Games*, leaving EUR 70.8 million on the Company's books.

Others

In 2006, *bwin* Argentina S.A. was founded in order to work on market entry in Argentina. Early in 2007, the Company was awarded a licence by the province of Misiones. Operations are scheduled to commence after finalization of all the necessary preparations.

DoubleM Media GmbH, which specializes in marketing, sponsoring and communications targeted at the German market, became a 100% subsidiary of *bwin* Interactive Entertainment AG on 26 May 2006 for a consideration of EUR 1.6 million.

BWIN Mexico S.A. de C.V., an 80% subsidiary of *bwin* Interactive Entertainment AG, was founded in 2006 and started operations in May 2006.

The previously founded *bwin* Italia S.R.L. started operating the www.bwin.it website in March 2006, and is a 100% subsidiary of *bwin* Interactive Entertainment AG.

Corporate Social Responsibility

A firm commitment to responsible gaming

As one of the leading online entertainment companies, *bwin* is serious about matters of corporate social responsibility. Though only a small percentage of online gamers is affected by problematic gaming behaviour (according to research carried out by the Harvard Medical School, less than one per cent of *bwin*'s sports betting customers shows behaviour that is indicative of gaming problems), *bwin* takes this issue seriously.

The Company has from its inception taken the lead in providing enjoyable, honest and transparent online gaming transactions, while giving its customers all the necessary information on how to assess, monitor and take personal decisions about the risks that might be involved.

Such a policy is seen by the Company as an essential part of its long-term strategy, and vital for establishing and maintaining the Company's reputation as a leader in its field.

bwin is involved in reputable international organizations such as the European Gaming and Betting Association (EGBA), whose main target is to establish industry standards that meet the highest expectations of governments and regulatory organizations, and respect and support fair market access and European-wide legal frameworks.

The Company's membership of the European Sports Security Association (ESSA) is important in a different way. *bwin* co-founded ESSA to analyse data from the industry, with the aim of detecting signs of betting manipulation as quickly as possible.

Presenting the facts

While *bwin* is fully aware of its responsibility to convey to players and potential players the limited but serious risks involved in possible gaming addiction, it is committed to presenting the facts in a way that does not diminish the pleasure that millions of players enjoy through *bwin*'s online gaming activities. Nonetheless, the Company's specially trained Responsible Gaming Team is tasked with establishing an active and totally transparent relationship with customers, and with responding quickly to any questions they may have.

Essential information

A key policy for the Company is to ensure that customers have all the information at their fingertips needed to make a personal decision concerning the style of gaming in which they wish to engage, and – most importantly – to be able to set personal limits on those activities. By providing customers with comprehensive information concerning game rules, conditions of play, payouts, win statistics, odds etc., **bwin** allows them to make honest and sensible decisions concerning their personal gaming recreation activities.

Being aware of the risks of gaming problems

Fully aware of the possible risk of gaming problems, **bwin** has also created a system of self-monitoring, whereby players can establish self-imposed limits on their gaming activities directly via the website.

If an account is shut down to avoid gaming addiction, the user no longer receives any marketing or promotional information (e.g. concerning new games, etc.). As a general rule, the account is shut down for a minimum of three months, and requests to reopen the account do not go through Customer Service but via the Responsible Gaming Team.

Under no circumstances are such accounts reactivated unless recommended and approved by the team. Reactivated accounts are subject to constant observation by the Company's monitoring programme. Customers under observation may still enjoy online gaming activities up to their self-imposed limits. Should they reach these limits, they automatically receive a warning and, in some cases, the Responsible Gaming Team will intervene.

Gamer protection is and will remain a number one priority for bwin.

Extensive research programme

As part of the Cambridge Health Alliance, the Harvard Medical School's Faculty of Addiction has been conducting research in the field of addiction for the past 30 years, and enjoys worldwide recognition for its work in this area. Its independent study provides a unique opportunity to combine and compare basic research with practical user research.

The ongoing project examines specific and empirical gaming tendencies utilizing special online technologies. The project is the most extensive of its kind ever undertaken. The final results will allow **bwin** to develop a socially responsible system for dealing with so-called problem gamers, as well as serving as a source of scientific data to enrich public debate.

By commissioning, financing and actively participating in this study, **bwin** is making a positive contribution to the development of effective research into the subject of gaming addiction, including making available a source of comprehensive material with which to conduct the research.

Self-help tool

A concrete result of the research carried out so far has been the development of a self-help toolkit for the recognition of gaming addiction. It is designed to support potential addicts by enabling them to analyze their existing habits, and to develop strategies for self-help.

Self-evaluation test

A self-evaluation test developed by the World Health Organization (WHO) is available via the *bwin* website. *bwin* has arranged the translation of this test into 22 different languages to ensure that the broadest possible international customer base has access to this important information. In so doing, *bwin* has created opportunities for WHO to further adapt the test with the help of feedback provided by *bwin* customers, and has therefore made a positive contribution to the worldwide public health discussion.

Important monitoring policies

In close cooperation with partners and researchers, *bwin* has been able to develop a detailed program whereby the transactions of a player can be closely observed. This includes monitoring the customer's self-imposed limit, his gaming behaviour, and above all the number and the value of the bets involved – and some other parameters too. Any customer who is being monitored will naturally be fully informed that this is the case.

Information and explanation

As a responsible provider of online gaming entertainment, *bwin* has a policy of fully informing its customers about the possible risks and dangers – and the realities – involved in these activities. Above all, the Company is restrained, and refrains from making any unrealistic promises about the outcome of online gaming, other than conveying the message that it is principally an entertainment medium.

Personal risk assessment

Various means of assessing one's risk of gaming addiction are available on the Internet, and information about these is also provided to customers via the *bwin* website.

While *bwin* has a policy of making customers aware of the possible risks, its monitoring activities and engagement in research are not intended to be any substitute for professional therapy for those deemed to be gaming addicts. The Company recognizes that this is a field that requires appropriate expert help, and is aware of its responsibilities in this regard.

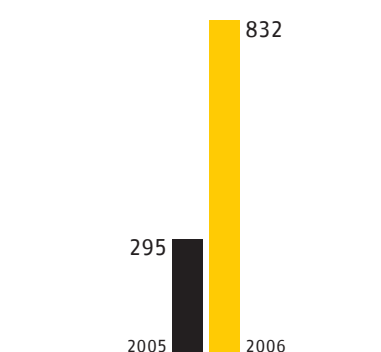
Human Resources

Although *bwin* recently refocused its activities on its core markets, and introduced an efficiency enhancement programme across all areas of the Company, investing in people is one area that continues to be crucial to the Group's future success.

bwin defines its online gaming products as a service whose quality is realized by talented, creative people. The employees of the *bwin* Group create these products with tremendous dedication, and the proficiency gained from years of experience with Internet products. Every single individual in every link of the value chain plays a vital role in the final product: high-quality, innovative online entertainment.

As a result of the Group's continued expansion, the number of employees rose from 356 (including 61 freelancers, mainly in Customer Support) at the end of 2005, to 903 (including 71 freelancers, mostly in Customer Support) at the reporting date of 31 December 2006.

Employees at balance sheet date



Notes in accordance with § 243a of the Austrian Commercial Code

1. The share capital comprises 32,603,048 ordinary shares. The share capital is paid in full.
2. All shares have the same rights and obligations.
3. The majority of the share capital is in free float. The chairman of the Supervisory Board, Hannes Androsch, holds between 5% and 10% of the share capital. The Co-CEOs of *bwin* (Manfred Bodner and Norbert Teufelberger) jointly hold between 5% and 10% of the share capital as well. More than 82% of the share capital is in free float.
4. There are no shares with special control rights.
5. All employees who are also shareholders of the Company personally exercise their voting right.
6. There are no applicable requirements resulting directly from the law regarding the appointment and recalling of members of the Executive Board and the Supervisory Board and concerning the amendment of the company's Articles of Association.
7. In the Annual General Meeting of *bwin* AG held on 17 May 2006, the Executive Board was authorized in accordance with § 65 of the Companies Act to buy back up to 10% of the Company's bearer shares during a period of 18 months from the date of the resolution, for the equivalent of at least EUR 1 and at most EUR 150 per share, although the total amount of share capital held by the Company in the form of shares is not to exceed 10 per cent. The meeting also authorized the Executive Board to redeem the Company's own shares or, with the Supervisory Board's approval until 16 May 2011, to dispose of the Company's own shares by means other than via the stock exchange or by public offering, optionally, partially or completely excluding shareholders' subscription rights.

The Executive Board was authorized to exercise this authority once or several times, and in its entirety or in part. Currently, the Company does not buy back shares.

The Annual General Meeting of **bwin** AG on 17 May 2006 authorized the Executive Board until 16 May 2011 to increase the Company's share capital by a maximum of EUR 15,535,000, in several tranches if necessary, subject to the Supervisory Board's approval. This increase was to be effected by issuing up to 15,535,000 no-par bearer shares for payment in cash or in kind, optionally with partial or complete exclusion of shareholders' subscription rights.

In agreement with the Supervisory Board, the Executive Board was also authorized to determine the terms of issue if necessary, in particular the issue price, the nature of the in-kind contribution, the nature of the share rights and exclusion of subscription rights, as well as the possible issue of the shares by indirect subscription rights. The Supervisory Board is authorized to approve any amendments to the Articles of Association resulting from the issue of shares from authorized capital.

8. The Company is not involved in any agreements that contain regulations that refer to the stipulations under § 243 no. 8 of the Austrian Commercial Code.
9. In the event of a successful takeover bid of at least EUR 3.25, Co-CEOs Manfred Bodner and Norbert Teufelberger will receive a fixed bonus of EUR 290,000. Furthermore, they will receive 2% of the consideration that is above EUR 3.25 per share, and 1% of the consideration that is above EUR 4.25 per share.

Regulatory Developments

Europe

The development of the European online gaming industry has been decisively affected by the "Gambelli" decision of the European Court of Justice (ECJ) in November 2003. According to that ECJ decision, restrictions on transnational services must be justified by compelling reasons of public interest, such as consumer protection or antifraud, and must also be appropriate and necessary to achieve these objectives. For example, insofar as a Member State imposes restrictions on private gaming and betting for reasons of consumer protection, such restrictions must actually serve the purpose of reducing the opportunities to play. This is not the case if a country prohibits private betting and gaming while at the same time advertising state lotteries and gaming in order to earn more revenue for the state treasury.

The principles established in the "Gambelli" case were confirmed and clarified by the ECJ in the "Placanica" case on 6 March 2007. In this decision, the ECJ stated its findings concerning the freedom to provide services and freedom of establishment resulting from referrals from Italian courts.

According to the ECJ's interpretation, each restriction imposed by national legislation should be scrutinized, specifically to determine whether it is suitable to ensure the achievement of the objective put forward by the Member State, and that it goes no further than is necessary to do so. In this specific case, the ECJ came to the conclusion that the complete exclusion of providers from other Member States went beyond what was necessary to reach the objective. According to the ECJ, there are other (more moderate) means of controlling the activities of business participants in the field of gaming that do not infringe their freedom of establishment and freedom to provide services.

Given ECJ case law, it is doubtful whether the state gaming monopolies, which still exist in part, are compatible with Community law. State gaming monopolies are, as shown by their predominantly aggressive advertising behaviour, almost exclusively oriented towards generating revenue for the state; thus, they are not justified by "compelling reasons" of public interest. Moreover, restrictions on transnational services are inadmissible in most cases, according to the interpretations of many well-known legal experts, because they go beyond what is necessary to achieve the prescribed objectives.

In the view of the ECJ, it is the task of national courts to determine the admissibility of the relevant national restrictions in light of the freedom to provide services and freedom of establishment. Legal developments in the individual Member States show, however, that the principles set forth by the ECJ are applied very inconsistently by individual national courts.

The European market continues to be characterized by numerous protectionist measures by individual governments that are intended to protect state monopolies, despite the ECJ decisions; despite the fact that in 2006 the EU Commission initiated infringement proceedings against Austria, France, Italy and Germany, among others; and despite Portuguese and Belgian courts initiating preliminary ruling procedures with the ECJ because of doubts about their respective national laws.

In particular, the situation in Germany is still marked by the debate over a state treaty on gaming that is intended to impose a general ban on online gaming, and many judicial controversies among state gaming providers and authorities, as well as private providers and their advertising partners. In Germany, in particular, certain federal states have initiated injunction proceedings against **bwin**. In France, investigations are still underway against board members for alleged violation of the French monopoly on games of chance.

Due to strong recent political pressure to maintain the state monopoly situation, can be expected to this state of legal uncertainty will continue for several more years at the Community level. The **bwin** Group will however continue to call upon every legal option to combat such measures, especially by invoking European fundamental liberties such as the freedom to provide services and freedom of establishment.

USA

Through the enactment of the "Safe Port Act", which also contains specific provisions of the "Unlawful Internet Gambling Enforcement Act of 2006", almost all payment transactions connected with online gaming have been prohibited. In reaction to this Act, **bwin** decided in the autumn of 2006 to terminate the US real-money business operated by its direct subsidiary, Safepay. Since then, **bwin** has only been represented in the US market by a line-up of play-money services.

Outlook

Products

bwin offers not only one of the largest gaming portfolios on the Internet today, but also the most innovative. As a true pioneer, **bwin** was the first to simplify betting and payment methods for customers, and to integrate them into an intuitive interface. While constantly expanding its range of online gaming products, **bwin** makes sure that customers continue to enjoy the safest and securest online entertainment there is.

In terms of sports betting, regionalization efforts will continue to tailor the product offering to the tastes of individual markets, and to live up to ever-increasing individual customer expectations.

On the Live Betting side, **bwin** will add to the already extensive number of events offered. Introducing improvements to the site's usability to enhance the user experience, by adding entertainment features such as a larger screen and improved chat functionalities, will round out the site's appeal, especially to first-time visitors.

bwin offers one of the largest and most innovative gaming portfolios.

Previously targeted mainly at the US market, PokerRoom will become more international, with the planned addition of new currency and language options, capitalizing on the booming European poker market and the large liquidity provided by the Ogame poker network.

The Company continues to be convinced of the potential for mobile gaming, and is continually improving its mobile games portfolio (e.g. its new mobile version of PokerRoom offering many functional and usability enhancements, and mobile Blackjack).

On the Games front, additional SkillGames and SoftGames will be added during the course of 2007. Planned upgrades to the Casino software will complete the **bwin** Group's online gaming entertainment offer, living up to the Company's goal to be a "House of Games", with sports, fun and entertainment in all areas of gaming.

General outlook

Despite the changes in the US legal landscape, the ECJ rulings and European Commission infringement proceedings give cause for optimism along the road to opening up the European gaming market. **bwin** believes that the measures taken to consolidate its business will underpin long-term value generation, and will bear fruit in the medium term.

The Company believes that the impact on gross gaming revenues of legal developments in the US experienced in Q4 of the year in review, and the recent temporary withdrawal of its range of online gaming products from Turkey, may be more than compensated over time. The positive outcome of these short-term setbacks is that **bwin** is now more focused than ever on delivering sustainable, long-term profits and generating positive cashflow. This puts the focus on existing customers. Apart from efficiency-enhancing Customer Relationship Management tools, a loyalty programme to engage the customer emotionally will be added in the current financial year. The focus on established markets in Europe does not exclude the development of new markets where the legal and licensing aspects are clearly regulated. For example, the Company successfully obtained an Argentinean licence, and will become operational there after the finalization of all necessary preparations.

At the beginning of 2007, investment in building up and establishing the brand by means of activities such as sports sponsoring and above-the-line activities was scaled down. The investment that has already been made in building the brand has resulted in comparatively high brand awareness for **bwin** compared to its competitors, and the benefits of this are expected to have a positive impact on the results of the next few quarters. With no major sporting events scheduled for the current financial year, the next big promotional highlight will be the European championships in 2008 in Austria and Switzerland.

In 2007, as in the past, the Company will concentrate on creating long-term shareholder value. With this in mind, **bwin** will continue to offer all its stakeholders – shareholders, customers and staff – maximum transparency, and to adhere to the highest ethical standards in order to continue to build confidence in the Company.

Vienna, 26 March 2007



Manfred Bodner



Norbert Teufelberger



Marlon van der Goes

Disclaimer

This management report contains statements relating to the future that were made on the basis of the current situation at the time of going to press. Although the Executive Board assumes that its forecasts are accurate, in the fast-moving online gaming business it is impossible to guarantee that these expectations will be realized. However, as in the past, the Company aims to make all essential information available to its shareholders immediately and without restriction.

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Consolidated Balance Sheet as of 31 December 2006 – IFRS

in comparison to previous year's figures

EUR 000	*	31.12.2006	31.12.2005
Assets			
Non-current assets			
Intangible assets	(1)	132,828	25,935
Tangible assets	(2)	18,260	6,352
Financial assets	(3)	5,295	13,490
Investments in associated companies	(4)	444	1,225
Deferred tax assets	(5)	473	39
		157,300	47,041
Current assets			
Receivables and other assets	(6)	52,875	19,957
Securities	(7)	28,676	22,428
Cash and cash equivalents	(8)	31,719	18,896
Prepaid expenses	(6)	6,982	5,386
		120,252	66,667
Total		277,552	113,708
Liabilities and Shareholders' Equity			
Shareholders' equity			
Share capital	(9)	32,603	25,095
Additional paid-in capital		592,306	68,130
Treasury shares		-343	-447
Exchange rate differences		1,385	563
Revaluation reserve		3,536	9,083
Retained earnings		-568,688	-29,090
		60,799	73,334
Minority interests	(9)	0	0
		60,799	73,334
Long-term liabilities			
Provisions for liabilities to employees	(10)	329	216
Long-term liabilities	(13)	105,475	0
Deferred tax liabilities	(5)	2,829	0
		108,633	216
Short-term liabilities			
Short-term liabilities	(12)	90,787	34,186
Other provisions	(11)	11,531	4,111
Deferred income	(12)	5,802	1,861
		108,120	40,158
Total		277,552	113,708

* See notes

Consolidated Income Statement

for the financial year 2006 - IFRS in comparison to previous year's figures

EUR 000	*	2006	2005 (adjusted)
Net gaming revenues	(14)	292,372	97,480
Other operating income	(15)	25,184	8,038
Capitalized costs	(16)	4,012	1,083
Total revenues		321,568	106,601
Expenses for services rendered	(17)	-23,943	-5,824
Personnel expenses	(18)	-52,538	-17,591
Marketing expenses	(19)	-167,740	-51,919
Other operating expenses	(20)	-85,740	-17,840
Expenses		-329,961	-93,174
Earnings before interest, depreciation, amortization and taxes (EBITDA)		-8,393	13,427
Depreciation, amortization and impairments	(21)	-579,828	-6,870
Earnings before interest and taxes (EBIT)		-588,221	6,557
Financial result	(22)	-3,101	322
Income from investments from associated companies	(4)	-188	136
Result of ordinary operations before income taxes (and third-party interests)		-591,510	7,015
Income taxes	(5)	52,644	2,481
Loss/profit before third-party interests		-538,866	9,496
Third-party interests	(23)	-733	-3,119
Loss/profit for the year		-539,599	6,377
Earnings per share (basic and diluted)	(24)	-17.66	0.26
thereof attributable to:			
Parent company equity holders		-539,598	6,377
Minority interest		-1	0

* See notes

Consolidated Statement of Changes in Shareholders' Equity

for the financial year 2006 – IFRS in comparison to previous year's figures

EUR 000	Attributable to equity holders of the parent company							Total	Minority interests	Total equity
	Share capital	Capital reserves	Profit reserves	Treasury shares	Trans-lation differ-ences	AFS reserve	Net loss for the year			
Status 31.12.2005	25,095	68,130	0	-447	563	9,083	-29,090	73,334	0	73,334
Market valuation of securities	0	0	0	0	0	-5,547	0	-5,547	0	-5,547
Translation differences	0	0	0	0	822	0	0	822	0	822
Net income recognized directly in equity	0	0	0	0	822	-5,547	0	-4,725	0	-4,725
Profit/loss for the year	0	0	0	0	0	0	-539,598	-539,598	-1	-539,599
Total profits and losses recognized	0	0	0	0	822	-5,547	-539,598	-544,323	-1	-544,324
Additions to minority interests	0	0	0	0	0	0	0	0	1	1
Capital increase	5,976	533,444	0	0	0	0	0	539,420	0	539,420
Cost of share issues	0	-13,757	0	0	0	0	0	-13,757	0	-13,757
Exercise of share options	1,532	2,978	0	0	0	0	0	4,510	0	4,510
Issue of share options	0	1,615	0	0	0	0	0	1,615	0	1,615
Transfer of shares	0	-104	0	104	0	0	0	0	0	0
Status 31.12.2006	32,603	592,306	0	-343	1,385	3,536	-568,688	60,799	0	60,799

EUR 000	Attributable to equity holders of the parent company							Total	Minority interests	Total equity
	Share capital	Capital reserves	Profit reserves	Treasury shares	Trans-lation differ-ences	AFS reserve	Net loss for the year			
Status 31.12.2004	12,220	64,610	0	-550	563	783	-35,467	42,159	0	42,159
Market valuation of securities	0	0	0	0	0	8,300	0	8,300	0	8,300
Net income recognized directly in equity	0	0	0	0	0	8,300	0	8,300	0	8,300
Profit/loss for the year	0	0	0	0	0	0	6,377	6,377	0	6,377
Total profits and losses recognized	0	0	0	0	0	8,300	6,377	14,677	0	14,677
Capital increase from reserves	12,293	-12,293	0	0	0	0	0	0	0	0
Exercise of share options	582	4,066	0	0	0	0	0	4,648	0	4,648
Issue of share options	0	2,473	0	0	0	0	0	2,473	0	2,473
Transfer of shares	0	9,274	0	103	0	0	0	9,377	0	9,377
Status 31.12.2005	25,095	68,130	0	-447	563	9,083	-29,090	73,334	0	73,334

Consolidated Cash Flow Statement

for the financial year 2006 – IFRS in comparison to previous year's figures

EUR 000	2006	2005
Loss/profit for the year	-539,599	6,377
Amortization/depreciation of intangible and tangible assets and impairments	579,828	6,870
Non-cash personnel expenses (share-based payments)	1,615	2,473
Income from associated companies	188	-137
Profits taken from associated companies	593	1,326
Write-downs of financial assets	300	0
Write-ups of financial assets	-88	0
Profit/loss on disposal of fixed assets	5	22
Increase/decrease of long-term provisions	113	73
Taxes on changes in equity capital not affecting net income	-4,537	0
Increase/decrease of deferred taxes	-51,546	-2,931
Exchange rate differences	623	1
Payment of taxes on income	-3,724	-290
Increase/decrease of accounts receivable and other assets	-10,692	-16,778
Increase/decrease of short-term provisions	6,886	1,146
Increase/decrease in liabilities	8,955	24,022
Net cash flow from operating activities	-11,080	22,174
Proceeds from disposal of financial assets and other financial investments	0	548
Proceeds from disposal of long-term assets	0	83
Payments for acquisition of subsidiaries	-205,800	0
Payments for acquisition of assets (excl. financial assets)	-29,070	-15,441
Payments for acquisition of other financial investments	-767	-10,481
Payments for acquisitions of financial assets and shares in associated companies	-62	0
Net cash flow from investment activities	-235,699	-25,291
Payments from capital increases	259,602	4,648
Net cash flow from financing activities	259,602	4,648
= Net change in cash and cash equivalents	12,823	1,531
+ Cash and cash equivalents at beginning of period	18,896	17,365
Cash and cash equivalents at end of period	31,719	18,896
of which interest income	1,260	332
of which interest payments	40	0

Notes to the consolidated financial statements as of 31 December 2006 – IFRS

Information about the Company

bwin Interactive Entertainment AG (**bwin** AG) (formerly BET and WIN.com Interactive Entertainment AG) with registered offices at Börsegasse 11, 1010 Vienna, Austria, commercial register: Vienna Commercial Court (FN 166449 d), and its subsidiaries together make up the **bwin** Group, for which the present consolidated financial statements for the financial year 2006 have been prepared. The business activities of the **bwin** Group include offering sports betting, casino and virtual games, and operating a multiplayer poker platform. Additionally the Company also makes sporting content such as live streams, live scores, statistics and cell phone text services available to its customers.

Wherever necessary, **bwin** Interactive Entertainment AG carried out central functions such as finance, marketing, IT, project management, international business development, human resources and corporate communications for the subsidiaries of the **bwin** Group. It also provides numerous other services such as market research, customer data analysis and legal consulting. On the one hand, the operational business of the **bwin** Group is carried out by **bwin** International Ltd., Gibraltar, on the basis of a Gibraltarian sports betting and casino licence, and on the other by Safepay Internacional S.R.L, Costa Rica, on the basis of a licence issued by the Kahnawake Gaming Commission. The two companies operate under different domains such as www.bwin.com or www.pokerroom.com.

Accounting policies

Accounting principles

The consolidated financial statements of **bwin** Interactive Entertainment AG and its subsidiaries (hereinafter "**bwin** subsidiaries") are prepared in compliance with the International Financial Reporting Standards (IFRS), as applicable in the European Union, and section 245a of the Austrian Commercial Code.

Newly applied IFRS standards

IAS 19 ("Employee Benefits") was revised in December 2004. The changes related to actuarial gains and losses as well as benefit plans and disclosures to the financial statements. As a result of this revision, it is now possible to record actuarial gains and losses directly in shareholders' equity. The Company did not take advantage of this possibility, but continued to recognize its actuarial profits and losses in the income statement.

The amendments made to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" in August 2005 have to be applied to financial years beginning on or after 1 January 2006. Accordingly, guarantors must generally report liabilities resulting from financial guarantees in their annual financial statements. **bwin** has applied this amendment since 1 January 2006. This did not have an effect on the consolidated financial statements due to their immateriality.

Changes in accounting methods

In the financial year 2006 gaming revenues are reported on a net basis in the income statement for the first time. This method means that betting bonuses granted to customers are no longer recognized as marketing expenses, but as a reduction of revenues. These changes take into account international developments in the industry in reporting in accordance with IFRS standards. The previous year's figures have been adjusted accordingly.

The following standards and interpretations have already been published, but it was not yet compulsory to apply them to the financial year 2006:

New or modified standards		Effective date*
IFRS 7	Financial Instruments: Disclosure	1 January 2007
IFRS 8	Segment reporting	1 January 2009
IFRIC 7	Applying the restatement approach under IAS 29 "Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2 "Share-based Payment"	1 May 2006
IFRIC 9	"Reassessment of Embedded Derivatives" in accordance with IAS 39	1 June 2006
IFRIC 10	"Interim Financial Reporting and Impairment"***	1 November 2006
IFRIC 11	IFRS 2 Share-based payments, group and treasury share transactions**	1 March 2006
IFRIC 12	"Service Concession Arrangements"***	1 January 2008
IAS 1	Presentation of Financial Statements (amendments to disclosure requirements to capital)**	1 January 2007
IAS 32	"Financial Instruments: Disclosure and Presentation" (disclosure requirements replaced by IFRS 7; the title of IAS 32 changed to "Financial Instruments: Presentation")**	1 January 2007

*) The standards must be applied to financial years beginning on or after the effective date.

**) Standards not yet endorsed by the EU.

bwin AG does not anticipate that the first-time application of these standards and interpretations in the future will have a significant effect on the financial statements of and profitability of the Company. The effect of the changed standards and interpretations on the structure and disclosures of the consolidated financial statements is currently being investigated. The Company does not early adopt these standards and interpretations.

Principles of consolidation

Apart from the parent company **bwin** AG, Vienna, the consolidated financial statements include the following subsidiaries which were controlled by **bwin** AG as of 31 December 2006 (reporting date 31 December):

Consolidated subsidiaries	Functional currency	% of share capital held	Offices registered in
WEBSPORTS ENTERTAINMENT Marketing Services GmbH	EUR	100	Austria
bwin International Ltd. (formerly BAW International Ltd.)	EUR	100	Gibraltar
BAW Terminal Distribution GmbH	EUR	100	Austria
Playit.com Ltd.	GBP	100	UK
bwin Italia S.R.L. (formerly BETandWIN Italia S.r.l.)	EUR	100	Italy
BWIN Mexico S.A. de C.V.	MXN	80	Mexico
DoubleM Media GmbH	EUR	100	Germany
DOBLE LIMITED	EUR	100	Gibraltar
bwin Games AB (formerly Ogame e-solutions AB)*	SEK	100	Sweden
Ogame Future AB*	SEK	100	Sweden
Safepay Intl. S.R.L.*	USD	100	Costa Rica
Ogame Ltd.*	GBP	100	UK
Nordic One Ltd.*	GBP	100	UK
Ogame Holding Malta Ltd.*	USD	100	Malta
Ogame International Malta Ltd.*	USD	100	Malta

*) Ogame group at the time of acquisition

BWIN MEXICO S.A. de C.V. was founded in the financial year 2006.

A fund of funds has been included in the consolidated financial statements since it is qualified as a special-purpose entity (SPE) in accordance with SIC 12 due to the degree of control exercised.

Principles of consolidation

In principle in accordance with IFRS 3, subsidiaries are first consolidated when the parent company actually assumes a controlling influence over the assets and operations of these companies.

Subsidiaries are initially consolidated using the purchase method by allocating acquisition costs to the recognizable assets, liabilities and contingent liabilities associated with the acquired company. Any amount of the acquisition costs exceeding the stated fair value of such net assets is reported as goodwill. Goodwill is not amortized, but tested annually for impairment. In the event of an impairment to goodwill, this is recorded in the income statement.

Intercompany revenues, expenses and profit and losses from intragroup transactions, as well as receivables due from and liabilities due to consolidated companies are eliminated.

Associated companies over which the Company has a significant influence but does not exercise control are reported using the equity method.

In some acquisitions in 2003, it has been agreed that the seller will continue to share in the results of future periods (until November 2006). The percentage of profits due to the seller will be determined in accordance with the method laid down in the purchase agreement and will be recognized in the income statement as a third-party interest.

Foreign currency translations

The **bwin** Group reports its ongoing business transactions in foreign currencies at monthly average exchange rates. Financial assets and liabilities in foreign currencies are translated into euros at the reporting date at the current exchange rate for that day. The resulting foreign currency gains and losses are recognized in the result for the financial year.

Please refer to the information about consolidated companies for details of the functional currencies of the **bwin** Group. The euro is the functional currency of **bwin** AG. The financial statements are translated using the modified reporting date method, and the resulting translation differences charged to equity without an effect on net income.

The financial statements were translated at the following exchange rates:

	Reporting date 31.12.2006	Average 2006	Reporting date 31.12.2005	Average 2005
British pounds (GBP)	0.6715	0.6827	0.6898	0.6853
Swedish Krona (SEK)	9.0404	9.2942	-	-
U.S. Dollar (USD)	1.3170	1.2479	-	-
Mexican Peso (MXn)	14.2900	13.7159	-	-

Business combination

Acquisition of the Ogame Group

On 1 January 2006 **bwin** acquired 100% of the shares of the Ogame Group. The consideration paid for these shares was calculated using the contractually agreed multiplier of 5.37 times the gross gaming revenues reported by Ogame for the financial year 2005 less customer bonuses of around EUR 95.48 million. This came to EUR 512.74 million (based on an agreed conversion rate from EUR to USD of 1.1907 and the stock exchange price for **bwin** shares of EUR 65.19 per share on which the capital increase was based).

The calculation of the purchase price was underpinned by a discounted cash flow measurement based on budgets for the Ogame Group with due consideration for the market and product potential presented by the management of Ogame. Of the total purchase price, an amount of EUR 230.74 million was paid in cash, the remaining amount of EUR 205.1 million being paid for by an issue of **bwin** shares (note (9)). An amount of EUR 76.91 million will be payable subject to the fulfilment of certain financial criteria in the financial year 2006, and will become due at the end of the first quarter of 2009 (note (13)).

The degree to which these financial criteria are met will be the subject of a special investigation in the financial year 2007. The stock exchange price of EUR 86 at the time **bwin** took control of Ogame was used for the purposes of initial consolidation, which resulted in the acquisition cost of EUR 577.48 million.

The following table gives an overview of the purchase price allocation to the individual assets and liabilities assumed by **bwin** on the date of acquisition. The purchase price allocation was finalized in the financial year 2006.

EUR 000	01.01.2006
Goodwill	399,132
Intangible assets	215,303
Tangible assets	4,283
Receivables and prepaid expenses	21,003
Securities	4,830
Cash and cash equivalents	28,107
Deferred tax liabilities	-60,327
Liabilities and other provisions	-34,848
Total acquisition costs	577,483
thereof purchase price in cash	230,735
thereof issue of shares	270,570
thereof contingent purchase price liability (cash value)	73,835
thereof ancillary acquisition costs	2,343

The Ogame Group was already drawing up its financial statements in accordance with IFRS as endorsed by the EU before it was acquired by **bwin**.

The assets and liabilities in accordance with IFRS immediately prior to the acquisition were therefore as follows:

EUR 000	31.12.2005
Intangible assets	1,303
Tangible assets	4,283
Receivables and prepaid expenses	21,003
Securities	4,830
Cash and cash equivalents	28,107
Liabilities and other provisions	-34,848
Deferred tax liabilities	-407
Shareholders' equity	24,271

The goodwill recorded is not tax deductible. The intangible assets acquired are mainly customer-related assets (EUR 171 million) and software with an estimated average useful life of 4.86 years. The brand name is an intangible asset recognized in the balance sheet with a value of EUR 39 million. Based on an analysis of product life cycles, contractual and legal controls and other relevant factors, it is recognized as an intangible asset with an indefinite useful life and expected to generate positive cash flows for an unlimited period of time.

The factors contributing to this goodwill were the assets acquired, which are not reported separately, such as well-trained staff, market shares and access to customers and markets. These mainly relate to assets designed for the American market and poker customers. For the impairment charges recognized (see note (21)).

In the financial year 2006 the **bwin** Games Group (formerly Ogame Group) reported a loss of EUR 4,079 thousand.

The Executive Board is currently considering possible claims that might lead to an adjustment of the total purchase price.

Other corporate acquisitions

On 26 May 2006, **bwin** acquired all the shares in DoubleM Media GmbH for a purchase price of EUR 1,650 thousand and recording goodwill of EUR 1,570 thousand. On 9 October 2006, **bwin** also acquired 100% of the shares of DOBLE LIMITED for EUR 29 thousand and those of Pegasus Pferdewetten GmbH for EUR 27 thousand.

Investments in the following company have been classified and are reported at equity:

At equity	Reporting date	Capital EUR 000	Result for the year EUR 000	Percentage of share capital	Registered offices
bwin e.K.	31.12.2006	355	1,067	50	Germany

Since May 2002, **bwin** AG has also been an atypical silent partner with a 50% interest in **bwin** e.K. (formerly Odds Sportsdata, Dr. Steffen Pfennigwerth), Neugersdorf, Germany. Dr. Pfennigwerth runs the business of **bwin** e.K. – www.bwin.de – under the terms of a German licence.

The investments are reported at equity and shown under "Investments in associated companies". The excess purchase price over the companies share of the net assets acquired

arising as a result of this acquisition has been allocated to customer base and is amortized over a period of five years. The amortization is reported in the income statement together with the prorated results under the item "income from investments in associated companies".

The **bwin** Group also holds investments in the following unconsolidated subsidiaries:

Unconsolidated subsidiaries	Reporting date	Capital EUR 000	Result for the year EUR 000	Percentage of share capital	Registered offices
					British Virgin Islands
Southern Gem Ltd.	31.12.2006	0	0	100	Islands
Europäische Spielbanken N.V.	31.12.2006	0	0	100	Curacao
Pegasus Pferdewetten GmbH	31.12.2006	10	-15	100	Germany
BETANDWIN S.A. (balance sheet date 31.05.)	31.12.2006	4	0	100	Argentina

The unconsolidated subsidiaries listed here have not been included in the consolidated financial statements due to their insignificance.

Europäische Spielbanken N.V. was founded in the financial year 2004. At the end of 2005 the decision was taken to liquidate the company. This liquidation was recorded in the financial year 2007.

BETANDWIN S.A. was founded in the financial year 2006.

bwin Intercontinental Ltd., Belize, was sold by Southern Gem Ltd. during the financial year 2006.

The following investments in companies are presented as financial assets:

Other investments	Reporting date	Capital EUR 000	Result for the year EUR 000	Percentage of share capital	Registered offices
Monnet Enterprise Ltd.	31.12.2006	92	48	25	Gibraltar
Monnet Enterprises (Malta) Ltd.	31.12.2006	10	0	25	Malta
Betbull – The European Betting Exchange Plc	31.12.2005	24,899	-5,403	14.4	UK

Due to their immateriality, the Monnet companies are shown under the item other investments.

Accounting principles

Intangible and tangible assets

Intangible assets, whether purchased or self-developed, leasehold improvements, other plant as well as operating and office equipment are valued at acquisition or production cost less amortization/depreciation. The interest attributable to production costs is not recognized.

In accordance with IAS 38, the cost of self-developed software is capitalized as soon as its technical feasibility is assured, providing future economic benefits can be expected and the cost can be reliably measured.

As all the requirements are met, personnel expenses in connection with the production and improvement of websites and the online gaming software used by the Group are capitalized.

Depreciable assets are depreciated/amortized on a straight-line basis over the estimated useful economic life of such assets. The various rates of depreciation are based on the following expectations for useful life:

	Useful life in years	% rate of depreciation/amortization
Intangible assets		
Software	2 – 4	25 – 50
Self-developed software	2	50
Customer base, licences	1.5 – 5	20 – 67
Marketing rights	3	33
Tangible assets		
Leasehold improvements	3 – 10	10 – 33
Operating and office equipment	3 – 5	20 – 33

Intangible assets with an indefinite useful life, such as brand names and goodwill, are not subject to scheduled amortization, but tested annually for impairment or if there are indications of an impairment of their carrying value.

Impairments

All tangible and intangible assets with a definite useful life are tested for indications of impairment. In such instances, the items in question are assessed for their recoverable amount. An impairment is recorded if the recoverable amount is below the carrying value. Goodwill, intangible assets with an indefinite useful life, and any intangible assets not yet put into service, are not subject to scheduled amortization, but are tested for impairment annually or if there are indications of impairment. The carrying value of the goodwill is compared with the recoverable amount in the process. If this test indicates the need for an impairment, the corresponding expense is recognized in the income statement under the item depreciation and impairment.

Cash and cash equivalents

bwin AG reports cash, demand deposits and fixed-term deposits with terms of up to three months as cash and cash equivalents.

Financial assets and liabilities

Financial assets and financial liabilities are recognized initially when the company acquires contractual rights or enters into contractual obligations. All transactions are recorded at settlement date. They are derecognized when the Company loses control of the contractual rights associated with such assets. This is normally the case when such assets are sold or any cash flows arising from such assets are directly transferred to an independent third party.

Financial assets and current marketable securities

In accordance with IAS 39, securities and financial investments measured at acquisition cost when first recorded and (with the exception of securities from funds of funds and derivative financial instruments, see below) are assigned to the category of "available for sale" provided the fair values can be derived from stock exchange prices. Measurement is carried out at the relevant fair values.

With the exception of impairments, changes in the fair value are recorded in the period in which they occur under shareholders' equity (revaluation reserve) without affecting the operating result. If no fair values are available, the assets are recognized at acquisition cost less any impairments. Interest is recorded using the effective interest method, dividends when the legal entitlement to payment arises.

A fund of funds held by *bwin* is qualified as a special-purpose entity (SPE), and its assets are therefore recognized. Securities in the fund are categorized as "available for sale". The current market values are calculated from stock exchange prices.

Two further funds in which *bwin* has invested are classified as "at fair value through profit or loss" and "available for sale" respectively.

Receivables and other assets

Receivables and other assets are classified as loans and liabilities, and are carried at amortized cost or at lower fair value (less individual adjustments for anticipated uncollectible amounts).

Financial assets and financial liabilities

Financial liabilities are categorized as other financial liabilities, and are recorded at amortized acquisition cost. Interest expense is recognized in accordance with the effective interest method.

Income taxes

Deferred taxes are recognized for all temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax base. Deferred taxes are calculated in accordance with IAS 12 "Income Taxes" using the balance sheet liability method. Deferred taxes in relation to tax loss carryforwards are recognized only to the extent that it is more likely than not that they will be recovered in the foreseeable future.

Share-based payments

In accordance with IFRS 2, share-based payment transactions for goods or services received or purchased are recognized at the relevant fair value on the acquisition date. Depending on whether the transactions are settled using equity instruments or by cash payments, this results either in an increase in shareholders' equity or a liability.

The expense incurred as a result of shared based payment transactions for services received (settled by means of share options) is recognized over the service period of the share options. IFRS 2 was first applied in the financial year 2005, as a result of which the only shared based payment transactions taken into account are those granted after 7 November 2002 and not yet exercisable when this IFRS came into effect.

Employee benefits

Obligations relating to severance payments

Under the law and individual employment contracts, the Austrian companies of the *bwin* Group are obliged to offer employees who joined the Group before 31 December 2002 a one-off severance payment on dismissal or on reaching retirement age. This is based on the number of years of service and the employee's salary at the time of severance.

The *bwin* Group has established a provision to cover this liability. Measurement is in accordance with the provisions of IAS 19 "Employee Benefits" on the basis of the projected unit credit method. Actuarial gains and losses are recognized in the years in which they occur.

Due to changes in legal regulations, a contribution-based system was introduced for staff employed after 31 December 2002. Contributions are paid monthly and affect net income.

Other provisions

Other provisions are established whenever the company has legal or actual obligations towards a third party as a result of an event in the past, and whenever it is likely that such obligations will result in cash outflows. The amounts of these provisions are set at levels considered appropriate according to best estimates at the time the accounts are drawn up. No provision is made if the amount cannot be reasonably estimated, and an explanation is provided in the notes to the consolidated financial statements.

Accounts payable

Accounts payable are measured at amortized cost, which is equivalent to the repayment amount.

Revenue recognition and presentation

Betting turnover is based on paid-up bettors' stakes as of the reporting date, provided the underlying bets have already been decided. Stakes that have been charged to bettors' accounts where the related sporting event does not take place until after the reporting date (pending bets) are recognized as deferred income.

The net balance of betting stakes and winnings paid out from all product areas, and the winnings paid out together with the rake obtained from poker products are recognized in the income statement less any reductions such as sales commission, bonuses granted to players, licence costs and betting duties as net gaming revenues (net presentation).

Estimates and judgements relating to future developments

The preparation of consolidated financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are described below:

- The positive appraisal of the risk of agency revenue generated in Germany being taxable under the German Betting and Lotteries Act (see note "other obligations and contingent liabilities").
- Goodwill, customer base, marketing rights, software, tangible assets, equity investments in and receivables from associated companies consolidated at equity are measured on the basis of estimates of future cash flows (in some instances using forecasts). Please see note (21) for impairments recognized in the financial year 2006 and the assumptions made, for the carrying values of the assets see the items on the balance sheet.
- Obligations associated with loan guarantees, other guarantees and contingencies not shown in the balance sheet are measured on a regular basis to determine whether or not they should be recognized in the financial statements (see note "other obligations and contingent liabilities").
- Deferred tax assets on losses carried forward and other deductible temporary differences in the amount of EUR 97,461 are not recognized as it was not probable that they will be realized within a reasonable period of time. Tax losses carried forward are attributable mainly to a write-down of the investment in **bwin** Games.

Notes to the balance sheet and income statement

(1) Intangible assets

(a) Amortizable intangible assets

EUR 000	Marketing rights	Software	Licences	Customer base	Advance payments	Total
Acquisition costs						
Balance as of 01.01.2006	0	7,611	2,287	26,010	1,134	37,042
Change in consolidation range	0	6,166	0	170,500	0	176,666
Exchange rate differences	0	72	0	0	0	72
Additions	58,048	6,443	0	0	220	64,711
Disposals	0	-35	0	0	0	-35
Reclassifications/transfers	0	1,134	0	0	-1,134	0
Balance as of 31.12.2006	58,048	21,392	2,287	196,510	220	278,457
Accumulated amortization						
Balance as of 01.01.2006	0	3,972	1,860	5,275	0	11,107
Change in consolidation range	0	363	0	0	0	363
Exchange rate differences	0	16	0	0	0	16
Additions	9,675	8,071	247	39,302	0	57,295
Impairments	0	1,806	0	111,055	0	112,861
Disposals	0	-35	0	0	0	-35
Balance as of 31.12.2006	9,675	14,193	2,107	155,632	0	181,607
Carrying value as of 31.12.2006	48,373	7,198	180	40,878	220	96,849
Carrying value as of 31.12.2005	0	3,639	427	20,735	1,134	25,935

EUR 000	Marketing rights	Software	Licences	Customer base	Advance payments	Total
Acquisition costs						
Balance as of 01.01.2005	0	6,087	2,017	10,222	0	18,326
Additions	0	4,341	270	17,400	1,134	23,145
Disposals	0	-2,817	0	-1,612	0	-4,429
Balance as of 31.12.2005	0	7,611	2,287	26,010	1,134	37,042
Accumulated amortization						
Balance as of 01.01.2005	0	5,090	1,412	3,715	0	10,217
Additions	0	1,698	448	3,172	0	5,318
Disposals	0	-2,816	0	-1,612	0	-4,428
Balance as of 31.12.2005	0	3,972	1,860	5,275	0	11,107
Carrying value as of 31.12.2005	0	3,639	427	20,735	1,134	25,935
Carrying value as of 31.12.2004	0	997	605	6,507	0	8,109

Marketing rights

During the financial year 2006, *bwin* acquired rights to the international marketing of the first and second German soccer leagues from DFL Deutsche Fussball Liga GmbH in the amount of EUR 58,048 thousand for the seasons 2006/2007 up to and including 2008/2009. These marketing rights will be amortized over their estimated useful life of three years. To date *bwin* has concluded 42 agreements with international sublicensees, mostly broadcasting stations, to exploit the acquired rights. These marketing rights are not transferable to third parties.

Software

Internally generated intangible assets in the amount of EUR 4,012 thousand (2005: EUR 1,083 thousand) were recognized during the financial year. They have a useful life of two years.

Licences

The *bwin* Group holds licences in Austria, Gibraltar, Italy and the United Kingdom. These betting licences are generally not recognized as assets as the low charges involved are payable on a yearly basis. The amount shown relates to the purchase price allocation resulting from a business combination. They have a useful life of five years. In the previous year the Company acquired a license in Italy for EUR 270 thousand. It has a useful life of two years.

Customer base

The amount shown relates to the purchase price allocation resulting from various business combinations. They have a useful life of five years, and an average remaining useful life of two and a half years.

In July 2005, the Company purchased a customer base and two domains from NOMATO Investments Ltd. The purchase price was made up of EUR 5,000 thousand in cash and an obligation to transfer a total of 200,000 *bwin* shares. Subject to NOMATO complying with the agreed non-compete clause, the shares will be transferred to NOMATO in three tranches in the years 2005, 2006 and 2007.

The fair value of the assets transferred and to be transferred was determined on the basis of the cash purchase price and the fair value of the shares on the date of the agreement, and amounted to EUR 17,400 thousand.

As of 31 December 2006, a total of 66,668 shares had not yet been transferred to Nomato in accordance with the contract. In total a corresponding amount of EUR 9,377 thousand (after deduction of deferred taxes) was therefore recognized in equity as a capital reserve. The reduction of the treasury shares will be recorded by a transfer to capital reserves when the shares are transferred to NOMATO.

In the process of purchasing the Ogame Group in January 2006, the Company acquired a customer base valued at EUR 171 million, which will be amortized over a period of five years. Further information can be found under the note "business combinations".

See Note (21) for details of impairments charged during the financial year 2006.

(b) Non-amortizable intangible assets

EUR 000	Brand name	Goodwill	Total
Acquisition costs			
Balance as of 01.01.2006	0	0	0
Change in consolidation range	39,000	399,132	438,132
Additions	0	1,570	1,570
Balance as of 31.12.2006	39,000	400,702	439,702
Accumulated amortization			
Balance as of 01.01.2006	0	0	0
Impairments	31,300	372,423	403,723
Balance as of 31.12.2006	31,300	372,423	403,723
Carrying value as of 31.12.2006	7,700	28,279	35,979
Carrying value as of 31.12.2005	0	0	0

Brand names

bwin acquired a brand name and goodwill in the business combination of Ogame Group in January 2006. The brand name was classified as an asset with an indefinite useful life, as it is not subject to either a product life cycle or to technological or commercial depreciation. The period over which *bwin* has control over it is not limited either. Further information can be found under the note "business combinations".

See Note (21) for details of impairments charges made during the financial year 2006.

(2) Tangible assets

EUR 000	Leasehold improvements	Operating and office equipment	Advance payments and plant under construction	Total
Acquisition costs				
Balance as of 01.01.2006	449	8,990	27	9,466
Change in consolidation range	415	5,269	0	5,684
Exchange rate differences	21	174	0	195
Additions	374	12,401	582	13,357
Disposals	0	-463	0	-463
Reclassifications/transfers	0	27	-27	0
Balance as of 31.12.2006	1,259	26,398	582	28,239
Accumulated depreciation				
Balance as of 01.01.2006	60	3,054	0	3,114
Change in consolidation range	91	1,230	0	1,321
Exchange rate differences	4	49	0	53
Additions	188	5,703	0	5,891
Impairments	0	58	0	58
Disposals	0	-458	0	-458
Balance as of 31.12.2006	343	9,636	0	9,979
Carrying value as of 31.12.2006	916	16,762	582	18,260
Carrying value as of 31.12.2005	389	5,936	27	6,352

EUR 000	Leasehold improvements	Operating and office equipment	Advance payments and plant under construction	Total
Acquisition costs				
Balance as of 01.01.2005	129	3,818	0	3,947
Additions	412	5,629	27	6,068
Disposals	-92	-457	0	-549
Balance as of 31.12.2005	449	8,990	27	9,466
Accumulated depreciation				
Balance as of 01.01.2005	47	1,974	0	2,021
Additions	57	1,495	0	1,552
Disposals	-44	-415	0	-459
Balance as of 31.12.2005	60	3,054	0	3,114
Carrying value as of 31.12.2005	389	5,936	27	6,352
Carrying value as of 31.12.2004	82	1,844	0	1,926

The main additions during the financial year 2006 related to servers and the expansion of servers in the amount of EUR 9,570 thousand (2005: EUR 4,072 thousand) as well as office equipment valued at EUR 3,005 thousand (2005: EUR 1,557 thousand).

See Note (21) for details of impairment charges made during the financial year 2006.

(3) Financial assets

EUR 000	Loans	Other investments	Subsidiaries	Marketable securities	Total
Acquisition costs					
Balance as of 01.01.2006	300	2,660	0	67	3,027
Additions	0	0	65	0	65
Balance as of 31.12.2006	300	2,660	65	67	3,092
Accumulated write-downs/write-ups					
Balance as of 01.01.2006	0	-10,429	0	-34	-10,463
Write-ups	0	0	0	-7	-7
Write-downs	300	7,967	0	0	8,267
Balance as of 31.12.2006	300	-2,462	0	-41	-2,203
Carrying value as of 31.12.2006	0	5,122	65	108	5,295
Carrying value as of 31.12.2005	300	13,089	0	101	13,490

EUR 000	Loans	Other investments	Subsidiaries	Marketable securities	Total
Acquisition costs					
Balance as of 01.01.2005	0	0	175	139	314
Change in consolidation range	0	0	-175	0	-175
Transfer of investments in associated companies	0	628	0	0	628
Additions	300	2,032	0	0	2,332
Disposals	0	0	0	-72	-72
Balance as of 31.12.2005	300	2,660	0	67	3,027
Accumulated write-downs/write-ups					
Balance as of 01.01.2005	0	0	175	-15	160
Change in consolidation range	0	0	-175	0	-175
Write-ups	0	-10,429	0	-19	-10,448
Balance as of 31.12.2005	0	-10,429	0	-34	-10,463
Carrying value as of 31.12.2005	300	13,089	0	101	13,490
Carrying value as of 31.12.2004	0	0	0	154	154

Investments in subsidiaries relate to entities not consolidated as of the reporting date of 31 December 2006 due to their insignificance.

Write-downs for the financial year relate mainly to the valuation of shares in Betbull at the fair value through equity.

Other loans were entirely written down in 2006 due to the fact that the debtor's financial circumstances indicated that the amount was no longer expected to be recoverable.

The securities and investments (available for sale) recognized at their fair values are as follows:

EUR 000	31.12.2006	31.12.2005
Betbull PLC	5,119	13,086
Monnet Enterprise Ltd., Monnet Enterprises (Malta) Ltd.	3	3
Units in Raiffeisen funds of funds	108	101
Total	5,230	13,190

(4) Investments in associated companies

The development of these investments is shown below:

2006 EUR 000	Investments in associated companies
Acquisition costs	
Balance as of 01.01.2006	2,301
Balance as of 31.12.2006	2,301
Accumulated write-downs/write-ups	
Balance as of 01.01.2006	1,076
Result from associated companies	188
Year-end profit shares	593
Balance as of 31.12.2006	1,857
Carrying value as of 31.12.2006	444
Carrying value as of 31.12.2005	1,225

2005 (adjusted) EUR 000	Investments in associated companies
Acquisition costs	
Balance as of 01.01.2005	2,929
Transfer to financial assets	-628
Balance as of 31.12.2006	2,301
Accumulated write-downs/write-ups	
Balance as of 01.01.2005	-113
Result from associated companies	-137
Year-end profit shares	1,326
Balance as of 31.12.2005	1,076
Carrying value as of 31.12.2005	1,225
Carrying value as of 31.12.2004	3,042

The company assumed obligations to accept certain expenses, particularly marketing expenses and general expenditure from business partners. See also "Other obligations and contingent liabilities".

The reporting date of all associated companies is 31 December, and the measurement of the Company's share of results is made on that basis.

The financial information of the associated companies can be summarized as follows:

EUR 000	2006	2005
Balance		
Non-current assets	547	462
Current assets	10,847	10,407
Total assets	11,394	10,869
Shareholders' equity	622	812
Current liabilities	10,772	10,057
Total liabilities and shareholders' equity	11,394	10,869
Income statement		
Revenues	73,170	37,138
Operating expenses	-71,825	-35,478
Depreciation/amortization	-128	-66
Financial result	33	33
Income taxes	-182	-234
Profit for the year	1,068	1,393

(5) Deferred taxes

Temporary differences between the book values of assets and liabilities in the balance sheet and their relevant tax bases result in the following deferred tax assets:

EUR 000	31.12.2006	31.12.2005
Intangible assets	389	385
Tangible assets	16	0
Financial assets	2,486	414
Provisions for obligations to employees	27	13
Other provisions	91	0
Tax loss carryforwards	0	4,463
Deferred tax assets	3,009	5,275
Financial assets	-616	-2,607
Treasury shares (see NOMATO (1)(a))	-1,007	-2,014
Intangible assets	-3,105	-195
Current marketable securities	-620	-412
Non-current investments	-10	-8
Prepaid expenses	-7	0
Deferred tax liabilities	-5,365	-5,236
Total deferred taxes	-2,356	39
thereof deferred tax assets	473	39
thereof deferred tax liabilities	-2,829	0

Calculations of deferred taxes are based on the Austrian corporate taxation rate of 25%, the Gibraltar rate of 0%, the German rate of 26.4%, the Swedish rate of 28%, the Maltese rate of 35%, the Mexican rate of 28%, the Costa Rican rate of 0%, and the United Kingdom rates of 28.5 and 30% respectively.

There are currently no time limits on using up losses carried forward in the various countries.

The changes in deferred tax assets are summarized below:

EUR 000	2006	2005
Change in deferred taxes recognized in the income statement	-44,005	3,055
Change in deferred taxes due to change in tax rate recognized in the income statement	-7,541	-124
Change due to business combinations	60,327	0
Change in shareholders' equity	-6,386	-5,787
Change in deferred taxes	2,395	-2,856

Taxes were recognized directly in equity for the following items in 2006:

EUR 000	31.12.2006	31.12.2005
Deferred income taxes		
Capital reserves (NOMATO)	0	-3,021
Revaluation reserve (securities)	143	-159
Revaluation reserve (investments)	-1,992	-2,607
Current taxes on income		
Share issue costs	-4,537	0
Total	-6,386	-5,787

A deferred tax liability of EUR 3,021 thousand was directly recognized in capital reserves due to the acquisition of customers from NOMATO Investments Ltd. in the third quarter of 2005 in return for treasury shares (see Note (1)). The share issue costs relate to the capital increase in the first quarter of 2006. Tax income/expense was as follows:

EUR 000	2006	2005
Change in deferred taxes	51,546	2,931
Current taxes	1,098	-450
Tax benefit	52,644	2,481

The difference between the expected income taxes based on the applicable tax rates and the amount presented in the income statement is explained as follows:

EUR 000	2006	2005
Loss/profit before tax	-591,510	7,015
Third-party interests	-733	-3,119
Subtotal	-592,243	3,896
Calculated tax income/expense (25%)	-148,061	974
Change in tax due to differential tax rate	-124,900	-1,219
Not recognized deferred tax assets	121,800	6
Impairment of goodwill	104,279	0
Change in taxation rate	-7,541	-124
Share-based payments	404	618
Capitalization of deferred taxes on tax loss carryforwards	0	-2,750
Non-deductible interest expenses	769	0
Prior period income taxes	29	0
Other	577	14
Tax income recognized	-52,644	-2,481

There are no restrictions on carrying forward tax losses. Deferred tax assets in the amount of EUR 121,800 for losses carried forward and future temporary deductible differences were not recognized.

No deferred taxes were recognized for investments reported at equity. Overall there are temporary differences in the amount of EUR 1,857 thousand that would result in deferred tax assets amounting to EUR 464 thousand.

(6) Receivables, other assets, prepaid expenses and accrued income

EUR 000	31.12.2006	31.12.2005
Balances on clearing accounts	25,116	11,333
Receivables from associated companies	13,110	5,875
Receivables from German soccer league marketing-rights	4,358	0
Accounts receivable	3,275	40
Balances on tax authorities' accounts	1,642	1,373
Interest and earnings in funds of funds	512	583
Security deposits	228	95
Other	4,634	658
Total receivables and other assets	52,875	19,957
Prepaid expenses	6,982	5,386
Total	59,857	26,001

The profit shares from funds of funds are explained in more detail in Note (7).

The item "balances on clearing accounts" relates mainly to the handling of internet payments by clearing houses.

The fair value of receivables is equivalent to their book value, as this item relates exclusively to short-term liabilities. The item accounts receivable includes liabilities in foreign currencies in the amount of EUR 2,951 thousand. Most of these are in USD.

The item prepaid expenses relates mainly to prepayments for advertising services.

(7) Marketable securities

The securities shown include securities from a fund of funds with a book value of EUR 23,551 thousand (previous year: EUR 22,428 thousand). This is a special-purpose entity (SPE) included in the consolidated financial statements. The assets contained in this fund of funds (shares, cash, and accrued interest shown in statements of account) are all measured individually. These items are recognized with due consideration for the provisions of SIC 12, according to which securities (shares in investment funds) are to be recognized under short-term securities, cash under liquid assets, and accrued interest and profit shares under other receivables.

Fund shares valued at EUR 5,125 thousand (previous year: EUR 0) are also reported and classified as "fair value through profit and loss". The profit accruing from these fund shares in the financial year amounted to EUR 88 thousand (previous year: EUR 0).

The short-term securities (available for sale and fair value through profit and loss) are cumulative securities.

(8) Cash and cash equivalents

EUR 000	31.12.2006	31.12.2005
Credit balances at banks	31,694	18,571
Cash in funds of funds	0	324
Cash on hand	25	1
Total	31,719	18,896

The item cash in funds of funds is explained in Note (7). An amount of EUR 1,079 thousand (previous year: EUR 1,070 thousand) shown under credit balances at banks was held as a guarantee for credit card transactions.

(9) Shareholders' equity

The share capital reported is the nominal capital of *bwin* AG in the amount of EUR 32,603 thousand (2005: EUR 25,095 thousand). It is divided into 32,603,048 no-par bearer shares (2005: 25,095,270 shares). The capital increases effected during the financial year were as follows:

	Shares	Share capital in EUR
Issue of new shares		
Capital increase to partly finance acquisition of Ogame Group	2,830,000	2,830,000
Capital increases from contingent capital		
Options exercised	121,618	121,618
Capital increase from authorized capital		
Non-cash contribution of shares in <i>bwin</i> Games AB (formerly Ogame e-solutions AB)	3,146,160	3,146,160
Options exercised	1,410,000	1,410,000
Total	7,507,778	7,507,778

The capital increase carried out in the financial year 2006 with 5,976,160 shares resulted from the issue of new shares as approved by the Annual General Meeting of 27 January 2006. A total of 3,146,160 of these shares were used for the acquisition of *bwin* Games AB. This capital increase resulted in an increase in capital reserves in the amount of EUR 533,444 thousand. The issue costs associated with this capital increase amounted to EUR 13,757 thousand, net of tax.

Please see the comments on NOMATO Investments Ltd. under Note (1) a) above for details of the EUR 9,377 thousand increase in additional paid-in capital and the reservation of treasury shares.

Apart from amounts from agio, the capital reserves include the net value of rights granted as well as stock options granted and exercised as a result of corporate acquisitions or under the Employee Stock Option Plan (ESOP).

The minority interests relate to BWIN Mexico S.A. de C.V. which are reported with a value of EUR 0 as of 31.12.2006 due to an allocated loss.

(10) Provisions for obligations to employees

In line with current developments, calculations were based on a retirement age of 62 (previous year: 60) for female and 65 (previous year: 65) for male employees, unless otherwise agreed in individual employment contracts. The discount rate applied in calculating this provision was 4.25% (previous year: 4%), and the annual rate of salary increase 4% (previous year 3.5%).

These provisions developed as follows during the course of the year:

EUR 000	2006	2005
Defined benefit obligation (DBO) as at 01.01.	216	143
Service expense	53	49
Interest expense	10	10
Severance payments made	0	-25
Actuarial profit/loss	50	39
Defined benefit obligation (DBO) as at 31.12.	329	216

(11) Other provisions

All other provisions were classified as current as in 2005, and developed as follows during the year under review:

EUR 000	Balance 01.01.2006	Used	Released	Additions	Balance 31.12.2006
Taxes	346	-345	-1	25	25
Compensated absences	506	0	0	2,457	2,963
Legal, audit and consulting fees	362	-145	-17	736	936
Third-party interests	820	-820	0	0	0
Other	2,077	-1,964	-113	7,606	7,606
Total	4,111	-3,274	-130	10,825	11,531

Reversals of provisions are shown under other operating income except provisions for taxes or employees, which are shown under the item where they were originally recorded.

The addition to provisions for legal, audit and consulting fees relates mainly to provisions for legal consulting in connection with administrative and legal proceedings.

All provisions relate to items where payment is expected the following year. There were no significant uncertainties in estimating provisions.

The other provisions in particular consist of credit card chargebacks, bonuses and marketing expenses.

(12) Short-term liabilities and deferred income

EUR 000	31.12.2006	31.12.2005
Liabilities from supplies and services	21,913	16,331
Other		
Bettors' clearing account	43,119	15,800
Liabilities resulting from the acquisition of marketing rights	17,571	0
Payment processing clearing account	2,848	1,672
Social security related liabilities	1,700	7
Tax liabilities	557	294
Other payroll liabilities	106	65
Other	2,973	17
	90,787	34,186
Deferred income	5,802	1,861
Total	96,589	36,047

Deferred income relates to betting stakes in the amount of EUR 1,830 thousand (previous year: EUR 1,861 thousand) already charged to bettors' accounts before the reporting date (pending bets). The related sporting events, however, did not take place until after the reporting date (for the most part in January 2007). EUR 3,757 (previous year: EUR 0) related to prepayments by DFL sublicensees.

All liabilities and deferred income as of the reporting dates for 2006 and 2005 were due within one year.

The fair value of liabilities was equivalent to their book value.

(13) Long-term liabilities

EUR 000	31.12.2006	31.12.2005
Liabilities resulting from the acquisition of marketing rights	31,428	0
Contingent purchase price liability from the acquisition of the Ogame Group and unpaid purchase price for DoubleM Media	74,047	0
Total	105,475	0

Please refer to "business combinations" for details of the contingent purchase price liability, which is due in 2009 and has carried interest at the two-year Euribor rate plus two per cent with effect from 7 March 2007. The purchase price liability was offset by an account receivable from the sellers in the amount of USD 4.5 million due to the assumption of expenses by the sellers.

(14) Net gaming revenues and segment reporting

The Group operates in the business areas of sports betting, casinos, poker and games. The sports betting segment comprises not only conventional sports betting, but also LIVE betting, where the *bwin* Group plays a leading role internationally, and the casino segment comprises games like roulette and blackjack.

In the poker segment the Company offers a multiplayer poker application in the field of B2C and B2B, and the games segment consists of virtual games to round out the product offering.

In addition to these business areas, in the financial year 2006 the **bwin** Group added to its marketing portfolio by acquiring the international rights to market the games of the first and second divisions of the German soccer league.

Since this is not part of the core business, it is reported as a separate segment. The business areas are reported below organized by geographical regions (by continent). The reporting method was altered during the year under review and the previous year's data has been adjusted accordingly.

a) Segment reporting by business areas

2006 EUR 000	Sports betting	Casino	Poker	Games	German soccer league	Group total
Betting turnover	1,992,298	0	0	0	0	1,992,298
Customer winnings	-1,817,680	0	0	0	0	-1,817,680
Segment gross gaming revenues	174,618	78,933	114,740	13,533	0	381,824
Sales commissions	-44,049	0	0	0	0	-44,049
Customer bonuses	-17,429	-370	-17,075	-245	0	-35,119
Other revenue reductions	-2,049	-5,129	-1,715	-1,391	0	-10,284
Segment net gaming revenues	111,091	73,434	95,950	11,897	0	292,372
Other operating revenues	11,671	2,006	2,312	393	8,802	25,184
Capitalized costs	1,210	845	1,863	94	0	4,012
Segment revenues	123,972	76,285	100,125	12,384	8,802	321,568
Materials / expenses for services rendered	-12,721	-4,278	-6,210	-734	0	-23,943
Personnel expenses	-20,206	-10,139	-20,960	-1,233	0	-52,538
Marketing expenses	-90,616	-34,300	-35,801	-7,023	0	-167,740
Other operating expenses	-25,372	-17,803	-39,243	-1,966	-1,356	-85,740
Segment expenses	-148,915	-66,520	-102,214	-10,956	-1,356	-329,961
Segment EBITDA	-24,943	9,765	-2,089	1,428	7,446	-8,393
Depreciation and amortization	-9,077	-11,479	-32,252	-703	-9,675	-63,186
Impairments	-1,033	-119,496	-396,033	-80	0	-516,642
Segment EBIT	-35,053	-121,210	-430,374	645	-2,229	-588,221
Other significant non-cash expenses	-6,263	-2,507	-3,196	-466	-8	-12,440
Result from associated companies	-188	0	0	0	0	-188
Segment assets	81,189	36,585	95,671	5,164	52,731	271,340
Segment liabilities	40,751	18,397	28,780	2,926	48,998	139,852
Segment capital expenditure	10,209	140,212	490,940	711	58,048	700,120
Carrying value of associated companies valued at-equity	444					444

Due to the definitions of IAS 14, in the financial year 2006 it was not possible to classify assets and liabilities in the amount of EUR 6,212 thousand and EUR 76,901 thousand respectively.

2005 (adjusted) EUR 000	Sports betting	Casino	Poker	Games	German soccer league	Group total
Betting turnover	1,085,833	0	0	0	0	1,082,491
Customer winnings	-991,066	0	0	0	0	-991,529
Segment gross gaming revenues	94,767	33,842	9,857	5,506	0	143,972
Sales commissions	-34,611	0	0	0	0	-34,611
Customer bonuses	-7,008	-192	0	-271	0	-7,471
Other revenue reductions	-616	-3,384	0	-410	0	-4,410
Segment net gaming revenues	52,532	30,266	9,857	4,825	0	97,480
Other operating revenues	6,869	804	234	131	0	8,038
Capitalized costs	713	255	74	41	0	1,083
Segment revenues	60,114	31,325	10,165	4,997	0	106,601
Materials/expenses for services rendered	-4,485	-921	-268	-150	0	-5,824
Personnel expenses	-12,832	-3,274	-953	-532	0	-17,591
Marketing expenses	-34,176	-12,204	-3,554	-1,985	0	-51,919
Other operating expenses	-11,742	-4,194	-1,222	-682	0	-17,840
Segment expenses	-63,235	-20,593	-5,997	-3,349	0	-93,174
Segment EBITDA	-3,121	10,732	4,168	1,648	0	13,427
Depreciation and amortization	-4,522	-1,615	-470	-263	0	-6,870
Impairments	0	0	0	0	0	0
Segment EBIT	-7,643	9,117	3,698	1,385	0	6,557
Other significant non-cash expenses	-4,234	-1,289	-376	-210	0	-6,109
Result from associated companies	137	0	0	0	0	137
Segment assets	67,160	21,868	6,369	3,557	0	98,954
Segment liabilities	26,278	9,504	2,723	1,521	0	40,026
Segment capital expenditure	19,388	6,758	1,968	1,099	0	29,213
Carrying value of associated companies valued at-equity	1,225					1,225

Due to the definitions of IAS 14, in the financial year 2005 it was not possible to classify assets and liabilities in the amount of EUR 14,754 thousand and EUR 348 thousand respectively.

b) Segment reporting by geographical regions

Geographical segmentation is based on players' origins and the geographical distribution of German soccer league sublicensing revenues.

2006 EUR 000	Europe	America	Asia	Rest of world	Group total
Segment net gaming revenues	215,396	75,654	895	427	292,372
Revenues from sublicensing of German soccer league marketing rights	5,318	420	3,012	52	8,802
Other operating revenues and other capitalized costs	17,063	3,271	40	20	20,394
Segment revenues	237,777	79,345	3,947	499	321,568
Segment assets	220,764	47,656	2,028	892	271,340
Segment capital expenditure	137,115	559,500	2,453	1,052	700,120
Depreciation and amortization	-32,230	-30,469	-339	-148	-63,186
Impairments	-14,822	-501,110	-499	-211	-516,642

2005 (adjusted) EUR 000	Europe	America	Asia	Rest of world	Group total
Segment net gaming revenues	97,257	149	64	10	97,480
Revenues from sublicensing of German soccer league marketing rights	0	0	0	0	0
Other operating revenues and other capitalized costs	9,106	10	4	1	9,121
Segment revenues	106,363	159	68	11	106,601
Segment assets	98,787	112	48	7	98,954
Segment capital expenditure	29,164	33	14	2	29,213
Depreciation and amortization	-6,858	-8	-3	-1	-6,870
Impairments	0	0	0	0	0

(15) Other operating income

EUR 000	2006	2005
Income from the reversal of provisions	130	114
Revenues from sublicensing of German soccer league marketing rights	8,802	0
Income from advisory services	6,391	4,468
Income from the charging of duties	5,062	2,597
Foreign currency gains	2,979	255
Other	1,820	604
Total	25,184	8,038

(16) Capitalized costs

Capitalized costs include production costs for capitalized intangible assets developed in-house.

(17) Expenses for services received

EUR 000	2006	2005
Consulting services	14,277	2,943
Internet data line, internet charges	4,698	570
Calculation of betting odds	2,841	1,695
Information services	1,277	295
Other	850	321
Total	23,943	5,824

(18) Personnel expenses

EUR 000	2006	2005
Salaries	38,296	11,873
Expenses relating to legally prescribed social security contributions and payroll-related contributions/compulsory deductions	10,188	2,862
Share-based payments	1,615	2,473
Expenses for severance payments	1,264	220
Other social security expenses	1,175	163
Total	52,538	17,591

In 2006, the company paid EUR 129 thousand (2005: EUR 129 thousand) to the severance payment fund (VBV-Mitarbeitervorsorgekasse AG).

The average number of employees developed as shown below:

	Reporting date		2006	Average 2005
	31.12.2006	31.12.2005		
Employees	832	295	614	225
Freelance workers	71	61	74	48
Total	903	356	688	273

(19) Marketing expenses

	2006	2005 (adjusted)
Offline advertising	83,186	23,477
Sponsoring	39,748	13,275
Online advertising	39,682	12,486
Miscellaneous	5,123	2,681
Total	167,740	51,919

(20) Other operating expenses

EUR 000	2006	2005
Bank charges	30,977	9,150
Legal, audit and consulting fees	17,790	2,855
Travel and news expenses	6,405	1,483
Office expenses and personnel services	6,312	675
Exchange rate losses	5,625	640
Rental and leasing expenses	4,609	1,503
Expenses attributable to office operations incl. software maintenance	3,391	485
Licence fees	1,387	286
Investor relations	730	108
Bad debt expenses	675	17
Non-income taxes	629	0
Other	7,210	638
Total	85,740	17,840

(21) Depreciation, amortization and impairments

The amounts of depreciation and amortization and impairments were as follows:

EUR 000	2006	2005
Depreciation and amortization of		
Software	8,071	1,698
Licences	247	448
Customer bases	39,302	3,172
Marketing rights	9,675	0
Tangible assets	5,891	1,552
	63,186	6,870
Impairment charges for		
Software	1,806	0
Brand names	31,300	0
Operating and office equipment	58	0
Customer bases	111,055	0
Goodwill	372,423	0
	516,642	0
Total	579,828	6,870

bwin carried out a valuation of all cash generating units (CGUs) of the subgroup *bwin* Games AB because intangible assets with an indefinite useful life were allocated to these CGUs. The impairment test was carried out on the reporting date based on the medium-term business plan for the CGUs for the years 2007 to 2012. This business plan was based on past experience and management's best possible estimates of future developments.

Following the passing of the US Unlawful Internet Gambling Enforcement Act 2006, the *bwin* Group decided to cease its real-money operations on the US market, and its business plan is therefore characterized especially by the loss of the US market for its poker and casino business areas. In carrying out this valuation, *bwin* determined the recoverable amount of the CGUs by estimating future cash flows over the planning period (detailed planning phase) and in a simplified form beyond this period on the basis of their residual value. In determining the residual value, a constant growth rate of 2.0% was estimated for subsequent years.

The value in use of the CGUs was determined using a discounted cash flow method, applying a discount interest rate after tax of 14.88 per cent. The impairment recognized was determined by comparing the value in use obtained with the carrying values of the intangible and tangible assets attributable to the CGUs. The CGUs of the subgroup are defined by the latter's business areas (poker and casinos) and differentiated by the geographical regions that can be found in the segment reporting.

An amount of EUR 278,925 thousand of the impairment of goodwill was allocated to the CGU poker/America, and EUR 79,028 thousand to the CGU casinos/America. An amount of EUR 24,336 thousand of the impairment of the brand name was allocated to the CGU poker/America, and EUR 6,964 thousand to the CGU casinos/America. This represented a full impairment of goodwill and the brand name acquired from the Ogame Group that were allocated to these two CGUs.

Impairments in the amount of EUR 1,586 were also made for the customer base on the Turkish market, as **bwin** has decided to temporarily suspend its online gaming products in Turkey due to legal changes in Turkey (note "Significant events after the reporting date").

(22) Financial result

EUR 000	2006	2005
Earnings from		
Interest and related income	1,259	332
Interests from financial investments	12	7
Fair value changes of securities	88	0
Financial income	1,359	339
Expenses on		
Write down of other loans	-300	0
Interest and related expenses	-4,160	-1
Losses from the sale of financial assets	0	-16
Financial expenses	-4,460	-17
Financial result	-3,101	322

*) Mainly related to the interest expense incurred on the deferred purchase price liability from the acquisition of the Ogame Group.

The fair value changes of EUR 88 thousand relate to securities measured at fair value through profit and loss.

(23) Third-party interests

In the case of some acquisitions in the year 2003, it has been agreed that the seller will continue to share in the results of future periods (until November 2006).

(24) Earnings per share (basic and diluted)

Basic earnings per share are calculated on the basis of the weighted average of the ordinary shares outstanding during the financial year.

The potentially diluted options were taken into account when calculating the diluted earnings per share since 2005. The fact that the Company reported a loss for the financial year 2006 resulted in an antidilutive effect of the options, and the diluted earnings per share for the financial year 2006 is therefore equivalent to the basic earnings per share.

Taking into account the capital adjustment in the financial year 2005, which doubled the number of shares, the number of ordinary shares in outstanding developed as follows:

	Units
Balance as of 31.12.2004	24,086,040
Capital increase 3.5.2005	147,026
Capital increase 13.6.2005	364,534
Transfer of treasury stock 12.8.2005	66,666
Capital increase 2.9.2005	18,985
Capital increase 2.12.2005	125,099
Capital outstanding 31.12.2005	24,808,350
Capital increase 2.3.2006	2,830,000
Capital increase 7.3.2006	3,146,160
Capital increase 4.4.2006	98,400
Capital increase 6.5.2006	1,400,000
Capital increase 1.6.2006	6,600
Transfer of treasury shares 31.7.2006	66,666
Capital increase 3.10.2006	4,682
Capital increase 3.11.2006	10,000
Capital increase 1.12.2006	11,936
Outstanding capital 31.12.2006	32,382,794
Treasury shares	220,254
Share capital reported 31.12.2006	32,603,048
Share capital reported 31.12.2005	25,095,270
Weighted average 2006	30,554,177
Weighted average 2005	24,426,198

Registered capital in the amount of EUR 32,481,430 was shown in the companies register on the reporting date: further capital increases were submitted to the register in February 2007.

Notes to the cash flow statement

Cash and cash equivalents presented in the cash flow statement only include the item "Cash and cash equivalents" in the balance sheet. The cash flow statement was prepared using the indirect method and is presented in a separate table. Note (8) contains details about the composition of the cash and cash equivalents fund. Interest payments and dividends received are allocated to operating activities.

In the financial year 2005 the Company acquired customers and domains from NOMATO Investments Ltd. (see Note (1) above). EUR 12,400 thousand of the purchase price was settled in 2005, or will be settled in 2006 and 2007 using equity instruments in non-cash transactions. Non-cash transactions in the amount of EUR 1,372 thousand relating to the acquisition of operating and office equipment were also eliminated.

bwin acquired the Ongame Group and DoubleM Media GmbH during the financial year 2006. The payments for the acquisition of subsidiary companies include the purchase price for Ongame (EUR 230,735 thousand), ancillary acquisition costs (EUR 2,343 thousand), the purchase price for DoubleM Media already paid (EUR 1,100 thousand) less cash and cash equivalents in the amount of EUR 28,378 thousand.

For the non-cash increase in fixed assets as well as the liabilities arising from the acquisition of marketing rights which are not reported in the cash flow statement see note (12) and (13) regarding the reported liabilities as of 31 December 2006.

Other information

1. Financial instruments

Underlying financial instruments

The book value of financial instruments is shown in the balance sheet. Apart from granting share options, the **bwin** Group does not carry out any financial transactions with derivatives. The fair value of the financial instruments approximates to their carrying values.

Risk management

The control and planning process, company policies and regular reporting are the most important instruments to control and monitor risks. In managing risk, the Company has established a control environment which includes guidelines and procedures for risk assessment, approval, reporting and monitoring systems for the use of financial instruments. The Company does not hold any derivative financial instruments, and its guidelines do not permit it to hold or issue financial instruments for speculative purposes.

Credit risk

The Company may be exposed to credit risks if its contracting partners fail to fulfil their obligations. In order to avoid such risks, the Company concludes contracts only with banks with impeccable credit ratings. In management's opinion, at the reporting dates of 31 December 2006 and 2005, there was a very low risk of contracting parties defaulting on these financial instruments.

Interest rate risk

The Company is exposed to interest rate fluctuations. A considerable volume of interest-sensitive assets and liabilities relate to marketable securities, cash and cash equivalents, and interest-bearing debt.

Exchange rate risk

The **bwin** Group carries out the majority of its transactions in EUR and USD. There are exchange risks with respect to USD, GBP, CHF, NOK, DKK, SEK, PLN, CZK, SKK, HUF, RUB, HRK, MXN, SIT and TRL. The exchange rate risk with respect to the customer is hedged against by means of appropriate cash and cash equivalents in the respective currencies. The Company does not hedge against the exchange rate risk based on intragroup receivables and liabilities. In the financial year 2007 the Company hedged the receivables attributable to the marketing of the German soccer league rights.

2. Related party transactions

Related parties in accordance with IAS 24 are the officers of the Company, unconsolidated subsidiaries and associated companies. No significant transactions other than those reported here were effected with these individuals. The Company's Boards were made up as follows during the year under review and at the time the consolidated financial statements were prepared:

Members of the Executive Board: Manfred Bodner
Norbert Teufelberger
Marlon van der Goes

Members of the Supervisory Board: Hannes Androsch (Chairman)
Johan Hörnell (as of 17 May 2006)
Helmut Kern
Alexander Knotek (Deputy chairman)
Georg Riedl
Herbert Schweiger (till 21 September 2006)

The following table contains information about the members of the Executive Board:

EUR 000	Manfred Bodner	Norbert Teufelberger	Marlon van der Goes
Fixed salaries	348	348	210
Variable salaries	200	200	0
Remuneration in kind	0	0	7
Subtotal	548	548	217
Share-based payments	0	0	20
Total	548	548	237

The remuneration of the members of the Executive Board (including variable and performance-related components) totalled EUR 1,333 thousand in the current year (previous year: EUR 1,453 thousand). The members of the Executive Board directly or indirectly hold a total of 7.9 per cent of the parent company's share capital. Due to existing contractual obligations, two Executive Board members were each reimbursed for the bail imposed by a court in the amount of EUR 300 thousand. Against the background of pending proceedings, the Company has recognized this amount as a receivable. See note (4) for details of stock options.

Members of the Executive and Supervisory Boards who exercised a considerable influence on the financial and business policies of the Group in the course of their activities with the **bwin** Group also exercised a considerable influence over the business policies of other companies. As a result of the acquisition of the Ogame Group, a member of the Supervisory Board has a receivable in the amount of EUR 9,051 thousand from the Company. A provision of EUR 233 thousand was made for the remuneration of Supervisory Board members.

Services provided under the terms of a cooperation and service contract and commissions were invoiced to the associated company **bwin** e.K. A total of EUR 50,439 thousand was charged in 2006 (previous year: EUR 36,390 thousand). Receivables as of the reporting date totalled EUR 13,110 thousand (previous year: EUR 5,875 thousand). These receivables are short term and the payment terms are equivalent to those of at-arm's length transactions. All business with related companies is transacted at arm's length.

3. Other obligations and contingent liabilities

As a result of the unclear, and as yet unharmonized legal situation in Europe with respect to online gaming, there are administrative and court proceedings pending against the Company and/or its subsidiaries and licence and cooperation partners in several countries representing important markets for **bwin**. Apart from this, there are criminal offences and proceedings pending against **bwin** and its officers in some countries. The subjects of these proceedings include the legal admissibility of online gaming, the validity and scope of trading permits, and the location of sports betting premises. In each case the prosecutor's main aim is to restrict the Group's activities geographically.

Furthermore, in Germany several states have issued prohibitive injunctions against **bwin**, some of which have since been confirmed by the administrative courts of first instance. **bwin** has appealed at all stages of the various proceedings, and will go through all the instances of appeal if necessary.

The auditors of **bwin** e.K. have audited the financial statements of the associated company as of 31 December 2006 and issued an unqualified audit opinion as of 22 March 2007, modified by an explanatory paragraph. This paragraph states that the going concern assumption of the company **bwin** e.K. could be threatened in the possible event that its trade licence becomes invalid. This would mean an extensive ban on its activities by the courts and authorities.

The restrictions and/or ban on the provision of betting services by private sports betting providers may also be admissible under the terms of the state treaty on games of chance, which comes into effect on 1 January 2008. For several years now, the tax authorities have also been investigating whether the racing and lottery tax will be levied, as well as whether or not to recognize the company's deduction of input tax in the amount of EUR 15,472 thousand.

The outcome of the proceedings in Germany is of considerable economic significance to **bwin** with a view to safeguarding its operations in this market, and due to its financial involvement in the associated company **bwin** e.K.

Particularly in the light of the latest judgements by the European Court of Justice, the management of the Company assumes that these proceedings will have a positive outcome. Nevertheless, the negative outcome of individual cases could have significant disadvantages for the assets, financial situation and profitability of the **bwin** Group.

Following the passing of the US Unlawful Internet Gambling Enforcement Act in 2006, the **bwin** Group decided to cease its real-money operations on the American market. The new legislation does not offer any information on the treatment of the poker and casino games previously offered by the Group, and it is impossible to exclude the possibility of liabilities arising in this connection too. However, the Company considers the likelihood of this happening to be slight.

Guarantees

As of the reporting date, the company was liable for liabilities of business partners in the amount of EUR 8,680 thousand (previous year: EUR 6,713 thousand). **bwin** AG also made financial commitments up to a maximum amount of EUR 6,500 thousand (previous year: EUR 6,500 thousand) that may become due under various conditions (including risks entailed in market expansion).

Other obligations

Future payments due under existing rental and leasing agreements amount to EUR 36,259 thousand (2005: EUR 11,165 thousand). Of these, EUR 6,043 thousand (2005: EUR 1,861 thousand) are due within one year and EUR 30,216 thousand within the next five years. The total amount of these liabilities cannot be estimated due to the indefinite duration of agreements.

The company is subject to financial obligations arising from unpaid capital contributions for companies formed in the amount of EUR 59 thousand (2005: EUR 135 thousand).

4. Options

Employee Stock Option Plan (ESOP)

An employee stock option plan was introduced in February 2000 in the lead-up to the Company's introduction to the stock exchange.

The purpose of the ESOP is to issue options for the acquisition of *bwin* AG shares by members of the Executive Board and entitled employees. The Annual General Meeting of 14 May 2004 increased the maximum number of options for the acquisition of shares in the company from 2,000,000 to 3,000,000. The Annual General Meeting of 17 May 2006 increased this number by a further 1,500,000 shares to the present total of 4,500,000 shares. 1,200,000 of these shares are reserved for members of the Executive Board. The options granted under the ESOP are not transferable. The ESOP specifies details of the maturity, expiry, exercise price and exercise period of these options. All the options granted have a maturity of ten years starting from the date of the resolution on the allocation of such options.

The exercise price of these options is equivalent to the fair value of the shares when the options were granted by the Supervisory Board committee (in the case of Executive Board members) or the Executive Board. One third of the ESOP options may be exercised immediately on being granted, a further third after a period of one year, and the remaining third after two years. A revised version of the ESOP regulations published during the financial year 2005 extended the exercise periods with a view to keeping staff with the Company for longer. Under the new exercise provisions, one fifth of the options granted may be exercised after a period of one year.

Performance-based options for Executive Board (apart from ESOP)

During the financial year 2003, members of the Executive Board of *bwin* AG were granted a total of 1,600,000 options based on the success of the Company. A total of 100,000 options dependent on the success of the company were granted to Marlon van der Goes, the new member of the Executive Board in the financial year 2004. Due to the achievement of the performance parameters for the financial years 2003, 2004 and 2005, a total of 1,668,000 of these options became exercisable with the approval of the respective financial statements. The performance-based options are serviced from the company's authorized capital. The options run for a period of ten years from the time the exercise conditions for the relevant financial year are met. These options can be transferred to successors.

Options granted to third parties

The options granted to third parties are attributable to corporate acquisitions in the years 2001 (100% of the shares of Sportwetten Piribauer GmbH) and 2003 (100% of the shares of Playit.com Ltd). A total of 190,000 of these were exercised due to the achievement of the success parameters up to the financial year 2006, and the remainder of the options granted expired.

Measurement in accordance with IFRS 2

The non-cash expense incurred as a result of granting these options was measured and recognized on the date of issue in accordance with the provisions of IFRS 2.

	2006	2005
Exercise price	EUR 1.6 – 67.9	EUR 1.6 – 67.9
Volatility*	48.5% – 107.2%	45.0% – 71.0%
Periods to exercise date	1.25 – 6.25 Years	1.25 – 6.25 Years
Dividend yields	0%	0%
Interest rate	3.5% – 4.0%	3.5%

* The volatility is calculated on the basis of the stock exchange performance over a period of 400 days prior to the date of issue of the options.

Overall development of options

The following table shows the development of outstanding (issued) options:	Total		of which relevant to IFRS 2	
	2006 units	2005 units	2006 units	2005 units
Options outstanding 01.01.	2,584,058	2,951,102	753,299	585,645
Options issued	344,000	305,600	344,000	305,600
Options exercised	1,531,618	655,644	81,606	122,612
Options forfeited	271,553	17,000	71,218	15,334
Options outstanding 31.12.	1,124,887	2,584,058	944,475	753,299

The status of the options as of 31 December 2006 was as follows:

	Options exercised (Total)	Options available (not issued)	Options outstanding	Of which exercisable as of reporting date	Exercise price of options outstanding EUR	Market value of options outstanding EUR
Options issued under ESOP						
of which to members of the Executive Board:						
Manfred Bodner	500,000		0	0	0	0
Norbert Teufelberger	500,000		0	0	0	0
Marlon van der Goes	13,731		46,269	46,269	9.095	495,888
	1,013,731	140,000	46,269	46,269		495,888
of which to senior executives and employees	601,638		487,376	222,136	1.5 – 62.49	4,414,454
of which to employees of subsidiaries	248,226		496,074	56,127	1.5 – 67.92	4,298,090
of which to resigned employees	231,293		5,168	5,168	1.5 – 60.88	47,479
	1,081,157	1,230,225	988,618	283,431		8,760,022
Total ESOP	2,094,888	1,370,225	1,034,887	329,700		9,255,910
Performance-based options for Executive Board (apart from ESOP)						
Manfred Bodner	800,000		0	0	0.000	0
Norbert Teufelberger	800,000		0	0	0.000	0
Marlon van der Goes	10,000		90,000	58,000	6.530	740,874
	1,610,000	0	90,000	58,000		740,874
Options granted to third parties						
of which for corporate acquisitions	190,000	0	0	0	0.000	0
of which for services rendered	31,000	0	0	0	0.000	0
Total options granted to third parties	221,000	0	0	0		0
Total options outstanding	3,925,888	1,370,225	1,124,887	387,700		9,996,784

The remaining term of the options is between five and ten years.

Developments in the financial year 2006:

	Exercise price EUR	Value of options exercised EUR	Options issued	Options exercised
ESOP options granted				
of which to members of the Executive Board:				
Manfred Bodner	0	0	0	0
Norbert Teufelberger	0	0	0	0
Marlon van der Goes	9.095	277,140	0	3,731
		277,140	0	3,731
of which to senior executives and employees	1.5 - 57.86	2,730,578	0	39,495
of which to employees of subsidiaries	1.5 - 15.17	3,613,535	344,000	50,060
of which to resigned employees	1.5 - 14.15	2,174,182	0	28,332
		8,795,435	344,000	121,618
Performance-based options issued to Executive Board (apart from ESOP)				
Manfred Bodner	2.025	60,342,750	0	650,000
Norbert Teufelberger	2.025	60,342,750	0	650,000
Marlon van der Goes	6.530	100,400	0	10,000
		120,785,900	0	1,310,000
Options granted to third parties				
of which for corporate acquisitions		8,924,500	0	100,000
of which for services rendered		0	0	0
Total options granted to third parties		8,924,500	0	100,000
		138,505,835	344,000	1,531,618

The fair value of the outstanding options as of 31 December 2006 was measured using the Black Scholes option pricing model. The following measurement parameters were used:

Share price	EUR 16.24
Exercise price	EUR 1.5 - 67.92
Volatility	48.5% -124.7%
Periods to exercise date	1.25 - 6.25 years
Dividend yields	0%
Interest rate	4.0%

The weighted average fair value of the options exercised during the financial year was EUR 72.32.

5. Repurchase of treasury shares

The Annual General Meeting held on 10 May 2005 passed a resolution in accordance with § 65, para. 1, subpara. 8 of the Companies Act authorizing the Executive Board to buy back up to 10% of the Company's bearer shares for a period of 18 months from the date of the resolution at a price of at least EUR 1 and at most EUR 150. At the same time, the resolution passed by the Annual General Meeting of 14 May 2004 authorizing the Executive Board was revoked, provided it had not yet been exercised. The proportion of the share capital accounted for by own shares is limited to 10%. Furthermore, the Executive Board was also authorized to

redeem, or with the approval of the Supervisory Board up to and including 9 May 2010, to approve a means of selling the Company's shares other than on the stock exchange or by public offering, optionally with partial or complete exclusion of shareholders' subscription rights. The Executive Board was empowered to exercise this authority once or several times, and in its entirety or in part.

In accordance with a resolution passed by the Company's Extraordinary General Meeting held on 27 January 2006, subject to the approval of the Supervisory Board the Executive Board has been authorized to issue convertible bonds within a period of five years of the date of this resolution in accordance with § 174 para. 2 of the Companies Act, the bearers of these bonds being entitled to convert them into a total of up to 4,500,000 shares in the Company. These convertible bonds may be issued in several instalments, and the Executive Board shall be entitled to determine all conditions of issue for the bonds, in particular maturity, issue price, interest rate, conversion price, conditions of conversion and anti-dilution provisions. The Executive Board may service these bonds using contingent capital or own shares or a combination of contingent capital and own shares.

The Annual General Meeting held on 17 May 2006 passed a resolution in accordance with § 65, para. 1, subpara. 8 of the Companies Act authorizing the Executive Board to buy back up to 10% of the Company's bearer shares for a period of 18 months from the date of the resolution at a price of at least EUR 1 and at most EUR 150. At the same time, the resolution passed by the Annual General Meeting of 10 May 2005 authorizing the Executive Board was revoked, provided it had not yet been exercised. The proportion of the share capital accounted for by own shares is limited to 10%. Furthermore, the Executive Board was also authorized to redeem, or with the approval of the Supervisory Board up to and including 16 May 2011, to approve a means of selling the Company's shares other than on the stock exchange or by public offering, optionally with partial or complete exclusion of shareholders' subscription rights. The Executive Board was empowered to exercise this authority once or several times, and in its entirety or in part.

6. Contingent and authorized capital

Contingent capital

The Extraordinary General Meeting held on 27 January 2006 passed a resolution relating to an increase in the Company's contingent share capital in accordance with § 159, para. 2, subpara. 3 of the Companies Act by up to EUR 2,526,730 to service stock options for employees. Taking into account stock options already serviced and the capital increase from Company funds, the total volume of the ESOP is now 4,500,000 options, 1,370,225 of which have not yet been allocated.

Authorized capital

The Annual General Meeting held on 10 May 2005 authorized the Executive Board till 9 May 2010 to increase the company's share capital by a maximum of EUR 12,219,813, in several tranches if necessary, subject to the Supervisory Board's approval. At the same time, the meeting also revoked the previous authorization of 14 May 2004. This increase is to be effected by issuing up to 12,219,813 no-par bearer shares for payment in cash or in kind, optionally with partial or complete exclusion of shareholders' subscription rights.

The Annual General Meeting held on 17 May 2006 authorized the Executive Board till 16 May 2011 to increase the company's share capital by a maximum of EUR 15,535,000, in several tranches if necessary, subject to the Supervisory Board's approval. At the same time, the meeting also revoked the previous authorization of 10 May 2005. This increase is to be

effected by issuing up to 15,535,000 no-par bearer shares for payment in cash or in kind, optionally with partial or complete exclusion of shareholders' subscription rights. In agreement with the Supervisory Board, the Executive Board was also authorized to determine the terms of issue if necessary, in particular the issue price, the nature of the in-kind contribution, the nature of the share rights and exclusion of subscription rights as well as the possible issue of the shares by indirect subscription rights. The Supervisory Board is authorized to pass any amendments to the Articles of Association resulting from the issue of shares from authorized capital.

An amount of EUR 90,000 of this authorized capital has been reserved to service options already issued.

7. Significant events after the reporting date

On 6 March 2007 the European Court of Justice (ECJ) ruled in the Placanica case that the Italian legislation prohibiting the cross-border provision of betting under threat of imprisonment was an infringement of the freedom of establishment and services under the Treaty on European Union. The judgement represents a further important decision for the freedom of services as a fundamental pillar of the European Union.

On the basis of a law passed by the Turkish government on 28 February 2007, *bwin* has decided to temporarily withdraw its range of online gaming products from Turkey. Although on the one hand, the new law prohibits online games of chance, on the other it also provides for the possibility of acquiring a licence at a later date.

At the beginning of the year 2007, a licence for the Misiones province of Argentina was acquired by BETANDWIN S.A., the Group's subsidiary there. There are plans to commence operations once all the necessary preparations have been finalized.

In February 2007 *bwin* Interactive Entertainment AG established contact with the management of Sportingbet plc. and negotiations are at an early stage. At the present time it is not possible to gauge whether this will actually lead to an offer being made, or to a takeover of Sportingbet plc.

A tax audit that commenced on 31 January 2007 set out to examine corporation tax and value-added tax, tax returns, chamber of commerce dues and capital gains tax for the years 2002–2004: this audit had not been completed at the time of drawing up these financial statements.

Vienna, 26 March 2007

The Executive Board



Manfred Bodner



Norbert Teufelberger



Marlon van der Goes

Auditor's Report

This is a translation from German to English.

To the Members of the Executive Board and Supervisory Board of *bwin* Interactive Entertainment AG

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of *bwin* Interactive Entertainment AG for the financial year from 1 January to 31 December 2006. These consolidated financial statements comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2006, and of its financial performance and its cash flows for the financial year from 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU.

Without qualifying our opinion we refer to notes to the consolidated financial statements (item 3 of the section "Other Information") and the group management report, which describe the risks due to legal and tax court proceedings against companies, licencees and business partners of the **bwin** Group.

Report on other legal and regulatory requirements

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, 26 March 2007

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Yann-Georg Hansa
Wirtschaftsprüfer

Helmut Kerschbaumer
Wirtschaftsprüfer

(Austrian Chartered Accountants)

Supervisory Board Report on the Financial Year 2006

The Supervisory Board held seven meetings during the course of the financial year 2006 at which it exercised the duties stipulated by law and the Company's Articles of Association. A meeting of the Balance Sheet Commission was also convened. It was not necessary to convene the human resources committee in 2006 since there were no occurrences falling within its area of responsibility. The Executive Board reported to the Supervisory Board regularly, both in writing and orally, on the course of business and the situation of the company and the companies of the Group. The financial statements in accordance with the Austrian Commercial Code, including the management report of **bwin** Interactive Entertainment AG, as well as the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, including the Group management report as of 31 December 2006, have been audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, appointed in compliance with § 270 of the Commercial Code.

The audit showed that the financial statements and the consolidated financial statements respectively are in accordance with the legal requirements and present a true and fair view of the assets and financial position of the Group as of 31 December 2006, and of its profitability and cash flows for the financial year from 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU. The final result of the audit gave no cause for any objections, and the auditors have therefore issued an unqualified audit certificate. The management report and the Group management report are consistent with the financial statements and the consolidated financial statements. Without qualifying the audit certificate, the auditors refer to the notes to the financial statements and the consolidated financial statements (item 3 of the section "Other Information") and the risks described in the management report and Group management report resulting from legal and tax proceedings against the companies, licensees and business partners of the **bwin** Group.

The Supervisory Board has approved the financial statements for 2006 and is in agreement with the management report. The annual financial statements for 2006 have therefore been approved in accordance with § 125 of the Austrian Companies Act. The Supervisory Board agrees with the consolidated financial statements and the Group management report. The Supervisory Board also approves the proposed allocation of the result (that the loss for the year be carried forward to new account).

Vienna, March 2007

The Supervisory Board
Hannes Androsch

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Glossary

bwin International Ltd.	Subsidiary of bwin Interactive Entertainment AG. All operational activities are handled on the one hand by bwin International Ltd., a subsidiary located and licensed in Gibraltar on the basis of a sports betting and a casino licence, and on the other hand by Safepay Internacional S.R.L, Costa Rica, on the basis of a poker licence issued by the Kahnawake Gaming Commission.
bwin AG/ bwin	Abbreviation for the parent company bwin Interactive Entertainment AG.
bwin Interactive Entertainment AG	The parent company carries out central functions such as finance, marketing, IT, project management, international business development, human resources, corporate communications and brand management for the subsidiaries of the bwin Group. It also provides numerous other services such as market research, customer data analysis and legal consulting.
bwin Games AB	Formerly Ogame e-solutions AB – a 100% owned subsidiary of the bwin group acquired in 2006.
bwin e.K.	Steffen Pfennigwerth runs the business of bwin e.K. under the terms of a German concession.
bwin Group	The name for parent company bwin Interactive Entertainment AG and its subsidiaries.
bwin Italia S.R.L.	The 100% owned subsidiary of bwin Interactive Entertainment AG runs its operational activities on the domain www.bwin.it on the basis of an Italian sports betting licence.
Safepay Internacional. S.R.L	All operational activities are handled on the one hand by Safepay Internacional S.R.L, Costa Rica, on the basis of a poker licence issued by the Kahnawake Gaming Commission, and on the other hand by bwin International Ltd., a subsidiary located and licensed in Gibraltar on the basis of a sports betting and a casino licence.
BWIN Mexico S.A. de C.V.	The 80% owned subsidiary of bwin Interactive Entertainment AG was founded in the financial year 2006.
DoubleM Media GmbH	The 100% owned subsidiary of bwin Interactive Entertainment AG was acquired in the financial year 2006.
DOBLE LIMITED	The 100% owned subsidiary of bwin Interactive Entertainment AG was acquired in the financial year 2006.
bwin subsidiaries	Abbreviation for all subsidiaries together.
Playit.com Ltd.	The 100% owned subsidiary of bwin Interactive Entertainment AG was acquired in the financial year 2003.
Monnet Enterprise Ltd.	A joint venture between Unibet (Holding) Limited, Globet International Sports Betting Limited, Expekt.com Sports Betting BV and bwin Interactive Entertainment AG. The bwin Group holds a 25% stake in Monnet Enterprise Ltd.
Betbull – The European Betting Exchange Plc.	bwin holds 14.4% stake in Betbull – The European Betting Exchange Plc.
WEBSPORTS ENTERTAINMENT Marketing Services GmbH	Subsidiary of bwin Interactive Entertainment AG. WEBSPORTS ENTERTAINMENT Marketing Services GmbH provides IT and marketing services.

Websites of the *bwin* Group

www.bwin.ag	The investor relations website available in German and English.
www.bwin.com	More than 8,000 sports bets daily as well as a wide selection of poker, games, soft and skill games in 20 different languages as well as audio and video streams on top sporting events such as the German Soccer League or the Italian Series A.
www.bwin.it	A range of sports betting products designed for the Italian market.
www.bwin.com.mx	A range of sports betting products designed for the Mexican market. More than 8,000 sports bets daily as well as audio and video streams on top sporting events such as the German Soccer League or the Portuguese <i>bwinLIGA</i> .
www.betoto.com	Up to 8,000 sports bets daily as well as a wide selection of casino, poker and soft games for the Greek market.
www.pokerroom.com	One of the world's leading poker sites with almost 9 million sign ups. "Poker site of the years 2005 & 2006".
www.casinoroom.com	Sister site to PokerRoom.com focused solely on casino games.
www.europoker.com	A multi language poker site in German, Spanish, English, French, Italian, Russian, and Polish.
www.holdempoker.com	A site for users who want an easy way to begin playing poker online. It offers both fun money and real money games. Over 1 million registered customers.
www.ecardroom.cn	A play money site for Chinese people inside China.
www.pokergaming.com	A play money site and a white label solution for companies in regulated markets that want to offer poker on their sites.
	50% holding
www.bwin.de	A range of sports betting products designed for the German market. More than 8,000 sports bets daily as well as audio and video streams on top sporting events such as the Italian Series A or the ATP Masters.