Annual report 2005

THE SPORTING EXCHANGE LIMITED

GROWING BUSINESS AWARDS 2004

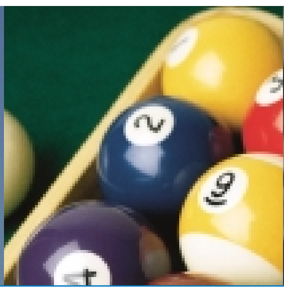
THE QUEEN'S AWARDS FOR ENTERPRISE: INNOVATION 2003

betfair.com
SHARP MINDS BETFAIR

“Innovative companies are the backbone of the British industry. This award **champions their success** and I’m sure will help pave the way for even **greater achievements**”

Sir Digby Jones, Director-General of the Confederation of British Industry, on presenting **Betfair** with the Company of the Year Award at the annual CBI Growing Business Awards

Contents


Message from the Founders

Dear Shareholder,

The beginning of June this year marked the fifth anniversary of Betfair accepting its first bet. The first market we ran was on the winner of The Oaks on 9 June 2000. Just 27 people bet on that market. Since that first day, we have run over 1 million markets and today, nearly 100,000 people bet with us each month. The business has clearly come a very long way since then.

The next 12 months promise to be even more exciting with the launch of several new products, further international expansion and a sporting calendar that leads up to the World Cup in July 2006, an event for which the appeal of Betfair's product is unparalleled. With all of that to look forward to, and with the momentum of the business continuing to accelerate, the next five years promise to be even more exciting than the last five.

Once again, we are indebted to everyone who has worked at Betfair throughout the year. They are responsible for Betfair's continued success and our most important message is to say a very big thank you for all of their amazing efforts over the past 12 months.

Edward Wray
Founder

Andrew Black
Founder

“With the momentum of the business **continuing to accelerate**, the next five years promise to be **even more exciting** than the last five”

Edward Wray and **Andrew Black**

Founders

“**Technology** remains **central** to our **success** and ensures that our **betting** platform is the **fastest** in the **industry**”

Sir Robert Horton

Chairman

Letter from the Chairman

Dear Shareholder,

I am delighted to report that the past year has been a very positive one for Betfair. Your company continues to grow rapidly in terms of profits, people and product innovation. Technology remains central to our success and recent upgrades have ensured that our betting platform is the fastest and most resilient in the industry.

We passed an important milestone in April when the long-awaited Gambling Bill received Royal Assent. The new legislation is important for Betfair because it gives us clarity of regulation and cements our position in the UK's vibrant gambling industry. The regulatory burden falls on gambling operators, a position which Betfair has always advocated, and we welcome the strong regulation established by the Act.

We look forward to working closely with the new Gambling Commission to help achieve the objectives of the Act: to ensure fairness to the punter, protect the young and vulnerable and to ensure the highest levels of integrity.

The review of the taxation of betting exchanges announced by the Chancellor in his Budget speech in 2004 is still ongoing. We are working closely with the Treasury to point out to them the considerable drawbacks of introducing an inequitable tax structure among UK-based operators and the increasingly international nature of the gambling industry.

Betfair continues actively to pursue gaining licences in other jurisdictions and has been granted licences in Austria and in Malta, our first outside the UK. These licences will enable us to promote our services in the European Union as well as launch innovative new products that we cannot currently launch in the UK. A great deal of work has gone into our licence application in Australia and we hope this too will soon be met by success.

At the last Annual General Meeting, and at the recent EGM, I promised that we would move rapidly towards compliance with the Combined Code. We have therefore made further changes to our Board. The Code calls for at least a balance between executive and independent non-executive directors. To further this, Greg Lockwood has stepped down from the Board and Richard Koch will do so on 1 July. I would like to thank them both for their invaluable contributions to the success of Betfair.

I am delighted to welcome Fru Hazlitt, who has recently joined the Board and Justin Dowley, who shortly will do so. They are both independent and their appointments allow us to have a Board committee structure compliant with the Code.

On your behalf I want to thank the staff of Betfair for all their hard work over the past year and for rising to innumerable challenges. Together we are moving the company to the next stage in its growth.

Robert Horton

Sir Robert Horton
Chairman

Chief Executive's Review

Another year of excellent results

I am delighted to say that Betfair has celebrated its fifth birthday with a further display of excellent results. In the year to 30 April 2005, revenues increased by 61 per cent to £107.1m from £66.7m. Operating profit before exceptional items rose by 87 per cent to £22.3m from £11.9m.

Our monthly active users rose to more than 95,000 in April 2005 from 65,000 in the prior year. International revenues continue to expand and now contribute 23 per cent of exchange revenues compared with 18 per cent last year. Principal regions include Australia, south-east Asia, continental Europe and the Nordic countries.

Our Gross Profits Tax payments rose to £14.3m from £9.3m, and our overall contribution to the Exchequer was £26.9m, which included Corporation Tax, Employers NIC and irrecoverable VAT, reflecting the growth of our business and our workforce.

The rapid expansion of our business has led to a further rise in our workforce and we now employ 514 people, up from 406 at the end of April 2004. We have opened a second office in Stevenage, where some 80 people now work. Stevenage significantly strengthens our business continuity capabilities and the experience will serve us well when the time comes to open our first office outside the UK.

This growth in headcount together with increased investment in our IT infrastructure resulted in a 53 per cent rise in operating expenses before exceptional items to £56.9m. However, the rate at which we are recruiting has slowed. We added almost 200 people during the year to 30 April 2004, whereas this year we added just over 100. Notwithstanding expansion overseas, we expect this trend to continue as we have largely built out our finance, legal, marketing and engineering teams. The number of people devoted to maintaining our high levels of customer service and to taking bets over the telephone will, of course, continue to rise as the number of customers grows. Our operating profit margins before exceptional items grew to 21 per cent from 18 per cent, benefiting from expenses growing at a slower rate than revenues.

The business continues to be strongly cash-generative and debt-free. We ended the year with a cash balance of £52.4m, up from £32.3m the year before. Operating cash conversion before exceptional items was 95 per cent of operating profits despite £8.6m in capital expenditure.

As of 30 April 2005, we held £102.5m on deposit on behalf of our clients, an increase of £36.1m on the year, reflecting the confidence which our customers have in us. In the past year we have further strengthened the trust deed relating to these deposits.

In February we finalised our Group reorganisation. Essentially we have created a new subsidiary to hold and protect our intellectual property assets. This company will then license these out, both to our existing operating company but also to any business we may establish overseas, for example, in Australia. We believe this is a more appropriate way of organising our affairs as we expand internationally.

UK horseracing remains our most important sport

Betting on UK horseracing remains our largest single source of revenue, although growth was hampered by the loss of live TV horseracing pictures with the demise of the original AtTheRaces channel at the start of our financial year. The residual impact was such that it took about six months for monthly revenues to revert to pre-April 2004 levels. As a consequence our contribution to the Horseracing Levy was less than expected at £5.2m, up from £3.9m in the previous year. Nonetheless, this is a very healthy contribution to the sport.

We have seen some recovery in UK horseracing in recent months, with high-quality race meetings such as the Cheltenham Festival and the Grand National growing at above-average rates.

In addition to our payment to the Levy Board, we also contribute to the UK horseracing industry through our race sponsorship programme. In 2005 we signed a three-year partnership to be the official betting partner for the Grand National, the world's most famous race. Over the course of the three-day meeting, our in-running odds were shown live at the racecourse for the first time and millions of horseracing fans worldwide were made aware of our brand.

We remain committed to funding the grass roots of the sport. In previous years we have funded projects at the British Racing School, for example. This year we have chosen Racing Welfare as our Charity of the Year and we have formed a partnership aimed at raising £250,000 for stable, stud and racecourse staff.

"Betfair has celebrated its fifth birthday with a further display of excellent results"

Stephen Hill

Chief Executive

Soccer and other sports flourish on Betfair

The Euro 2004 soccer championship was the single most important sporting event for us last year. Revenues from each game and for the tournament as a whole exceeded our expectations. The event also promoted our soccer markets to an international audience and the experience will stand us in good stead for the World Cup in 2006.

With so much live coverage of the sport internationally, we now match more bets on some foreign soccer matches than on the UK Premiership. Soccer is well-suited to our popular in-play markets and we now handle more bets during a match than before kick-off. Total soccer revenues more than doubled during the last financial year and we expect that this sport will continue to be one of the main drivers of exchange revenue growth and a core attraction for a high percentage of our new users.

Other sports, notably tennis, cricket and golf, are important and growing markets for us because of their global following and because they, too, lend themselves very well to in-play betting. We are delighted to sponsor test cricket on Channel 4 this summer, our first broadcast sponsorship, which will produce further awareness among sports fans both at home and abroad.

Poker leads our revenue diversification

Betfair Poker, in its first year of operation, has exceeded all our expectations and already accounts for a significant percentage of our total revenues. Since its launch in May 2004, Betfair Poker has become one of the fastest-growing poker rooms outside the US. Over 15,000 customers regularly play in the our poker room and over 30,000 have played at least once in the past year.

Poker suits our business very well: the player to player emphasis combined with a sense of community and the provision of Betfair Points (which can be used to reduce sports betting commission) have made the poker room very popular. This year will also see the arrival of new person-to-person games which will further differentiate Betfair from our competition.

The past year saw the launch of our Application Programming Interface (API), which has opened up many exciting business opportunities for us. Some of our largest customers are now able to interact directly with us; third-party software developers can create Betfair specific products; even high-street bookmakers can now offer some of Betfair's advantages directly to their shop customers. Some of our API licencees have developed mobile phone applications as well as simplified interfaces and hedging tools.

In March 2005 we launched a product with Yahoo! UK and Ireland, which is our first attempt to broaden our appeal to a mass-market audience. This product is essentially a simplified entry point to the exchange, and the prices shown incorporate a margin rather than the customer paying a commission.

Yahoo! Betting is designed for those who bet comparatively little but who are excited by the prospect of being able to bet for or against an outcome of an event, and soon will be able to do so as the event progresses. It is very early days for this kind of product but it illustrates how we are widening our appeal, particularly in countries where we can operate reasonably freely.

We continue to push our international expansion very hard within the constraints of regulation and often legal uncertainty. We now have 12 foreign language sites and plan on launching several more in the coming year. International active users grew by 57 per cent to 16,000 by the end of the year, with particularly strong growth from our continental European and Asian markets.

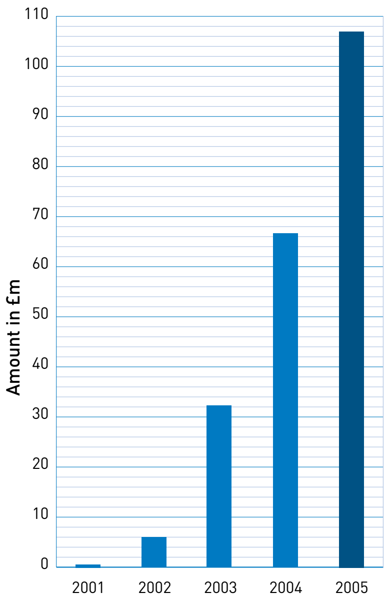
Technology is at the heart of our success

Our continued success would not be possible without our investment in technology, which ensures that our betting platform is the fastest and most resilient in the industry. Last October we successfully migrated 300,000 users to our new Betex platform and at the same time we changed our pricing structure to give us greater flexibility.

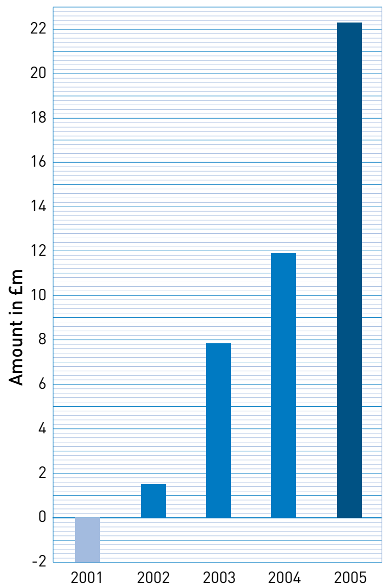
There were inevitable teething issues but we are very pleased that the new platform passed the annual challenges of the Cheltenham Festival and the Grand National with flying colours. We set new records in terms of peak usage, page impressions and bets transacted as well as the number of telephone calls taken. External monitoring during these events confirmed Betfair's superiority over other sports betting websites in terms of speed and reliability.

Betfair's reputation as a technology company continues to grow. We won the UK's Best Place to Work in IT award from Computer Weekly, and David Yu won the Daily Telegraph's CTO of the Year award – both testaments to our emphasis on and commitment to the very highest standards of engineering. We now employ more than 120 engineers to ensure that we remain at the forefront of the industry in terms of speed, resilience and product innovation.

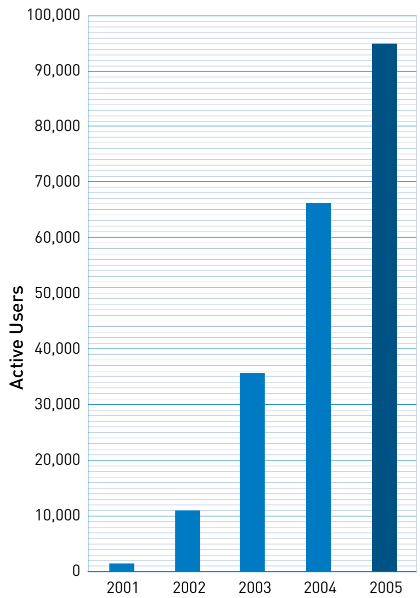
The number of daily page impressions we serve has soared and we regularly handle more than 2 million transactions a day – well beyond that of most stock exchanges. Our forum handles a staggering 12,000 messages a day, with about



Revenue for the year ended 30 April



Operating profit before exceptional items for the year ended 30 April



Active monthly users as at 30 April

4,000 messages dedicated to horseracing and 2,000 to soccer alone. This level of customer involvement in the business of betting, sharing views and opinions as well as helping out other customers, is a unique feature of what Betfair offers. We have held two live chat forums with our users, which were well received, and we plan to make these a regular feature. One of our priorities for the coming year is to nurture this feeling of community among our customers and encourage a sense of membership of Betfair.

Integrity of sport and the industry remains a priority

Last year we implemented a rigorous Know Your Customer (KYC) programme, which was a commitment in our voluntary Code of Conduct which we discussed with the UK's Department of Culture, Media and Sport. The Code sets new standards for the gambling industry in terms of customer identification, transparency and age verification. The implementation of this stringent KYC policy had a temporary impact on revenues in the final months of 2004 but I am pleased to say that our existing customers have now been checked and we have processes in place to make the checks more customer-friendly in future.

KYC checks are important to us because they help us to fight credit card fraud and strengthen our audit trail which underpins our memoranda of understanding (MoUs) with various sporting bodies around the world to preserve integrity in sport. In the past year we have signed further information-sharing agreements with the National Horseracing Authority of South Africa, the Rugby Football League, UEFA, the National Greyhound Racing Club and the US Thoroughbred Racing Protective Bureau. These join our existing agreements with the UK Jockey Club, the Association of Tennis Professionals, the International Cricket Council and the UK's Football Association. There are further MoUs in the pipeline.

We also remain committed to upholding the integrity of the betting exchange model as a whole. We appreciate that as a new part of the gambling industry it is in our interests to ensure that customers can place their trust in us. To that end in late 2004 we rescued the customers of Sporting Options when that business ceased trading and who would otherwise have lost all their money. We did this to much acclaim, reinforcing our strong commitment to integrity with legislators and customers both in the UK and abroad. We have treated the cost of this rescue package (£3.9m) as an exceptional item in the accounts.

Betfair welcomes regulation

The passing of the Gambling Act in April is the culmination of five years of consultation between the industry, the Government and other stakeholders. Our business already reflects the Government's main objectives of fairness to the punter, protecting the young and vulnerable and keeping out crime and the new Act recognises betting exchanges as an important new addition to the industry.

We are delighted that the Government has provided the remote gambling industry with a regulatory environment which serves both the operator and the consumer well and which positions the UK as an international centre for our exciting and fast-growing industry.

In July 2004 we signed a joint venture agreement with Australia's Publishing and Broadcasting Limited (PBL). PBL is a leading media company with extensive gaming interests and has been helping us ever since with our efforts to secure a licence in that country. Our discussions continue.

So far in 2005 we have obtained licences in Austria and Malta, our first outside the UK. Although small markets, these are important milestones both for our geographic expansion into Europe but also for our lobbying efforts to get recognition elsewhere.

Betfair continues to grow and innovate

The Confederation of British Industry (CBI) recognised our rapid growth and innovation when it named Betfair as the Company of the Year 2004 at its Growing Business Awards last December. We are very proud to have won this award, following as it does the Queen's Award in 2003 and coming from such a prestigious organisation as the CBI.

I would like to thank all our employees for their hard work over the past year. In recognition of the efforts of our staff in the success of Betfair, we have launched a Save-As-You-Earn scheme, approved by the Inland Revenue, which is very unusual for a privately held company. More than two-thirds of our employees participated and are now potential shareholders in, and owners of, the company. Our employees have showed such confidence in our future that they have invested an average of more than £200 a month – more than three times the average for such schemes in the UK.

You will not be surprised that our plans for this year call for significant further growth. We are confident that, as we enter our sixth year of operation, we have our greatest opportunities still ahead of us. In the UK, we are now an established part of the British betting scene recognised by Government, regulators, competitors and customers alike. We remain convinced that we have but scratched the surface of what we can do in this increasingly global industry. Internationally, the fun has yet to really start as we bring transparency, fairness, excitement and value to betting customers around the globe.

Stephen Hill
Chief Executive

Betfair Milestones

2000

JUNE

The Sporting Exchange launches Betfair. Betfair's first market is on The Oaks, won by Love Divine

2001

MAY

Betfair manages its first in-running soccer market – Alaves v Liverpool in the UEFA Cup Final

OCTOBER

Betfair launches its telephone betting service

DECEMBER

Betfair merges with Flutter.com

2002

JULY

Betfair sponsors Fulham Football Club

SEPTEMBER

Betfair moves to its new offices in Hammersmith, London

OCTOBER

Andrew Black and Edward Wray, the co-founders of Betfair, are named Ernst and Young Emerging Entrepreneurs of the Year

2003

APRIL

Betfair wins Queen's Award for Enterprise, in the Innovation category, on the recommendation of the Prime Minister and following a full assessment by the Department of Trade and Industry

JUNE

Betfair signs landmark Memorandum of Understanding with the UK Jockey Club, aimed at protecting and maintaining the integrity of horseracing

OCTOBER

Betfair signs MoU with Association of Tennis Professionals

NOVEMBER

Betfair signs training initiative with GamCare, the charity which promotes responsible attitudes to gambling

Betfair launches sites in German, Danish, Greek, Italian, Swedish, Norwegian, Finnish and Chinese

2004

JANUARY

Betfair signs MoU with International Cricket Council

MARCH

Betfair signs MoU with the English Football Association

APRIL

Betfair signs MoU with Cricket Australia

MAY

Betfair launches its poker room

JULY

Betfair signs joint venture with Australia's Publishing and Broadcasting Limited

SEPTEMBER

Betfair successfully migrates 300,000 customers to Betex, its new platform

Betfair sponsors St Leger, the world's oldest Classic

Betfair signs MoU with the South African Racing Authority

NOVEMBER

Betfair opens second office in Stevenage

DECEMBER

Betfair wins Company of the Year in the Confederation of British Industry's Growing Business Awards

2005

JANUARY

Betfair signs exclusive deal with Yahoo! UK and Ireland to launch a simplified betting exchange as well as a co-branded betting exchange

Betfair signs MoUs with UEFA and the National Greyhound Racing Club

Betfair names Racing Welfare as its Charity for the Year, with the aim of raising £250,000

FEBRUARY

Betfair signs MoU with the US Thoroughbred Racing Protective Bureau

MARCH

Betfair named as the 'Best Place to Work in IT' in the entertainment and leisure category at the 2005 Computer Weekly awards

APRIL

Betfair becomes the Official Betting Partner of the John Smith's Grand National meeting, the world's most famous race and watched by 600m people worldwide, in an exclusive three-year deal

Betfair sponsors test cricket on Channel 4, its first broadcast sponsorship

Betfair announces the sponsorship of a new race at Haydock Park in November, one of only three Grade One Chases in the country (the others being The King George and The Cheltenham Gold Cup)

Betfair is granted a licence in Austria, its first outside the UK, followed by Malta in May

THE QUEEN'S AWARDS FOR ENTERPRISE: INNOVATION 2003

Board of Directors

Sir Robert Horton

joined Betfair as non-executive Chairman in March 2004. Sir Robert is a former Chairman and Chief Executive of BP plc and a former Chairman of Railtrack plc. He is a non-executive director of Emerson Electric Co (US). He is Chairman of the Nominations Committee.

Stephen Hill

has been Betfair's Chief Executive since July 2003. Stephen was previously Chief Executive of the Financial Times Group during a 15-year career with Pearson plc. Stephen is also a non-executive director of Psion plc.

Owen O'Donnell

has been Chief Financial Officer of Betfair since November 2003 and was appointed to the board in June 2004. From 1997 to 2003, he was Finance Director in a variety of operational roles within Pearson plc. Owen is a Chartered Accountant.

Andrew Black

is the co-founder of Betfair. Betfair's unique bookmaking model is his brainchild. Andrew was a professional gambler but also worked in various product development roles for Track Data Corporation, Boxall and the Ministry of Defence.

Edward Wray

is the co-founder of Betfair and was its Chief Executive for the first three years. He is now spearheading Betfair's international expansion. From 1991 to 1999 Edward worked for JP Morgan in the bank's Debt Capital Markets division.

Chris Batterham

is a Chartered Accountant and has experience as a director of listed companies in both an executive and non-executive capacity. He is CFO of Searchspace Group Ltd, a leader in anti-money laundering software. He joined the board in January 2001. He is Chairman of the Audit Committee.

Josh Hannah

joined the board after the merger of Flutter with Betfair in December 2001. He is Entrepreneur in Residence at Benchmark, a US technology venture capital firm. He is Chairman of the Remuneration Committee.

Fru Hazlitt

was appointed to the board in March 2005. She is Chief Executive of Virgin Radio. Prior to this she was Managing Director, Yahoo UK & Ireland.

Nicholas Irens

was appointed to the board in October 2004 and is the senior independent non-executive director. He is Chairman of Northgate Information Solutions and Chairman of Esporta Ltd. Prior to this he was Chairman of Cannons Group plc.

Richard Koch (resignation effective 1 July 2005)

joined the board in February 2002. He is an entrepreneur and author. He was co-founder of LEK Consulting. Richard is non-executive chairman of Robson Rhodes Business Consulting and holds several non-executive directorships.

Greg Lockwood (resigned 18 April 2005)

joined the board in November 2002. He was the Chief Executive of Formula Vertex, a private equity firm. He previously worked for UBS in investment banking and technology investment.

Report and Accounts

Directors and Advisers

DIRECTORS
Sir Robert Horton (Non-executive Chairman)
Stephen Hill (Chief Executive Officer)
Owen O'Donnell (Chief Financial Officer)
Andrew Black (Founder)
Edward Wray (Founder)
Chris Batterham (Non-executive)
Josh Hannah (Non-executive)
Fru Hazlitt (Non-executive)
Nicholas Irens (Non-executive)
Richard Koch (Non-executive - resignation effective 1 July 2005)
Greg Lockwood (Non-executive - resigned 18 April 2005)

SECRETARY
Martin Cruddace

PRINCIPAL PLACE OF BUSINESS
Waterfront, Hammersmith Embankment
Winslow Road, London, W6 9HP

AUDITORS
KPMG LLP
8 Salisbury Square, London, EC4Y 8BB

PRINCIPAL BANKERS
Royal Bank of Scotland plc
280 Bishopsgate, London, EC2M 4RB

PRINCIPAL SOLICITORS
Freshfields Bruckhaus Deringer
65 Fleet Street, London, EC4Y 1HS

REGISTRARS AND TRANSFER OFFICE
Lloyds TSB Registrars
The Causeway, Worthing, West Sussex, BN99 6DA

Registered number 03770548 / 30 April 2005

Directors' Report

The directors present their annual report with the accounts of the Group for the year ended 30 April 2005.

Principal activities

The principal activity of the Group relates to the provision of betting services and online gaming products.

Business review

The directors are satisfied with the performance of the business over the last financial year which resulted in a profit after tax of £17.1 million after deduction of an exceptional expense relating to the Sporting Options rescue package of £3.9 million. The result was driven by strong revenue growth arising from the underlying exchange business together with the launch of an online poker service.

Proposed dividend

The directors do not recommend the payment of a dividend (2004: £nil).

Directors and directors' interests

The directors and their beneficial interests in the parent company at the balance sheet date and the beginning of the year (or on appointment if later) were as follows:

	Ordinary shares of 0.1 pence	
	At 30 April 2005	At 30 April 2004
Sir Robert Horton	100,000	-
Stephen Hill	-	-
Owen O'Donnell (appointed 22 June 2004)	-	-
Andrew Black	14,822,500	14,822,500
Edward Wray	14,725,000	14,725,000
Chris Batterham	225,000	225,000
Josh Hannah	992,488	1,097,478
Fru Hazlitt (appointed 22 March 2005)	-	-
Nicholas Irens (appointed 1 October 2004)	18,450	-
Richard Koch	8,592,238	8,592,238
Greg Lockwood (resigned 18 April 2005)	-	-

After year-end, Richard Koch has decided to resign as a director, which will become effective on 1 July 2005.

Sir Robert Horton has 75,000 options in shares in the company at an exercise price of £2.71, these vest over four years from the date of his appointment and are exercisable before 2014.

During the year the company established an Employee Benefit Trust, which acquired 3,125,892 new ordinary shares in the company for a consideration of £8,471,167. The Employee Benefit Trust was established for the purpose of an executive remuneration scheme primarily for the benefit of Stephen Hill, to reflect the terms of his employment agreed in July 2003. He has a partial interest in each share held by the Trust, the ability to realise the value in this interest depends primarily (but not exclusively) on the market value of a share at the time of exercise.

Stephen Hill, Owen O'Donnell and Andrew Black each has 4,343 options in shares in the company in respect of the company's Save-As-You-Earn scheme, which have an exercise price of £2.17 and are exercisable during the year ended 30 April 2008.

Owen O'Donnell has 240,000 options in shares in the company at an exercise price of £2.71, these vest over four years from the start of his employment and are exercisable before 2014.

Charitable donations

During the year, the Group made charitable donations totalling £112,589 (2004: £26,000).

Political contributions

During the year, the Group made political contributions of £6,000 each to the Liberal Party of Australia and the Australian Labour Party. There were no political contributions made in the prior year.

Employees

Applications for employment of disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of staff becoming disabled, every effort is made to ensure that their employment with the Group continues. The company will ensure that appropriate adjustments to accommodate a disability will be discussed and appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

Corporate Governance

The company's commitment to best practice corporate governance remains a priority. The Board is guided by the Combined Code. There are three Board sub-committees. These are Audit, Remuneration and Nominations, all of which have clear terms of reference and comprise exclusively non-executive directors. In addition the Board has appointed one of its non-executive directors, Mr Nicholas Irens, as the senior independent non-executive director. The company also carries out a biannual risk review that is scrutinised by the Audit Committee and reviewed by the Board.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution re-appointing KPMG LLP as auditors for the ensuing year will be placed before the Annual General Meeting.

On behalf of the board

Stephen Hill
Director

10 June 2005.
Waterfront, Hammersmith Embankment, Winslow Road, London, W6 9HP

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

KPMG LLP
8 Sailsbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of The Sporting Exchange Limited

We have audited the financial statements on pages 17-28.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 15, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group as at 30 April 2005 and of the profit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

10 June 2005

Consolidated profit and loss account for the year ended 30 April 2005

	Note	2005 Before exceptional item £'000	2005 Exceptional item £'000	2005 Total £'000	2004 £'000
Revenue	1	107,114	-	107,114	66,725
Cost of sales		(27,982)	-	(27,982)	(17,646)
Gross profit		79,132	-	79,132	49,079
Administrative expenses	7	(56,877)	(3,948)	(60,825)	(37,203)
Operating profit		22,255	(3,948)	18,307	11,876
Interest receivable	3	4,841	-	4,841	1,402
Profit on ordinary activities before taxation	2	27,096	(3,948)	23,148	13,278
Tax on profit on ordinary activities	6	(7,215)	1,184	(6,031)	(2,759)
Retained profit for the financial year	18	19,881	(2,764)	17,117	10,519

All activities relate to continuing operations in the current and previous year.
The exceptional item is explained in note 7 to the accounts. There were no exceptional items in the prior year.

Consolidated balance sheet as at 30 April 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Intangible assets	7	-	-
Tangible assets	8	11,083	5,889
Investments in joint venture	9	615	-
		11,698	5,889
Current assets			
Debtors	11	8,215	2,903
Cash at bank and in hand		52,418	32,286
		60,633	35,189
Creditors: amounts falling due within one year	12	(23,523)	(10,570)
Net current assets		37,110	24,619
Total assets less current liabilities		48,808	30,508
Provision for liabilities and charges	14	(480)	(289)
Net assets		48,328	30,219
Capital and reserves			
Called up share capital	15	103	98
Share premium account	17	14,774	5,620
Merger reserve	17	6,733	6,733
Profit and loss account	18	26,718	17,768
Equity shareholders' funds		48,328	30,219

These financial statements were approved by the board of directors on 10 June 2005 and were signed on its behalf by **Stephen Hill** (Director)

Company balance sheet as at 30 April 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	8	-	5,889
Investments	10	493,753	7,217
		493,753	13,106
Current assets			
Debtors	11	3,980	2,903
Cash at bank and in hand		-	24,931
		3,980	27,834
Creditors: amounts falling due within one year	12	(32,906)	(10,260)
Net current (liabilities)/ assets		(28,926)	17,574
Total assets less current liabilities		464,827	30,680
Creditors: amounts falling due after more than one year	13	(418,000)	-
Provision for liabilities and charges	14	(480)	(289)
Net assets		46,347	30,391
Capital and reserves			
Called up share capital	15	103	98
Share premium account	17	14,774	5,620
Merger reserve	17	6,733	6,733
Profit and loss account	18	24,737	17,940
Equity shareholders' funds		46,347	30,391

These financial statements were approved by the board of directors on 10 June 2005 and were signed on its behalf by
Stephen Hill (Director)

Consolidated cash flow statement for the year ended 30 April 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	19a	**29,864**	18,648
Returns on investments and servicing of finance			
Interest received		**4,109**	1,362
Taxation		**(2,800)**	(2,824)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(8,622)**	(4,750)
Payments to acquire investments		**(615)**	-
Total capital expenditure and financial investment		**(9,237)**	(4,750)
Acquisitions			
Payments to acquire trades or businesses		**(359)**	-
Sporting Options rescue package payments		**(2,133)**	-
Total acquisitions		**(2,492)**	-
Net cash inflow before financing		**19,444**	12,436
Financing			
Issue of shares		**688**	430
Increase in cash in the year	19b	**20,132**	12,866

Consolidated statement of total recognised gains and losses for the year ended 30 April 2005

	2005 £'000	2004 £'000
Retained profit for the year	**17,117**	10,519
Foreign currency translation differences	**(178)**	(28)
Total recognised gains and losses for the year	**16,939**	10,491

Reconciliation of movements in shareholders' funds for the year ended 30 April 2005

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Retained profit for the year	**17,117**	10,519	**14,786**	10,303
Movement in reserves for employee share schemes	**482**	459	**482**	459
Issue of shares	**9,159**	430	**9,159**	430
Foreign currency translation differences	**(178)**	(28)	**-**	-
Purchase of own shares	**(8,471)**	-	**(8,471)**	-
Net addition to shareholders' funds	**18,109**	11,380	**15,956**	11,192
Opening shareholders' funds	**30,219**	18,839	**30,391**	19,199
Closing shareholders' funds	**48,328**	30,219	**46,347**	30,391

Notes (forming part of the financial statements)

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation
The consolidated financial statements have been prepared under the historical cost accounting convention and in accordance with applicable accounting standards in the United Kingdom.

Basis of consolidation
The consolidated financial statements incorporate those of the holding company and its subsidiaries for the year ended 30 April 2005.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In accordance with Section 230 of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account. The company's retained profit for the financial year was £14.8 million (2004: £10.3 million).

Goodwill
On the acquisition of a business fair values are attributed to the separable net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. Goodwill is capitalised and amortised to the profit and loss account in equal instalments over its estimated useful life, not to exceed 20 years.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Investments
Fixed asset investments are stated at cost less any provision for impairment.

Joint ventures
A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. Unless otherwise stated the Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account, and its interest in their net assets is included in investments in the consolidated balance sheet.

Employee share schemes
The cost of performance related awards to employees that take the form of options or rights to acquire or receive shares is recognised over the period of the employees' related performance. The cost represents the difference between the share option/right exercise price (if any) and the market value of the shares at the date of grant. Where there is no performance criteria, the cost is recognised over the period in which the employees' services are received.

During the year the company established a Save-as-You-Earn (SAYE) scheme. In accordance with UITF 17 Employee Share Schemes the cost of performance related to SAYE awards is not recognised as a cost within the accounts.

The Group provides for National Insurance contributions, where necessary, on options which were granted to certain employees on or after 6 April 1999 under its unapproved share option schemes in accordance with UITF 25 National Insurance on share options gains. The charge is based on the expected timing of future exercises of the share options and the market value of the underlying shares expected at those dates in those cases where the liability has not been passed onto the employee.

Employee Benefit Trust
In accordance with UITF 38 Accounting for ESOP Trusts shares held by such a trust are treated as a deduction in arriving at shareholders' funds.

Fixed assets and depreciation
Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	- 33% straight line
Fixtures and fittings	- 20% straight line
Leasehold improvements	- over the term of the lease
Motor vehicles	- 33% straight line

Website development costs
The Group's website is central to its operation and is subject to constant updating and improvement. As such, the directors take the view that the prudent approach is to write off all website development costs in the year in which they occur.

Leasing and hire purchase commitments
Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Revenue
Revenue represents the commission and fee income from the Group's bookmaking activities and online gaming products. All revenue is recognised on the date the market or event is settled.

The Group uses the term revenue rather than turnover in its consolidated profit and loss account to avoid confusion with the alternative definitions of turnover used within the bookmaking industry.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash at bank and in hand and deposits repayable on demand, less overdrafts payable on demand.

Cash and liquid resources do not include client funds deposited in a stakeholder account held by The Sporting Exchange (Clients) Limited, a wholly-owned subsidiary of the Group, on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group. At 30 April 2005 £102.5 million (2004: £66.4 million) was held on trust in The Sporting Exchange (Clients) Limited on behalf of the Group's customers.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated profit and loss account.

Exchange differences arising on the translation of the net assets and profit and loss accounts of non-UK companies, together with exchange differences on related borrowings are accounted for through reserves. All other exchange differences are taken to the profit and loss account.

2. Profit on ordinary activities before taxation

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation is stated after charging:		
Gross Profits Tax	14,252	9,282
UK horseracing Levy	5,155	3,897
Depreciation of fixed assets	3,917	1,866
Auditors' remuneration:		
Audit	223	204
Other services	375	92
Rentals payable under operating leases for equipment	53	453
Other operating lease rentals	1,453	992
Website development costs	3,779	2,765

The Group audit fee includes £44,000 in respect of the company's audit. Other audit services principally comprise tax advisory work.

3. Interest receivable

	2005 £'000	2004 £'000
Bank interest receivable	4,841	1,402

4. Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2005	2004
Corporate and administration	36	21
Engineering	105	77
Operations	225	164
Commercial	57	25
	423	287

The aggregate payroll costs of these persons were as follows:

	2005 £'000	2004 £'000
Wages and salaries	18,169	11,492
Social security costs	2,313	1,459
	20,482	12,951

5. Directors' remuneration

	2005 £'000	2004 £'000
Emoluments	930	652

The highest paid director was paid total emoluments of £325,000 (2004: £269,000).
No pension contributions were paid in respect of directors (2004: nil).

6. Taxation on profit on ordinary activities

Analysis of tax charge for the year

	2005 £'000	2004 £'000
UK Corporation tax charge - current year	6,245	3,050
UK Corporation tax charge - prior year	49	(281)
Overseas tax charge	198	-
Total current tax	6,492	2,769
Deferred tax (see note 11)	(461)	(10)
Total tax charge	6,031	2,759

Factors affecting the tax charge for the current year

The current effective tax charge for the year is 28% (2004:21%) which is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	2005 £'000	2004 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	23,148	13,278
Current tax at 30% (2004: 30%)	6,945	3,983
Effects of:		
Expenses not deductible for tax purposes	246	228
Depreciation in excess of capital allowances	474	10
Utilisation of tax losses	(47)	(213)
Adjustments to tax charge in respect of previous periods	49	(281)
Deductions for gains on exercise of share options	(996)	(958)
Lower tax on overseas profits	(179)	-
Current tax charge	6,492	2,769

7. Intangible assets

Group Cost and net book value	Goodwill £'000
As at 1 May 2004	-
Additions	3,948
Write off	(3,948)
As at 30 April 2005	-

Sporting Options plc went into administration in November 2004 with insufficient funds to repay customer deposits. As a gesture of goodwill to the customers of Sporting Options the Group offered a rescue package which would allow those customers to receive their funds back over a period of time. The Group has decided to write off all of this goodwill in the year as the long term benefit is uncertain.

This write off has been disclosed on the face of the profit and loss account as an exceptional administration expense.

8. Tangible fixed assets

Group	Leasehold improvements	Computer equipment	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 May 2004	1,716	5,935	798	44	8,493
Additions	569	8,281	226	35	9,111
At 30 April 2005	**2,285**	**14,216**	**1,024**	**79**	**17,604**
Depreciation					
As at 1 May 2004	347	1,931	322	4	2,604
Charge for year	471	3,262	158	26	3,917
At 30 April 2005	**818**	**5,193**	**480**	**30**	**6,521**
Net book value					
At 30 April 2005	**1,467**	**9,023**	**544**	**49**	**11,083**
At 30 April 2004	1,369	4,004	476	40	5,889

Company	Leasehold improvements	Computer equipment	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 May 2004	1,716	5,935	798	44	8,493
Additions	494	6,249	162	-	6,905
Disposals	(2,210)	(12,184)	(960)	(44)	(15,398)
At 30 April 2005	**-**	**-**	**-**	**-**	**-**
Depreciation					
As at 1 May 2004	347	1,931	322	4	2,604
Charge for year	320	2,190	109	-	2,619
Disposals	(667)	(4,121)	(431)	(4)	(5,223)
At 30 April 2005	**-**	**-**	**-**	**-**	**-**
Net book value					
At 30 April 2005	**-**	**-**	**-**	**-**	**-**
At 30 April 2004	1,369	4,004	476	40	5,889

All tangible fixed assets were transferred at 1 February 2005 at net book value to Betfair Limited, a subsidiary undertaking, as part of a Group reorganisation.

9. Investments in joint venture

Group	2005	2004
Cost and net book value	**£'000**	£'000
As at 1 May	**-**	-
Loan advanced during the year	**101**	-
Goodwill arising during the year	**514**	-
As at 30 April	**615**	-

During the year the Group entered into a joint venture with Publishing and Broadcasting Limited, a listed Australian company, to establish a betting exchange. Additional investment in the joint venture is contingent on obtaining a licence to operate in an Australian state or territory. The joint venture did not trade during the year. Amortisation of the goodwill will commence when a licence to operate is obtained.

10. Fixed asset investments

Company	Shares in Group Undertakings	Loans to Group Undertakings	Loan to joint venture	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 May 2004	7,767	-	-	7,767
Additions	40,000	446,435	101	486,536
As at 30 April 2005	**47,767**	**446,435**	**101**	**494,303**
Provisions				
As at 1 May 2004 and 30 April 2005	(550)	-	-	(550)
Net book value as at 30 April 2005	**47,217**	**446,435**	**101**	**493,753**
Net book value as at 30 April 2004	7,217	-	-	7,217

On 1 February 2005 the Group underwent an internal reorganisation to facilitate future growth and protect its key assets.

TSE Development Limited, a wholly owned subsidiary, owns the Group's intellectual property by virtue of an exclusive licence granted for an amount of £440 million which has been funded by an equivalent intra-group loan.

Betfair Limited, which is also a wholly owned subsidiary, acquired all the operating assets of The Sporting Exchange Limited and now operates the core exchange business. The consideration for the acquisition was satisfied in part by the issue of new ordinary shares in Betfair Limited, of £40 million, and in part by an intra-group loan.

The companies in which the Group had an interest at the year end are as follows:

	Country of incorporation	Principal activity	Class of share and percentage held
Betfair Ltd	England	Bookmaking	Ordinary shares 100%
SEL (Curacao) N.V	Curacao	Online poker	Ordinary shares 100%
TSE (International) Ltd	England	Trading	Ordinary shares 100%
TSE Development Ltd	England	Intellectual property licensor	Ordinary shares 100%
TSE Holdings Ltd	England	Holding company	Ordinary shares 100%
The Sporting Exchange (Clients) Ltd	England	Non trading	Ordinary shares 100%
Insightmarket Ltd	England	Non trading	Ordinary shares 100%
Kaminka Pty Ltd	Australia	Non trading	Ordinary shares 50%

None of the companies were acquired by the Group during the financial year and all have a financial year end of 30 April.

11. Debtors

	Group		Company	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Other debtors	**1,501**	1,114	**-**	1,114
Prepayments and accrued income	**5,429**	965	**-**	965
Deferred tax asset	**1,285**	824	**-**	824
Amounts owed by Group undertakings	**-**	-	**3,980**	-
	8,215	2,903	**3,980**	2,903

11. Debtors (continued)

Amounts falling due after more than one year included in the above are:

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Rental deposits	935	935	-	935
Deferred tax asset	599	630	-	630
Total amounts falling due after more than one year	1,534	1,565	-	1,565

The elements of the net deferred tax asset are as follows:

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Depreciation in excess of capital allowances	353	(121)	-	(121)
Tax losses	898	945	-	945
Other	34	-	-	-
	1,285	824	-	824

Movements in amounts provided are as follows:

	2005 £'000	2004 £'000
As at 1 May	824	814
Depreciation in excess of capital allowances	474	10
Recognition of tax losses	-	213
Utilisation of tax losses	(47)	(213)
Other	34	-
As at 30 April	1,285	824

12. Creditors: amounts falling due within one year

	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Trade creditors	4,145	1,926	-	1,926
Corporation tax	5,297	1,586	3,563	1,586
Other creditors including taxation and social security	966	1,038	-	1,038
Accruals	13,115	6,020	-	5,710
Deferred income	-	-	17,600	-
Amounts payable to Group undertakings	-		11,743	-
	23,523	10,570	32,906	10,260

Included within accruals are amounts provided for data rights.

13. Creditors: amounts falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Deferred income	-	-	418,000	-

The deferred income included in notes 12 and 13 represents the element of the consideration from the sale of an exclusive licence of the company's intellectual property to TSE Development Limited that occurred as part of a Group reorganisation.

14. Provisions for liabilities and charges

Company and Group

	2005	2004
	£'000	£'000
As at 1 May	289	240
Additional amounts provided	191	49
As at 30 April	480	289

In accordance with UITF 25, the Group provides for Employers' National Insurance payable on unapproved share options granted. The charge is based on the expected timing of future exercises of the share options and the market value of the underlying shares expected at those dates in those cases where the liability has not been passed onto the employee.

15. Called up share capital

	2005	2004
	£'000	£'000
Authorised		
200,000,000 Ordinary shares of 0.1p each (2004: 200,000,000)	200	200
Convertible 'A' ordinary shares of 0.1p each (2004: 30,074,210)	-	30
	200	230
Allotted, called up and fully paid		
102,815,144 Ordinary shares of 0.1p each (2004: 68,437,737)	103	68
Convertible 'A' ordinary shares of 0.1p each (2004: 29,877,030)	-	30
	103	98

On the 22 June 2004 all 'A' Ordinary shares were converted into Ordinary shares, and all authorised but unissued Convertible 'A' Ordinary shares were cancelled, following appropriate resolutions.

500,615 Ordinary shares were allotted during the year following the exercise of options granted under an Enterprise Management Incentive Scheme, and the total consideration for those shares was £150,970.

755,420 Ordinary shares were allotted during the year following the exercise of options granted under an unapproved Inland Revenue Scheme, and the total consideration for those shares was £215,219.

118,450 Ordinary shares were allotted during the year following the issue of shares to Directors of the company. The total consideration for those shares was £321,000.

3,125,892 Ordinary shares were allotted during the year following the subscription for those shares by an Employee Benefit Trust. The total consideration for those shares was £8,471,167.

16. Share options

The Group has share option schemes for its employees and has granted options under the terms thereof as indicated below. Options remain outstanding as at 30 April 2005 in respect of 7,037,061 shares in the capital of the Group which are exercisable up to 2015.

A Save-As-You-Earn (SAYE) scheme is operated by the company for eligible employees. Under this scheme options are granted with an exercise price of up to 20% below the current share price.

Options in Ordinary shares of 0.1p

Financial year granted	Outstanding at 1st May 2004	Granted during the year	Lapsed/ cancelled during the year	Exercised	**Outstanding at 30 April 2005**	Exercise price £	Exercisable before
2001	1,039,880			(230)	**1,039,650**	0.001	2011
2002	4,206,620		(3,775)	(1,224,240)	**2,978,605**	0.001 to 0.40	2012
2003	513,588		(2,935)	(26,565)	**484,088**	0.40 to 2.00	2013
2004	327,625		(5,000)	(5,000)	**317,625**	0.25 to 2.25	2014
2005	-	2,339,597	(122,504)	-	**2,217,093**	2.17 to 4.50	2008 to 2015
	6,087,713	2,339,597	(134,214)	(1,256,035)	**7,037,061**		

The options granted during 2005 includes 831,079 SAYE options, these are exercisable at £2.17 during the year ending 30 April 2008.

17. Share premium account and merger reserve

	Share premium account 2005 £'000	Merger reserve 2005 £'000
Company and Group		
As at 1 May 2004	5,620	6,733
Premium on shares issued during the year	9,154	-
As at 30 April 2005	**14,774**	**6,733**

18. Profit and loss account

Group	Profit and loss account £'000	Own shares held £'000	Total £'000
As at 1 May 2004	17,768	-	17,768
Retained profit for the year	17,117	-	17,117
Charge in relation to employee share schemes	482	-	482
Foreign currency translation differences	(178)	-	(178)
Purchase of own shares	-	(8,471)	(8,471)
As at 30 April 2005	**35,189**	**(8,471)**	**26,718**

Company	Profit and loss account £'000	Own shares held £'000	Total £'000
As at 1 May 2004	17,940	-	17,940
Profit for the year	14,786	-	14,786
Charge in relation to employee share schemes	482	-	482
Purchase of own shares	-	(8,471)	(8,471)
As at 30 April 2005	**33,208**	**(8,471)**	**24,737**

19. Cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2005 £'000	2004 £'000
Operating profit	18,307	11,876
Depreciation charge	3,917	1,866
Amortisation of goodwill	3,948	-
Net cash outflow from increase in debtors	(4,117)	(730)
Net cash inflow from increase in creditors	7,327	5,177
Cost of employee share schemes	482	459
Net cash inflow from operating activities	29,864	18,648

(b) Reconciliation of net cash flow to movement in net funds

	2005 £'000	2004 £'000
Increase in cash in the year	20,132	12,866
Net funds at 1 May	32,286	19,420
Net funds at 30 April	52,418	32,286

Net funds comprise cash at bank and in hand and deposits repayable on demand.

20. Commitments

Annual commitments under non-cancellable operating leases are as follows:

Group	2005 Land and buildings £'000	2004 Land and buildings £'000
Operating leases which expire:		
Within one year	-	109
In the second to fifth years inclusive	1,094	1,151
	1,094	1,260

The company has no commitments at year end.

Five-year summary

For the year ended 30 April

	2005 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Revenue	107,114	66,725	32,319	6,090	480
Operating profit before exceptional items	22,255	11,876	7,838	1,511	(2,014)
Exceptional items	(3,948)	-	-	-	-
Operating profit after exceptional items	18,307	11,876	7,838	1,511	(2,014)
Profit on ordinary activities before taxation	23,148	13,278	8,706	1,759	(1,968)
Retained profit for the year	17,117	10,519	7,518	1,760	(1,968)
Adjusted operating profit before exceptional items*	22,255	11,149	5,364	738	(2,014)

*Adjusted to show Gross Profits Tax (GPT) on a like for like basis at 15% for all years.

Contact us

For more information about Betfair,
please visit www.betfair.com
or www.betfaircorporate.com

For Corporate and Communications enquiries,
please e-mail corporate@betfair.com
or telephone +44 20 8834 8000

By mail
The Sporting Exchange Limited, Waterfront,
Hammersmith Embankment, Winslow Road,
London W6 9HP.

betfair.com
SHARP MINDS BETFAIR