Sportingbet Plc Annual Report 2011

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Business fundamentals

01	Geographic diversity	Regulatory and gaming risk exposure minimised by a highly tailored local market offering **See page 4**
02	Best-in-class product suite	A sportsbook product that is increasingly valuable and difficult to replicate **See page 8**
03	Building on our core strengths	Providing an enhanced and unique customer experience through enterprise and innovation **See page 12**
04	Benefit from external growth drivers	Positive market trends indicate significant potential to expand **See page 16**

Overview
Highlights

> Integration of Centrebet proceeding well and in line with expectations
> EBITDA for the year up 11% to £51 4m
> Amounts wagered up 4% year on year to £2,054m with NGR up 1%*
> Amounts wagered online in Australia up 62%
> In play continues to perform strongly – now 67% of European amounts wagered (2010 61%) at an industry leading margin of 9 7%
> Final dividend of 1 1p making a total of 1 7p (2010 1 6p)
> Solid start to new financial year NGR up 17% in first two months

Financial highlights for the year

	2011	2010
Amounts wagered	**2,053 9**	1,971 3
Total revenue	**206 3**	207 5
EBITDA**	**51.4**	46 5
Adjusted operating profit**	**38.1**	35 4
Group operating profit	**24.4**	7 1
Adjusted diluted EPS** (p)	**6 3**	6 2
Diluted EPS (p)	**3 9**	0 7

* Excluding discontinued territories and at constant currency
** Adjusted to exclude exceptional items of £10 8m (2010 £24 5m) share option charge and amortisation of other intangible assets

Overview
Chairman's statement
Peter Dicks, Chairman

"Our long-term trading strategy has been consistently executed leveraging our proprietary best-in-class trading technology which has enabled us to deliver an outstanding trading performance"

This has been a year of significant progress for the Group both in terms of financial performance and corporate developments Agreement with the US Department of Justice in September 2010 was followed in August 2011 by the acquisition of Centrebet in Australia and the passing of regulations in two of our largest markets, Greece and Spain Sportingbet is now well positioned to maximise the growth opportunities available to it as the global online gaming market continues to develop We already have market leadership in around 50% of the territories in which we operate

I am pleased to announce a strong set of financial results for the year with EBITDA increasing 11% to £51 4m The benefits of operating across a broad geographical base were demonstrated with strong growth in our Emerging Markets division, Australia and some of our European countries, offsetting the economic weakness in two of our largest markets, Greece and Spain This limited the overall decrease in revenue to 1% although the comparative period did benefit from the Football World Cup which is estimated to have benefited last year's NGR by £8 5m The decrease in revenue was more than compensated for at the profit level by tight cost control In addition to the cost synergies being realised following the Centrebet acquisition, the focus on adjusting the cost base to reflect the economic conditions and the increased cost of newly regulated markets will continue over the coming periods

Our overall strategy of providing a first class sports betting product offering customers an unprecedented number of betting opportunities at all times of the day, remains unchanged Sports betting is our focus as it offers the greatest scope to differentiate our product from competitors and provides significant barriers to new entrants Our long-term trading strategy has been consistently executed leveraging our proprietary best-in-class trading technology which has enabled us to deliver an outstanding trading performance This success has been clearly demonstrated by an in play margin of nearly 10% compared to 5% or less for our competitors To provide a comprehensive suite of products for our customers, we supplement the core sports offering with casino, games and poker products bought in from the leading suppliers in the industry

As the online gaming industry matures, governments across the world are recognising the significant potential contribution from online gaming tax revenues as a means to replenish national budget deficits and the need to bring in regulation to protect the consumer and provide a stable trading environment We welcome these moves and have been exploring ways of increasing the percentage of our revenue derived from regulated markets

In line with this strategy we recently acquired Centrebet International Limited, a business which predominantly operates in the regulated Australian market This acquisition has raised the percentage of the Group's proforma revenue derived from regulated markets to over 32% for the 2010/11 financial year Following completion of the acquisition on 31 August 2011, the integration of Centrebet with our existing Australian sportsbook business is progressing well and the enlarged operation has a market leading position with over 30% share in what is a fast growing and dynamic online sports betting market The acquisition will be earnings enhancing (excluding amortisation of intangible assets) in the first full year post acquisition (2012/13)

The percentage of revenue from regulated markets is also expected to increase significantly over the coming year as countries introduce online gaming legislation Two of our largest markets, Spain and Greece which account for 27% of the Group's revenue, have passed laws regulating their markets from the beginning of January 2012 In addition, several of the other smaller markets in which we operate are moving quickly in the same direction The Group is currently paying tax in Spain and intends to pay tax in Greece when the bill is finally passed into law The Group expects to apply for a licence in both countries

Based on our experience in the regulated Australian market, while in the short term regulation and the implementation of the associated tax regimes are expected to reduce profitability, there is an opportunity to grow profits in the medium term despite the greater cost base The opportunities represented by the increased ability to advertise, improved trustworthiness from being licensed and better payment processing efficiency, combined with an existing strong brand presence, provide a platform for medium term profit growth In the Australian case it took three years to recover profitability with the high growth rates experienced during this period continuing up to the present time

The rollout of the Group's mobile phone offering has been very encouraging since its launch last year Actives now account for 15% of total customers in our largest markets The rollout has gathered momentum in the last six months with a total of 11 countries now covered The take up of the mobile product is expected to continue to grow significantly over the next three years as smart phone and tablet penetration, a key driver of uptake, is expected to exceed 50% in the markets we serve

Finally, I am pleased to announce that the Board has proposed a final dividend of 1 1p (2010 1 1p) This brings the total dividend for the year to 1 7p (2010 1 6p), an increase of 6% year on year, and reflects the considerable progress the Group has made recently If approved by shareholders the dividend will be payable on 12 January 2012 to ordinary shareholders registered as of the close of business on 16 December 2011

Business fundamentals
Geographic diversity

The world's best online betting service with markets in 28 countries and over 700,000 active customers worldwide

Global strategy, local execution
Our customers across the world live and breathe sport and our ability to offer a global service, that reflects their culture and passions, is a cornerstone of our business

Betting behaviour is different around the world In South American cultures they bet less frequently but the stakes are higher in Nordic countries bets are smaller, more considered Ice Hockey is only popular in Russia and other Eastern European countries and the Europeans are ardent basketball fans Our skill lies in understanding and reflecting these different sporting cultures in the 28 countries where we operate

A leading international player
We are a major force in Europe handling around 79 million bets during the year from over 400,000 active sports enthusiasts Horseracing fans dominated the buoyant Australian market, placing part of the 29 million bets in Australia and following the Centrebet acquisition, Sportingbet will be the leading player in this fast-paced market increasing our football and internet coverage

We are making good inroads in markets where traditional betting routes are not well-established, allowing the internet to become the de facto standard from the start Football is a national obsession in emerging markets – Asia, South America and South Africa in particular – making these attractive long-term prospects for growth

Reducing risk
The depth and breadth of our geographic cover spreads our economic risk, diversifies our exposure to high profile matches and spreads the load on our systems as activity moves across the different time zones around the globe It delivers economies of scale and puts our brand in front of circa 50,000 active players every day

Overview
Group Chief Executive's Q&A

Andrew McIver, Group Chief Executive, discusses the key events of the year and looks forward to 2012

How would you summarise Sportingbet's year?
Despite economic pressure in two of our biggest markets, Greece and Spain, we delivered a robust performance and hit our profit target of £38 1m We benefited from a good performance in Australia and our Emerging Markets – a clear demonstration of the benefits of having a geographically diverse business

I was pleased that we finally settled with the US Department of Justice in September 2010 This has been a long and arduous process so it was good to reach a conclusion and give shareholders certainty on the potential liability We could now re-enter the US, subject to the prevailing regulation, if we felt it was appropriate to do so More recently the successful acquisition of Centrebet, secured our market position in the buoyant Australian market and gave a welcome boost to performance

How will the Centrebet acquisition generate shareholder value?
The acquisition of Centrebet brings a number of benefits Firstly, it consolidates our position as the leading fixed odds bookmaker in the fast growing Australian market and it puts us in prime position to benefit from any future regulation changes in online casino, poker and in running products

Secondly, we will be able to extend our capabilities in the wider sports and internet arena where Centrebet is particularly strong, complementing our leading presence in horseracing and telephone betting

Finally, we expect to deliver significant cost savings as we merge operations and this integration is progressing well so far

How do you view increased regulation in your markets?
Very positively! We welcome regulation because it provides certainty over revenues and profit streams Our experience in Australia suggests that after an initial profit hit as we began to pay tax, within three years, profits recovered and growth returned This demonstrates the positive impact of being able to market products more widely and with the acquisition of Centrebet, we have taken a major step along the regulatory path in that market

We are following moves towards regulation in Spain and Greece closely and expect this trend to continue – look at the developments in Italy and even Germany We meet extensively with licensing authorities to put our views forward – they are often well received – and we are very happy to contribute to the regulatory debate

What is unique about Sportingbet's customer proposition?
I think the clue is in the name! We are focused on delivering an industry leading sports betting proposition built on our fast growing in running product, an unrivalled selection of bets and a well thought-out customer engagement model We expect our staff to have a passion for sport and support almost anything sporting This is underpinned by a significant investment in customer service We recruit multi-lingual staff and train them to understand betting and how our products work and even to acquire another language, if they want to extend their skills

Why is in running betting so popular and what is its impact on revenue?
In running betting took off as soon as it became technically possible because it dramatically increases the level of involvement in a sports event, maintaining the excitement throughout From the constraints of the win, lose, draw, starting point, we now offer up to 200 possible bets during a match From our point of view, we have seen revenues for our in play product rise to 67% of European amounts wagered within a very short period of time

Do you see mobile betting as a key area of growth?
Yes, certainly Mobile currently represents about 15% of our actives and this is growing at a steady 150% year on year There are some key market drivers dictating pace and momentum in 'new technologies' in general Smart phone penetration and flat data packages are growing strongly and demographics are working in our favour In addition, with the advent of platforms like Google, PPC, Facebook and the Apple App Store, who have all recently begun to regulate, mobile accessibility and activity is set to increase

What will management focus on over the next few years?
Customer retention remains key to the future so we will continue investing in our products to give the customer a richer, more rewarding experience, alongside expanding our mobile capabilities

In the short-term, bedding in Centrebet will be a key priority alongside ensuring we compete effectively in the newly regulated markets like Spain and Greece and keep a watching brief on other countries on the regulatory path

Growth will remain top of the agenda as we expand our international presence but this will be combined with an increased focus on cost management as we tackle the challenge of the harsh economic conditions facing European markets together with the incoming cuts that regulation brings

Business fundamentals
Best-in-class products

Offering sports fans everywhere an unrivalled range of betting opportunities every minute of every hour of every day

Sportsbook
Representing 71% of our revenues, this is where we lead the field with 8,000 different betting opportunities every single day Football tops the popularity league but Tennis and Basketball each now represent 4% of amounts wagered

In play
Now accounting for 67% of our sportbook stakes, in play has captured the imagination of sporting fans, adding up to 200 live betting opportunities to raise the excitement of the game Customers can now bet on who will get the next corner, free-kick, throw-in, goal kick and card Our unique, in-house technology means we can run over 40 simultaneous in play markets at any given time on a single game

Live streaming
Over 8,500 premium events are now avidly watched by our customers across the world (with the exception of those based in the UK and Scandinavia), engaging them in the live game as they bet on an extensive range of events from European, Asian and South American football to horseracing, basketball, snooker, darts and many others

ParadisePoker com
With up to 10,000 concurrent players, ParadisePoker com is one of the world's best known online poker rooms The software is run by leading gambling software specialist, G-Tech G2, on the International Poker Network ("IPN") Our flagship promotion, the ParadisePoker Tour is now in its second season, attracting poker aficionados from all over Europe to sell-out events

Casino
We offer over 300 games from industry-leading games providers that include roulette, blackjack, slots and live dealer tables Our live dealer casino from the pioneer of video-streamed live dealer gaming, Evolution, includes local language dealers putting us at the cutting edge of the online casino market

Overview
Key performance indicators

Key performance indicators ("KPIs") enable us to understand what is driving our financial performance, and give us a better understanding of how customers are engaging with us

At Sportingbet, our Board of Directors monitor a series of selected customer KPIs to ensure that we as a company are doing everything in our power to make our shareholder's investment worthwhile

Number of sports bets
The number of sports bets is a simple KPI showing us how many bets are placed during a given period We can then break these results down to track number of bets per active, per country and per product Such analysis allows us to monitor engagement, ensuring our customer interaction is second to none

Europe and Emerging Markets million

Sports bets have seen a steady increase year on year as a result of our continual improvement of our product offering, especially in play, combined with an increase in our investment in both marketing across all our European domains and investment in mobile betting

Australia million

Australia has seen a significant increase in sports bets numbers as the benefits of mobile betting, TV advertising and other marketing campaigns were implemented post the relaxation on advertising regulations in September 2008

Percentage of sports net gaming revenue ("NGR")
NGR is the amount retained by Sportingbet from bets placed by our customers net of promotional bonuses Being able to see our NGR percentage year on year for each of our individual products allows us to make decisions on how best to develop these products and the customer experience

Europe and Emerging Markets million

Our world class trading team has continued to provide an industry leading net gaming revenue percentage across Europe and Emerging Markets Their expertise, combined with our sole ownership of our technology sets us apart from the competition

Australia %

The shift in numbers over the last four years reflects the move from telephone to internet and mobile betting in the Australian market This move has brought with it a large and diverse base of lower stake bettors

As internet and mobile operations have taken over the majority of the Australian business, it is no surprise that sports net gaming revenue percentage has increased, moving the Australian business away from its traditional higher, but less frequent, staking telephone customers, to more low but frequent staking bettors

Sports yield per active
A good indicator of how much our customers bet and the amount of profit we make once their winnings have been paid Essentially, sports yield is the net gaming revenue per active sports betting customer

Europe and Emerging Markets £

As the in play product develops we find our customers are more loyal to our brand They are more engaged, they stay longer on our website and the frequency of their betting has increased The combination of all these factors has resulted in a year on year increase in sports yield per active across Europe and the Emerging Markets, and will continue to improve as we add more in play events and markets

Active sports customers
This is simply the number of customers placing at least one real-money sports bet in the period

Australia

The rise in active sports customers is a measure of our success at recruiting and retaining customers The significant increase in 2011 reflects the benefits of TV advertising which began in the second half of the 2009-10 financial year, along with the accessibility created by improvements in both online and mobile

Business fundamentals

Building on our core strengths

A powerful combination of in-depth market knowledge and our bespoke IT platform gives us the competitive edge

Wide geographical spread
Our ability to spread our risk across multiple territories not only reduces our economic and trading exposure but also gives us economies of scale as we capture the rising global passion for international sporting events and iconic teams

An industry-leading trading team
Underpinning our performance is the best risk management team in the business over 100 specialists who deliver industry leading margins Highly respected for their knowledge, they bring experience, creativity and inspiration to our game

Unique trading technology
Owning our core technology gives us the agility to respond to changes in markets and regulations at the pace/speed we dictate Developed in-house over a number of years, our technology is unique and enables us to trade 24/7 across 28 countries simultaneously

Strong brand awareness
One of our most valuable assets, our brand awareness is well ahead of the pack in our key markets Australia, Spain and Greece Supported by innovative sponsorship deals and blue chip partnerships, we continue to invest in our brand to drive customer loyalty, attract new people to betting and lower the cost of customer acquisition

Award winning customer service
Winning the prestigious Gold award for the best medium-sized call centre EMEA, in the Contact Centre World awards for 2011, puts our 180-strong customer service team firmly in a league of their own Based in Dublin, they support customers in 28 countries 24 hours a day, 7 days a week, 365 days a year, in 34 different languages

Regulatory expertise
Licensing regimes around the world are evolving and our dedicated team contributes to the regulatory debate They ensure we are primed and ready to exploit the opportunities that emerge as standards change – putting us in pole position to move into new markets swiftly

Overview
Regulation in brief

The speed of regulation has increased dramatically in the last twelve months

This time last year, operators were reeling from the regulation of the French market The introduction of a new tax regime together with our low market share and the cost of the IT work required to obtain a licence in France, led us to conclude that it was economically unviable and we therefore chose to withdraw from the French market in May 2010 Since then we have blocked all services to French citizens

Italy was next with its updated gambling bill permitting a number of non-Italian bookmakers to obtain licences to operate online In July 2011 Italy extended its licensable offerings to include cash ring games for poker and other casino games Whilst the technical requirements are unique and complex, the basic economics of the approach are heading in the right direction for both operators and customers alike

Since then we have seen both Spain and Greece publish gambling bills, although they are still yet to issue licences Spain is due to start its licence application process in November 2011 with the first licences expected during December As for Greece, we await the announcement of the new licensing regime, amidst news that tax may be payable during the period prior to this announcement

Further North, and we had high hopes for regulation in Denmark Unfortunately, the process has recently been postponed pending input from the EU Commission We expect a decision imminently

We are confident that in the new financial year we will have licences in Denmark, Italy and Spain We will continue operating in a regulated Greek market with our successful Greek business however it is unclear if the Greek regulator will have resolved its licencing process during this financial year

The European Union recently published a "Green Paper" which called on all Member States in the EU to consider all the potential issues in relation to online gambling, including a form of harmonisation

Given the timescales involved in implementing this Green Paper compared with the rate at which EU members are moving towards regulation, such harmonisation is unlikely to occur in the short-term, and the most likely trend to continue is for jurisdictions to introduce licensing regimes which may or may not be tempered by European Commission intervention

Here in the UK the government announced (in July 2011) its intention to proceed with plans regarding a system for the regulation of remote gambling in the UK This will also look at whether operators who advertise in the UK should face new regulatory requirements – which would attract consequential licence fees – to ensure a more even financial treatment of both UK and non-UK operators who target this market

Further afield and in Australia we have begun to see a growing trend to impose product fees (e g race fields and sporting fixtures) which essentially add an additional tax to that paid by the operator in the state in which the operator is licensed We continue our discussions regarding the provision of our other products (casino, games and poker) as well as in play which remain prohibited in Australia

The United States continue to prohibit online gambling Following our settlement with the Department of Justice in September 2010, we believe we can now draw a line under our previous activities in the United States

As for Asia, we have no operations or activities due to the prohibitive regulatory regimes in many Asian countries

The Sportingbet Group continues to provide its services only from jurisdictions where is it licensed and regulated, and therefore the position in its place of supply (and where its regulator and applicable local laws deem the gambling transaction to take place) is explicitly legal

In order to provide our worldwide gambling service, the Sportingbet Group currently maintains licences in Alderney, Antigua and Barbuda, Australia, Curaçao, Malta, South Africa and the UK

Case Study – Spain

Spain represents one of our largest markets accounting for 13% of net gaming revenue. With the passing of a new online gambling bill earlier this year, we expect the application and licensing process to commence in November 2011.

A more detailed review of how regulation has impacted our business over the last twelve months is given in Regulatory Developments on pages 45 to 47.

We currently find ourselves in a transition period between the passing of the parliamentary bill in July and the award of licences before Christmas. During this period we continue to operate in Spain with the consent of the regulator, providing we pay 25% gross profit tax during this period. Failure to pay this tax would invalidate any licence application later in the year.

The Spanish regulator is taking an approach between that of France and Denmark with a 25% gross profit tax on fixed odds betting. Sports betting is allowed with an approved catalogue of markets. Poker, roulette, backgammon and baccarat are also all allowed. Slots, lottery and scratch cards are not allowed.

Whilst there is no certainty on the overall impact of regulation on Spanish profitability in the short-term, we are confident that the Sportingbet Group will be able to overcome the immediate increases in operating costs from both tax and increased marketing activities as we have proven in the Australian market.

Business fundamentals

Building from external growth drivers

Smart phone take up
The take up of our mobile product is expected to continue to grow significantly over the next three years as smart phone and tablet penetration is expected to exceed 50% in the markets we serve Worldwide 3G subscriptions were above 900 million in 2010 as consumers continued to demand anytime, anywhere access to applications and services

Broadband penetration
Our growth strategy continues to take advantage of ever increasing global broadband penetration, allowing customers to benefit from improved connection speeds With data travelling at a faster rate, the user experience is enhanced and product innovation can take advantage of improvements to the distribution channel

Global sports
Sports have now become established as global brands, as individual teams, leagues and sports become supported in areas well outside their traditional heartlands

The English Football Premier League now broadcasts in over 200 territories, with a global audience of around 500 million people

Confidence in internet transactions
The rise in secure online transactions, reflected in the continued increase in internet banking, online shopping and other ecommerce activities leaves us well placed as the betting community becomes increasingly accustomed with the internet as a purchasing tool in everyday life

Business review
Overview

This has been a year of significant progress for the Group both in terms of financial performance and corporate developments We have delivered a strong set of financial results with EBITDA increasing 11% to £51 4m The benefits of operating across a broad geographical base were demonstrated with strong growth in our Emerging Markets division, Australia and some of our European territories, offsetting the economic weakness in Greece and Spain

With the acquisition of Centrebet in Australia and the passing of regulations in two of our largest markets, Greece and Spain, Sportingbet is now well positioned to maximise the European opportunities available to it as the global online gaming market continues to develop and regulate

Our overall strategy of providing a first class sports betting product offering customers an unprecedented number of betting opportunities at all times of the day, remains unchanged This is underpinned by our proprietary best-in-class in play offer, superb trading team and focus on giving customers what they want especially in new growth areas such as mobile

The Group has had a solid start to the new financial year with NGR in the first two months 17% above the same period last year

Sportingbet Group

Sportingbet is one of the world's leading online gaming operators with divisions focused on Europe (which includes Emerging Markets in Africa and South America) and Australia The European operation is based in the Channel Islands, operating under a licence provided by the Alderney Gambling Control Commission This is supported by an operational centre in Dublin providing customer services and administrative support The Group's Australian division is based in Darwin operating under a licence provided by the Northern Territory Government In total the Group now employs over 600 people

Betting on sports is at the heart of the Sportingbet business, accounting for 71% (2010 69%) of Group gross gaming revenue The growth in sports betting of 4 6% has primarily been driven by bets placed whilst the game is 'in play', which accounts for 67% of European amounts wagered Our in play product has been growing strongly at 24% per annum over the last three years and with an in play margin of 9 7% (2010 9 3%), we continue to be the industry leader In addition, in play traded in 450 out of the 500 distinct football divisions we offered in 2010/11 and we currently trade between 800-900 football matches in play per week

Although football is our core product, accounting for 42% of gross gaming revenue, the Group offers betting markets on all major global sports We have successfully implemented our internally developed football and tennis derivatives programmes and taken our in play service on these two sports to a higher level of differentiation both on pricing and market types As an example we have implemented our internally developed football instants market, offering next corner, next free kick and next throw-in on more than 75% of all in play football matches offered The breadth of our sports coverage with football, tennis, and basketball, through to local sports such as ice hockey and handball is now firmly established

While sports betting remains the focus of the business, we provide a complete range of other gaming products to our customers including casino, games and poker Casino and games contribute 21% of Group gross gaming revenue whilst poker makes up the remaining 8% These products are not offered to our Australian customers due to regulatory constraints

The Group achieved an operating margin of 18 5% (excluding exceptional items, share option charge and amortisation of intangible assets) during the year which was above the prior year's 17 1% due to savings in payment processing and staff costs

Outlook

The Group has had a solid start to the new financial year with NGR in the first two months 17% above the same period last year and in line with expectations

With regulatory change well under way in Europe we are confident that the increased advertising opportunities, improved payment processing and stable business platform this provides will drive profitable growth in the medium-term

Whilst the economic outlook remains challenging, our diversified business model across the different economic cycles of Europe, Australia and South America gives us confidence for the current financial year

Business review
Europe and Australia

Europe

The European business (incorporating the financial results for the Emerging Markets Division) performed well in difficult economic conditions The gross amount wagered (pre bonus adjustment) on sports increased by 0 8% to £1,184 0m (2010 £1,174 9m), generating gross gaming revenue of £118 9m (2010 £121 4m) down 2 1% Underlying gross gaming revenue at constant currency increased by 1 5%

Two of our largest markets Greece and Spain were affected by particularly challenging economic conditions and as a result we saw amounts wagered fall by 22% and 2% respectively This impacted the number of sports actives, which fell by 10% However, by providing markets to bet on every minute of every day we saw the number of sports bets placed rise by 4 1% to 78 9m (2010 75 7m) and the number of bets per customer increased to 184 (2010 159) Although the average bet size decreased marginally to £15 01 (2010 £15 51), yield per sports customer increased from £254 to £277

Once again the European business produced an industry leading sports margin of 10 0% (2010 10 3%) In play betting in our European business accounted for 67% of the value of bets placed during the year and amounts wagered on live betting increased 9 0% year on year generating total NGR of £76 4m and equating to a gross margin of 9 7%

	2011	2010	+/-
Sports actives	**429,154**	477,234	-10%
Sports bets	**78 9m**	75 7m	4 1%
Sports bets/active	**184**	159	16 0%
Sports bet size	**£15 01**	£15 51	-3 2%
Yield per sports active	**£277**	£254	9 0%
Casino and games bets	**581 4m**	499 6m	16 0%
Casino and games bet size	**£2 43**	£2 82	-14 0%

The Emerging Markets division again saw strong NGR growth up 56% driven by our Brazilian operation and our regulated South African operation

The continued increase in smart phone penetration has driven mobile usage to an average of around 15% in our more mature domains, with the take up varying widely from country to country Those customers using smart phones tend to spend more across both online and mobile channels Next year will see the introduction of Mobile Casino and Games, which is expected to incrementally increase mobile revenues by the end of the financial year

Regulation offers new marketing opportunities in the mobile marketing space as Google's Pay Per Click, Apple's App Store and social media sites such as Facebook with their strong mobile following (44% of online users/350m mobile users) open up their doors to betting and gaming companies where they were previously closed

Casino and games gross revenue fell by 1 5% to £47 5m (2010 £48 2m) Our industry leading product range led to a 16% increase in the number of bets, but the difficult economic conditions in markets such as Spain and, in particular, Greece caused a 14% decrease in the average bet size

Poker gross revenue decreased to £17 7m (2010 £21 7m) in challenging market conditions, despite the closure late in our financial year of the US facing businesses of some of our competitors Our casino and games and competitive poker product remain an essential part of our offering, creating a 'one stop shop' which has proven to increase customer loyalty

Australia

Gross amounts wagered in Australia increased by 11% from £745 3m to £825 0m resulting in a pre-tax margin of £50 0m (2010 £45 5m) Gambling taxes in Australia amounted to £9 8m in the period (2010 £10 5m) After accounting for these taxes, the post tax margin increased by 15% from £35 0m to £40 2m After bonuses, NGR increased by 11% from £33 6m to £37 2m

The sports margin in Australia was well above the long term average in the year at 4 9% (2010 4 7%) as certain horseracing results favoured the bookmaker

In line with our strategy of expanding the higher margin internet business, the online operations performed very strongly with the number of actives up 64% and the number of bets up 53% The internet business now accounts for 77% of the gross margin compared to 52% in the prior year Not surprisingly, the traditional high roller telephone business was affected by difficult economic conditions causing active telephone customer numbers to decrease by 27% with the amount wagered on the telephone down by 20%

Our Australian mobile platform was successfully launched last year The proprietary owned product continued to perform strongly this year with NGR up substantially to over 5% of divisional NGR As in other countries the mobile product is increasing the frequency of customer bets and producing a higher margin as it tends to have been used to supplement existing betting opportunities

	2011	2010	+/-
Internet			
Sports bets	**26 4m**	17 3m	+53%
Sports bet/active	**341**	326	+4 5%
Sports bets size	**A$26**	A$28	-9 2%
Sports margin (post tax)	**6 8%**	6 5%	+4 0%
Telephone			
Sports bets	**1 4m**	1 6m	-10%
Sports bet/active	**77**	107	-27%
Sports bets size	**A$427**	A$535	-20%
Sports margin (post tax)	**2 5%**	3 5%	-27%

In common with other Australian based gaming operators, Sportingbet has made a claim to recover GST from the Australian Tax Office relating to overseas wagers Based on recent court judgements the Group believes that the AUS$9 1m (£5 6m) being claimed will be recovered

Many of the product fee issues created when the Australian states liberalised their regulations in September 2008 have been satisfactorily resolved to date However New South Wales fees remain the subject of a court case which is expected to be resolved in late 2011 As Sportingbet has always paid the required fees, a finding in our favour would result in a repayment of around AUS$13m (£10 4m) and probably lower on-going fees

The acquisition of Centrebet was completed on 31 August 2011 following the year end Although it is relatively early in the integration process the signs are very promising Our intention remains to keep both brands operating on one platform, thereby targeting maximum revenue upside through diversification whilst also extracting the largest possible cost savings from synergies The combined business has around one third of the Australian internet gambling market which is regulated, taxed and fast growing In addition there is the medium term possibility of significantly increasing the profitability of the company if the Australian Government regulate to allow betting in play, online casino, games and poker

Business review
Corporate social responsibility

The Company's objective is to provide a 'protected entertainment environment' in which our customer care programmes give responsible adults the confidence of knowing that their money is safe, whilst providing the Company with the confidence that all reasonable steps are being taken to protect the vulnerable

Social Responsibility Committee
The Committee is chaired by Non-Executive Director, Brian Harris, and its other members are Non-Executive Director Sean O'Connor, and the Company's General Counsel, Daniel Talisman, who also acts as the Committee's Secretary Sean O'Connor has resigned as a Director from the Board (and from his committee memberships, of which the Social Responsibility Committee is one) with effect from 16 December 2011 The Board intends to review the composition of all committees (including the Social Responsibility Committee) following the release of the Company's financial year results on 5 October 2011 The Committee met five times during the last financial year The Head of Compliance and the Group Head of Human Resources attend its meetings and the Group Chief Executive is appraised of the Committee's work at least twice in the course of the year

The Committee is responsible for reviewing the Company's policies on corporate social responsibility and stimulating Group-wide best practice on matters including age verification, fraud, money laundering, responsible gaming, self-exclusion and privacy

Appropriate recommendations are made to the Company's Board Terms of Reference can be viewed on www sportingbetplc com and are available in writing on request

Customers
As a service business, the core of Sportingbet's policies on social responsibility lies in our approach to our customers All employees are committed to winning and retaining the trust and loyalty of our customers

The guiding principle behind Sportingbet's policies can be summarised as 'Know Your Customer' Procedures to achieve this mean far more than merely collecting documentary evidence of people's identities It is about understanding their individual requirements, appreciating concerns and closely researching their patterns of behaviour

Knowing one's customers and creating profiles of their activities and preferences leads to targeted and appropriate marketing strategies This lies at the heart of the Company's Customer Relationship Management polices

The way different customers spend money and what they spend it on provides an overall understanding of their motivation For almost all of the Company's customers online gambling is an entertainment pastime, and Sportingbet's products, promotions and culture make their relationship with the Company an enjoyable experience

It is the small minority, however, who may be potential fraudsters, underage gamblers or problem players that result in the need for comprehensive systems and procedures to protect the Company and, often, the customer Of course, nothing can ever be entirely secure against determined offenders, but the Company commits much time and investment to finding organisational and software driven approaches to excluding the vulnerable and identifying fraud

With multi-player environments such as poker, the Company is particularly vigilant about the risk of collusion or irregular fund movements between participants Systems have been designed to highlight unusual or concerning patterns of play

Sportingbet has selected URU and Aristotle as independent third party suppliers to provide online age and identity verification services Customers' registration details are verified against third party suppliers' databases to ensure that they are over 18 years old These databases utilise data harvested from a variety of global governmental and corporate official records containing known individuals aged over 18 only

Employees
The Board of Sportingbet is of the firm belief that the Company's success is due to the quality and commitment of its workforce The Company's employee management priorities, including its remuneration strategies, are based on recruiting and retaining the best people in the industry and on encouraging working practices that improve productivity, reduce costs, develop talent and give job satisfaction

The Board recognises the need for communication with employees at every level Weekly sales notes and all quarterly results announcements are circulated to employees and copies of the Annual Report and Accounts are also made available The Company is committed to developing ongoing communication with all of its employees This is achieved through a variety of channels, including the Group's intranet, to ensure that everyone is informed of the Group's progress and recognises the key roles that they, as employees, play in Sportingbet's success

Sportingbet has conducted two employee engagement surveys to date, in February 2010 and February 2011, measuring employee engagement across ten key areas specific to Sportingbet

The results of these surveys are used throughout the year in order to raise Sportingbet's engagement with staff

The Group is committed to a policy of equal opportunity in matters relating to employment, training and career development of employees and is opposed to any form of less favourable treatment afforded on the grounds of age, disability, sex, marital status, sexual orientation, nationality, race or religion

Health and Safety Policy
Sportingbet is committed to providing safe and healthy working conditions for our employees and has adopted a health and safety policy to implement this ambition The policy covers

- identifying hazards in the workplace, assessing the risks associated with them, and implementing appropriate preventive and protective measures,
- safeguarding the health and safety of visitors, contractors and of any members of the general public who could be affected by our activities,
- ensuring the workplaces under our control are maintained in a safe condition, without risks to health, and with safe means of access,
- providing and maintaining safe equipment with procedures in place for reporting faulty equipment,
- providing all employees with sufficient information, instruction and training to enable them to work safely and to raise standards of health and safety in the workplace for themselves and their colleagues,
- establishing and implementing safe methods of work,
- maintaining procedures to be followed in the event of an emergency, and
- ensuring adequate resources are made available to fulfil this policy

The Board is ultimately responsible for health and safety Specific local managers have delegated responsibilities for the day to day operation of the health and safety policy in their own locations

Group Finance Director Jim Wilkinson is responsible for ensuring compliance with this policy and for health and safety in all the Company's offices He is competent to advise and assist the Board in the discharge of their duties under this policy

Trade and charitable organisations
The Company recognises the obligation upon the gaming industry to demonstrate its commitment to self-regulation The Company is supportive of the role that the industry's trade associations can play in this regard and Sportingbet is an active member of the Remote Gambling Association (RGA) holding a seat on its Executive Committee and being represented on various RGA sub-committees

The Company has signed up to the RGA's Codes on Social Responsibility and Age Verification, the provisions of which the Company endorses

Sportingbet invests time and resources in meeting and communicating with officers and politicians of governments, and national online gaming licensing authorities The Company's management remains committed to playing its part in promoting the value of legislation that will lead to a regulated approach to the industry, not least as a mechanism for protecting the vulnerable elements of society from unscrupulous operators

Business review
Corporate social responsibility

Recognising that some customers may be affected by gambling dependency, the Company has continued to provide funding in the UK to The GREaT Foundation (formerly known as the Responsibility in Gambling Trust) The Company has also made donations to the following organisations and charities the Island Academy International School in Antigua, HEROS (Homing Ex-Racehorses Organisation Scheme), Friends of Israel Sport Centre for the Disabled and sponsorship of a Lords Taverners' celebrity cricket event in the Channel Islands

Community liaison
In order to encourage a socially integrated work environment, the Company has placed an emphasis on investing in the local communities in which it operates In Guernsey, where the Company's primary licence and operations are based, the Company has invested a significant amount of time and money into the local community, including sponsoring the Guernsey Football Club, the Rising Stars Fund that supports Guernsey's elite athletes, Guernsey Table Tennis, the Channel Islands Athletics Club and local events such as the Sportingbet Channel Islands Sports Personality of the Year Awards and the Inaugural Guernsey Community Foundation Awards which celebrates individuals and companies that contribute to the Guernsey community

In Antigua, where the Group has held sports betting and gaming licences for many years, the Company continues to donate a significant sum of money to the Island Academy International School to fund bursaries for a number of less privileged local children

In the United Kingdom, Sportingbet supports the Home Office funded scheme, Tackling Knives Action Programme In the West Midlands, this programme has been implemented through "Braveheart" – a scheme which takes youth leaders, policemen, former gang members and community workers into the Scottish Islands for a week to improve their leadership skills, self reliance and confidence In conjunction with the Wolverhampton Wanderers FC Community Trust, Sportingbet has sponsored three of its employees to act as members and to join youth leaders on this scheme, and is working with West Midlands police and community groups in the area to encourage other companies to join the "Braveheart" programme

Environmental management
Sportingbet, as with many online businesses, causes a relatively low level of environmental damage Nevertheless, the Company monitors its effects on the environment

Where an environmental impact does occur, for e g through transport and certain areas of consumption and waste management, the Company is committed to bringing about continuous improvement in reducing its adverse environmental impact

Sportingbet's environmental policy includes
- complying with all relevant national and regional legislation as a minimum standard,
- complying with codes of practice and other requirements such as those specified by regulators,
- promoting practical energy efficiency and waste minimisation measures,
- requiring each office to recycle its paper waste,
- encouraging the use of public transport and environmentally friendly modes of transport where this is practicable, and
- providing a shared inter-office IT network and communications technology that reduces the need for business travel

In order to achieve this Sportingbet
- ensures employees are trained and motivated to conduct their activities in an environmentally responsible manner,
- reviews the policy on a regular basis to take into account any new developments in environmental management, and
- allocates sufficient management resources to ensure effective implementation of the environmental policies

Facilities for recycling office waste are in place at our offices During 2010/2011 our offices recycled waste paper, spent toner and ink cartridges, obsolete computer hardware, printers and mobile phones

The Head of Compliance is responsible for the implementation and monitoring of the environmental policy The environmental policy is reviewed by the Social Responsibility Committee

Business review
Financial review

Trading summary
Amounts wagered for the year ended 31 July 2011 grew by 4 2% to £2,053 9m (2010 £1,971 3m), earning net gaming revenue ("NGR") of £204 0m (2010 £207 5m), down 1 7% on the prior year At constant currency and taking into account our exit from France and Norway in the prior year, NGR was up 1 2% on a like for like basis

Amounts wagered on sports betting in Europe (incorporating the financial results for the Emerging Markets division) grew by 0 8% to £1,174 6m (2010 £1,165 1m), earning NGR of £109 5m (2010 £111 6m) down 1 9% year on year On a like for like basis European sports NGR was up 3 9%

Casino and gaming contributed a further £44 0m, and poker £13 3m, to both amounts wagered and NGR (2010 £44 9m and £17 4m)

Amounts wagered on Australian sports betting grew by 10 5% to £822 0m (2010 £743 9m), earning post betting tax NGR of £37 2m (2010 £33 6m) This growth excludes the Centrebet acquisition which was completed following the year end

As a percentage of amounts wagered, the European and Australian sports NGR were 9 3% and 4 5% respectively (2010 9 6% and 4 5%) However, amounts wagered and NGR are stated after a deduction for customer bonuses of £20 3m (2010 £18 8m) Without the bonus deduction the equivalent numbers would have been 10 0% and 4 9% (2010 10 3% and 4 7%)

Costs (excluding exceptional items, share option charge and amortisation) in the year were £168 2m (2010 £172 1m), accounting for 81 5% of total revenue (2010 82 9%)

Operating profit (before exceptional items, share option charge and amortisation) for the year increased 8% to £38 1m (2010 £35 4m)

Earnings before interest, tax, depreciation and amortisation (before exceptional items and share option charge) increased 11% to £51 4m (2010 £46 5m)

Operating profit after the exceptional costs of £10 8m (2010 £24 5m), share option charge of £1 2m (2010 £2 0m) and amortisation of other intangible assets of £1 7m (2010 £1 8m) was £24 4m (2010 £7 1m)

Net finance cost was £0 6m (2010 £0 2m)

Corporation tax increased to £3 1m (2010 £3 0m) due to the increased profitability of our Australian business

Exceptional costs totalled £10 8m (2010 £24 5m) These costs relate mostly to the acquisition of Centrebet International Limited and the possible disposal of the Turkish language website

Adjusted basic earnings per share (before exceptional items, share option charge and amortisation) was 6 6p (2010 6 5p) Diluted earnings per share (before exceptional items, share option charge and amortisation) was 6 3p (2010 6 2p) Basic Group statutory earnings per share was 3 9p (2010 0 8p)

As at 31 July 2011, the Group had £180 2m (2010 £58 9m) of cash and liquid resources on its balance sheet After taking into account £123 6m held in respect of the acquisition of Centrebet, £22 7m (2010 £18 2m) of customer liabilities, £4 0m (2010 £4 0m) of bank loans secured on residential properties in the Channel Islands and £3 1m (2010 £2 5m) of finance leases, net cash at the period end stood at £26 8m (2010 £34 2m)

Treasury management
The Group's treasury function provides a centralised service for the provision of finance and the management and control of liquidity, foreign exchange and interest rates The function operates as a cost centre and manages the Group's treasury exposure to reduce risk in accordance with policies approved by the Board

It is not the policy of the Group to trade in or enter into speculative transactions Authorities, procedures and reporting responsibilities are documented and regularly reviewed

Due to the international nature of its core activities, the Group's reported profits, net assets and cash flows are all affected by foreign exchange rate movements

Operations are financed by a mixture of retained profits, bank borrowings and long-term loans In addition, various financial instruments, such as trade receivables and trade payables, arise directly from the Group's operations

Certain customers in the Australian region are allowed to place bets on credit The Group's policy of respect of credit risk is to require that appropriate credit checks are made on potential customers before bets are placed and credit limits set accordingly

The Group continues to use forward currency contracts to manage foreign currency risks

Business review
Management of principal risks

Risk governance and responsibilities
The Board has overall responsibility for risk management and considers the risk process as an integral part of strategic planning

The Executive Directors make recommendations on the overall approach to risk management and identify the principal risks and uncertainties

The Audit Committee is responsible for assessing the scope and effectiveness of the process established to identify, assess, manage and monitor risks

Risk management process
The Board routinely monitors risks that could materially and adversely affect the Group's ability to achieve strategic goals, financial condition and results of operations

The Board considers the following impact areas in assessing risks
- Legal and regulatory
- Marketplace
- Technology
- Customers
- Reputation
- Employees

The Board is supported by executive management personnel within the above mentioned areas of the business who collectively play a key role in risk management and regularly report to the Board through the Audit Committee The risk management processes are reviewed formally by the Audit Committee annually

Principal risks and uncertainties
The risks outlined here are those principal risks and uncertainties that the Executive Directors consider material to the Group They are not presented in any order of priority Additional risks and uncertainties, not currently known to the Directors, or that the Directors currently consider immaterial, may also adversely affect the Group's business, results of operations or financial condition

Legal and Regulatory

Risk	Description	Mitigation
Increasing regulation in online gambling	The regulatory position on online gaming is changing rapidly, many countries are reviewing their position, especially in Europe and are drafting new legislation These will affect the tax paid in many jurisdictions however it will also have the potential to open the market to a greater number of customers There is a risk that the new regulations could inhibit revenues or result in having to withdraw from markets to avoid breaching regulations	We are working to identify countries that are looking to introduce new regulations and where possible we become actively involved in shaping their new regulations and educating them in the technicalities of implementing gaming bills At the same time we are aligning our internal processes and infrastructure to ensure we are well placed to meet the requirements of the new regulatory regimes We are also monitoring our global strategy on a country by country basis to ensure the Group's balanced portfolio remains so in the face of these changes In addition, the Group limits its regulatory risk from any one country by accepting wagers from a large numbers of jurisdictions

Risk	Description	Mitigation
Dependence on regulatory licences	There can be no assurance that any jurisdiction in which licences are held by or on behalf of the Group will not change its licensing requirements, including the terms and conditions to which the licences and approvals currently held by or on behalf of the Group are subject If the regulatory scheme of any jurisdiction in which the Group operates were to change its licensing requirements, the Group may be required to expend significant capital or other resources in order to comply with the new requirements and/or may not be able to meet the new requirements, either or a combination of which could have a material adverse effect on the Group's business, financial condition and results of operations	The Group has diversified its risk by obtaining multiple licences Betting activities are licensed in Alderney, Antigua and Barbuda, Australia, Northern Cyprus, South Africa and the UK The Board believes the Group has a good relationship with the relevant regulatory authorities but there can be no guarantee that these licences will be renewed or that they will not be terminated early

Marketplace

Risk	Description	Mitigation
Competition	The online betting market is highly competitive The Group competes with a number of companies, some of which have greater financial, marketing and other resources As a result, these companies may adopt more aggressive pricing policies or undertake more extensive marketing and advertising campaigns This may have a negative impact on revenues or profit margins achieved by the Group in the future The Group would face an increase in competition if competitors expanded or focused more on online sports betting or if there were new entrants in the market	The Group closely monitors competition within the online gambling industry and has a long term approach to improving its products, marketing and IT infrastructure In addition the Group has a diversified geographical base which spreads the competitive risk

Technology

Risk	Description	Mitigation
Dependence on advanced information systems (technology changes)	The Group's operations are highly dependent on technology and advanced information systems and there is a risk that such technology or systems could fail In addition to such failure, there can be no assurance that such technology or systems will not be subject to damage or interruption caused by human error, unauthorised access, computer viruses, distributed denial of service (DDoS) attacks, increase in volume in usage of online services, sabotage, natural hazards or disasters or other similarly disruptive events, including other security breaches, or will be able to support a significant increase in online traffic or increased customer numbers Any failure or disruption of, or damage to, the Group's technology or systems, could have a material adverse effect on the Group's business, financial condition or results of operations	The Group has in place data recovery and systems recovery procedures, security measures and business continuity plans in the event of failure or disruption of, or damage to, the Group's technology or systems

Business review
Management of principal risks

Technology

Risk	Description	Mitigation
Over-reliance on third parties	The Group has relationships with a number of key third party suppliers who provide products and services to the Group Infrastructure suppliers, network and telecommunication suppliers and application service providers are long-term partners in providing an infrastructure which seeks to ensure the delivery of sophisticated, high performance transaction processing systems However, the Group exercises little control over many of these third party suppliers and is reliant on them to perform their services in accordance with the terms of their contracts, which increases vulnerability to problems with the products and services they provide Any adverse event affecting the Group's relationship with key suppliers could have a material adverse effect on the Group's reputation, business, financial condition and results of operations	The Group is increasing the number of third party suppliers to reduce the dependency on the current suppliers and is performing a number of functions internally previously undertaken by third parties

Customers

Risk	Description	Mitigation
Fraud	As an online business, the Group experiences fraudulent activity on customer accounts in the form of deposits from stolen credit cards and debit cards These amounts are written off as a loss to the business Although the direct financial impact of these transactions is small (well under 1% of total deposits from cards), we are at risk of temporarily losing the ability to process credit & debit card transactions in some territories if the percentage of disputed transactions there exceeds the thresholds that are laid down by the card schemes Losing the ability to process card transactions can reduce our ability to acquire and retain customers	The Group has a Risk Management department whose role is to monitor transactions for signs of fraudulent activity, and to carry out Know-Your-Customer procedures Fraud detection and prevention software is used by the Risk Management team The Group sources multiple payment service providers to mitigate the risk of losing any single funding channel

Customers

Risk	Description	Mitigation
Money Laundering	As an online business that has no face-to-face contact with customers, the Group faces the possibility of reputational damage if there was a serious incident of a customer using our service to carry out money laundering or terrorist financing Such an incident could have a damaging effect on the brand, and on the attitudes of customers, regulators, and business partners towards the Group	The Group's Risk Management department monitors customer activity for signs of money laundering, and carries out Know-Your-Customer procedures, in order to minimise the risk of money laundering

Reputation

Risk	Description	Mitigation
Brand reliance	The Group's success depends on a strong brand and if the Group is not able to maintain and enhance its brand its ability to expand its base of customers, advertisers and affiliates will be impaired and its business and operating results will be harmed The Directors anticipate that, as the Group's market becomes increasingly competitive, maintaining and enhancing the Group's brand may become increasingly difficult	The Directors believe that the brand identity that the Group has developed has significantly contributed to the success of its business The Group spends more than 30% of net gaming revenue on marketing and reviews and monitors the success of all marketing and sponsorship expenditure The Group intends to continue to acquire domain names as suitable opportunities arise

Employees

Risk	Description	Mitigation
Loss of key personnel (retention)	Sportingbet is positioned in the very competitive B2C space Many of our employees have skill sets which are very attractive not only to our competitors but in the "e" space in general	Being a relatively small organisation it is easier to identify key retention issues by employee A range of solutions are in place to manage such risks Interventions for specific risks range from Braveheart type initiatives to increased responsibilities, key projects as well as ensuring that base pay is competitive

Risk	Description	Mitigation
Failure to attract quality staff (acquisition)	Given the industry sector we operate in approximately 20% of potential candidates for jobs will decide the gaming sector is not for them Our business activities in Turkey, on occasion, make us less attractive as an employer than some of our competitors	Our Head of Resourcing has built up excellent relationships with key head-hunters and recruitment agencies As a result they work hard on our behalf when looking for candidates Even with the threat of acquisition many candidates see this as a career advancing opportunity, by learning new skills in the event of a takeover/merger In the absence of equity we are being creative in relation to notice periods and exclusivity clauses to ensure offers are converted to acceptances in the current climate

Business review
Board of Directors

Peter Dicks
Chairman and Non-Executive Director
Peter Dicks, aged 69, joined the Board of Sportingbet as Chairman in January 2000 He resigned in September 2006 and rejoined in February 2008 as a result of US related matters Peter was co-founder of Abingworth Plc, and is currently a director of a number of quoted and unquoted companies including Graphite Enterprise Trust PLC, Polar Capital Technology Trust, Private Equity Investor, Mears Group and Standard Microsystems a US NASDAQ quoted company Peter is also a director of Daniel Stewart and Company

Andrew McIver
Group Chief Executive
Andrew McIver, aged 48, formerly Group Finance Director, took over as Group Chief Executive in October 2006 Andrew qualified as a Chartered Accountant with Arthur Andersen Following two years in the Corporate Finance department at Dresdner Kleinwort Wasserstein, he held senior finance positions at Signet Group Plc, Ladbrokes Group Plc and British Telecom's internet division He was Director of Finance with House of Fraser Plc for four years before joining Sportingbet in December 2001

Jim Wilkinson
Group Finance Director
Jim Wilkinson, aged 45, joined Sportingbet Plc as Group Finance Director in February 2008, prior to which he held the same positions at Johnson Services Group plc (2004–2007) and Informa Group plc (1998–2004) Jim qualified as a Chartered Accountant with Touche Ross London

Brian Harris
Senior Independent Non-Executive Director
Brian Harris, aged 65 joined Sportingbet as a Non-Executive Director in 2003 The founder and senior partner of a London law firm with an international clientele, he has acted for foreign governments, multi-national corporations national airlines, high net worth individuals and privately owned companies He is actively involved in sporting charity work for the disabled

Sean O'Connor
Non-Executive Director
Sean O'Connor aged 62, joined Sportingbet as a Non-Executive Director in 2000 Was acting Chairman of Sportingbet Plc from September 2006 to February 2008 During the year to July 2011 he was the Chairman of Cape PLC and Springboard Urban He was also a director of a number of public and private companies including the Graphite Enterprise Trust PLC and Crow TV He was previously Chairman of the Stoves Group PLC and of MediaKey Plc

Sean O'Connor will resign from the Board of Directors on 16 December 2011

Nigel Payne
Non-Executive Director
Nigel Payne, aged 52 joined Sportingbet in 2000 and is now a Non-Executive Director He was Group Chief Executive between 2001 and 2006 Nigel was the Group Financial Director of Polestar Magazines and has held directorships at Scottish & Newcastle and Brann Direct Marketing Nigel is a Partner in Merlin Financial Advisors LLP and is a director of Mucky Pups Childcare Limited, Bettor Logic Limited, Golfbidder Limited and Hangar8 plc Nigel is a qualified Chartered Accountant

Nigel Payne will resign from the Board of Directors on 16 December 2011

Rory Macnamara
Non-Executive Director
Rory Macnamara, aged 56, joined Sportingbet as a Non-Executive Director in June 2011 Rory qualified as an ACA with Price Waterhouse before joining Morgan Grenfell, later Deutsche Morgan Grenfell, in 1981 as an investment banker Over the following 17 years he advised clients on a wide range of corporate finance issues and became Head of the Advisory/M&A division in 1995 and Deputy Chairman the following year In 1999 Rory joined Lehman Brothers as Head of UK Coverage and led teams advising a number of major UK and international clients In 2001 he became an independent consultant working with Lehman Brothers on M&A projects and with other companies on their business development and financial and acquisition strategies Besides this extensive corporate finance experience he also brings to Sportingbet a significant understanding of public company management from the many boards he has joined over the last 10 years

Chris Moss
Non-Executive Director
Chris Moss, aged 57, joined Sportingbet as a Non-Executive Director in September 2011 Chris has over 25 years' marketing, brand and product management experience He started his marketing career at Virgin Atlantic in 1985 and rose to the position of Marketing Director He then joined Microtel, and was responsible for founding and launching the Orange brand name Subsequent to this role he joined Lloyds Bank and TSB as Brand Director More recently as CEO he launched 118118 He also runs a brand consultancy called Famoss, and is Chairman of Untap it a not-for-profit social enterprise

Corporate Governance Statement

Compliance
The Company recognises the importance of the principles of good corporate governance and the Board is pleased to report its continued commitment to achieving high standards throughout the year The Board complies with the provisions of the UK Corporate Governance Code ("Code") issued by the Financial Reporting Council other than as set out below and in the section headed "Audit Committee"

All the Non-Executive Directors (other than Nigel Payne and Sean O'Connor) are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement Given Nigel Payne's previous position as an Executive Director, and the fact that Sean O'Connor has served on the Board for more than nine years, they are not considered to be independent as defined by the Code However, following the Board refreshment process described in more detail below, both have resigned as Directors with effect from 16 December 2011

Sean O'Connor's length of service related in part to the complex regulatory environment in which the Group operates and the issues associated with its historic US business The threat of prosecution in the US made it more challenging for the Company to attract Non-Executive Directors of suitable quality and experience generally and this contributed to the length of service of some of the Board members These issues have been resolved with the recent settlement between the Company and the US Department of Justice

The Board recognises that there are areas of Code non-compliance First, that at least half of the Board is not currently made up of independent Non-Executive Directors (provision B 1 2 of the Code), secondly, that the Nomination Committee is not made up of a majority of independent Non-Executive Directors (provision B 2 1 of the Code) and thirdly, that the Audit Committee does not consist of three independent Non-Executive Directors (provision C 3 1 of the Code) Therefore, the Board has been engaged in a detailed process with external consultants to appoint suitably qualified independent Non-Executive Directors to the Board As a result, Rory Macnamara was appointed to the Board with effect from 27 June 2011 Rory Macnamara brings considerable experience and expertise and is also suitably qualified to act as Chair of the Audit Committee as he has recent and relevant financial experience He was therefore appointed Chairman of the Audit Committee on 27 June 2011 and, since his appointment, has been fully involved in the Audit Committee process for the financial year ended 31 July 2011

In addition to Rory Macnamara, the Board identified Chris Moss who joined the Board on 6 September 2011 as a further independent Non-Executive Director Therefore, after Sean O'Connor and Nigel Payne have left the Board on 16 December 2011, two-thirds of the Board will be independent for the purposes of the Code The Board refreshment process will continue and the Company hopes to identify a suitable replacement for Brian Harris during 2012 as he will cease to be independent for the purposes of the Code due to his length of service on the Board With two new independent Non-Executive Directors, the Board is now able to revisit the composition of the Audit, Remuneration and Nomination Committees in order to comply with the Code and intends to do so following the release of the Company's financial year results on 5 October 2011

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Code are applied by the Group

The Board constitution and procedures
As referred to above, the issues associated with the Company's historic US business made it more challenging for the Company to attract Non-Executive Directors of suitable quality and experience The Nomination Committee has undertaken a comprehensive review of Board composition and performance and as a result Rory Macnamara and Chris Moss have been appointed Non-Executive Directors and Brian Harris replaced Sean O'Connor as Senior Independent Director as announced by the Company on 24 March 2011 The process is ongoing as the Nomination Committee will continue to look for suitably qualified and experienced individuals in line with Code provision B2 Previous annual reviews have consistently found that the size, composition and expertise of the Company's Non-Executive Directors have been appropriate for the Company's requirements This financial year's review took into consideration two new factors which were not present during the previous review (i) the Company's move from the AIM market to the Official List of the London Stock Exchange and its inclusion in the FTSE 350 earlier this year, and (ii) that in September 2010 the Company entered into a non-prosecution agreement with the US Attorney for the Southern District of New York, acting on behalf of the US Department of Justice Following these events, the Nomination Committee concluded that the Board would be strengthened with the addition of new Non-Executive Directors, and Rory Macnamara and Chris Moss were appointed The Company anticipates that it will re-enter the FTSE 350 following the acquisition of Centrebet International Limited and so, in order to comply with the requirements placed on FTSE 350 companies by the Code, the Nomination Committee will continue its Board review process during the forthcoming financial year

The Company is controlled through the Board of Directors which, at the end of the financial year, comprised two Executive and five Non-Executive Directors

All Non-Executive Directors (other than Nigel Payne and Sean O'Connor) are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement

The Chairman is primarily responsible for the running of the Board, and ensures that all Directors receive all relevant information on financial, business and corporate issues prior to meetings The Group Chief Executive's responsibilities focus on coordinating the Company's business and implementing Group strategy

A formal schedule of matters is reserved for consideration by the Board, which met 11 times during the year The Board is responsible for overall Group strategy, acquisition and investment policy, approval of major capital expenditure projects and consideration of significant financing matters It reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of these budgets and their capital expenditure programmes In addition, the Directors have access to the advice and services of the Company Secretary and all Directors are able to take independent professional advice in the furtherance of their duties if necessary

All new Directors receive a full, formal and tailored induction on joining the Board as well as training and advice on their responsibilities as necessary All Directors, in accordance with the Code, submit themselves for re-election and new Directors are subject to a transparent and rigorous appointment process (including submitting themselves for re-election at the first Annual General Meeting after their appointment)

The Company Secretary is responsible for ensuring Board processes and procedures are appropriately followed and support effective governance and decision making

Board Committees
The Board delegates clearly defined powers to its Audit, Remuneration and Nomination Committees whilst the Company's Social Responsibility Committee, as reported on pages 22 to 24, is responsible for reviewing the Company's policies on corporate social responsibility and making appropriate recommendations to the Board The minutes of each Committee are circulated to and reviewed by the Board

Audit Committee
The Audit Committee is currently chaired by Rory Macnamara (who has recent and relevant financial experience for this role, as indicated on page 31) Its other members are Nigel Payne, who was chair of the Audit Committee until Rory Macnamara's appointment, Peter Dicks and Sean O'Connor The Company recognises that Nigel Payne is not considered to be independent but believes that the Committee will benefit from his continued presence while the new Chairman familiarises himself with the role Both Nigel Payne and Sean O'Connor will resign from the Board and the Audit Committee on 16 December 2011

The Company believes that an Audit Committee with a membership of three independent Non-Executive Directors reflects the size and needs of the business (as defined by the Code) going forward The Company recognises that it does not comply with provision C 3 1 in that not all the members of the Committee are independent Non-Executive Directors (as defined by the Code, and as explained above) The appointment of Rory Macnamara on 27 June 2011 reflects the steps taken by the Company to comply with this provision The resignations of Nigel Payne and Sean O'Connor and the ongoing Board refreshment process is intended to result in full compliance with the Code provision C 3 1, namely that all three members of the Audit Committee should then be independent

The Audit Committee meets at least twice a year (and met twice during the last financial year) and normally invites a representative of both the auditors and the Executive Directors to attend its meetings, the latter usually being the Group Finance Director The Committee's Secretary is Daniel Talisman, the Company Secretary At the end of each meeting the auditors are invited to meet with the Committee with no Executive or staff members present The Terms of Reference of the Committee include monitoring the integrity of the Financial Statements, monitoring the internal and external audit function and reviewing accounting policies, financial controls and financial reporting procedures The Audit Committee is also responsible for assessing the objectivity and independence of the external auditors where they also provide non-audit services to the Company In the current financial year, non-audit fees totalling £0 8m were paid to the external auditors This was due to the number of major transactions the Company undertook during the last financial year These included the acquisition of Centrebet International Limited and the convertible bond issued by the Company in June 2011 The Audit Committee's view was that the current auditors were the most suitable supplier of the non-audit services due to the skills and experience of the auditors The Committee considers that there are appropriate safeguards in place to ensure the continued objectivity and independence of the Company's auditor The Committee also has responsibility for reviewing the effectiveness of the Group's internal control and risk management systems, described in more detail later in this section During the year, the Committee received presentations from senior management on the key risks and control issues in their respective business areas and reviewed risk mitigation plans for critical risks Terms of Reference for the Committee can be viewed on the Company's website and are available in writing on request

Remuneration Committee
The Remuneration Committee is chaired by Peter Dicks Brian Harris, Sean O'Connor and Nigel Payne (appointed on 25 October 2010) are its other members The Committee's Secretary is Daniel Talisman, the Company Secretary The Company recognises that having the Chairman of the Company as Chairman of the Remuneration Committee does not comply with provision of D 2 1 of the Code and that this provision also requires the Committee to be made up of three independent Non-Executive Directors As noted above, Sean O'Connor and Nigel Payne will resign on 16 December 2011 With two new independent Non-Executive Directors, the Board is now able to revisit the composition of the Audit, Remuneration and Nomination Committees in order to comply with the Code and intends to do so following the release of the Company's financial year results on 5 October 2011 The Remuneration Committee meets when necessary during the year (and met eight times during the last financial year) and considers the

Corporate Governance Statement

terms of employment and overall remuneration for the Executive Directors, including pension rights and any compensation payments Further, the Committee makes decisions regarding grants or awards under share plans, salaries and incentive compensation The Executive Directors appraise the Remuneration Committee on the level and structure of remuneration set for senior management Terms of Reference for the Committee can be viewed on the Company's website and are available in writing on request

The remuneration of Non-Executive Directors is determined by the Executive Directors

Nomination Committee
The Nomination Committee is chaired by Sean O'Connor who will resign on 16 December 2011 and its other members are Peter Dicks, Nigel Payne who will resign on 16 December 2011 and Brian Harris With two new, independent Non-Executive Directors, the Board is now able to revisit the composition of the Audit, Remuneration and Nomination Committees in order to comply with the Code and intends to do so following the release of the Company's financial year results on 5 October 2011 The intention is that the Committee will consist of three independent Non-Executive Directors as required by provision B 2 1 of the Code

The Committee's Secretary is Daniel Talisman, the Company Secretary The Committee sits formally at least twice a year (and met three times during the last financial year) The Terms of Reference for the Committee (including the terms and conditions of appointment of Directors) can be viewed on the Company's website and are available in writing on request

The Committee is responsible for monitoring and formally reviewing the performance, composition, balance and expertise of the Board as a whole and making an appraisal of the contribution of individual Directors, including a review of their time commitment and attendance records The Committee also considers succession planning for the Board and Group senior management The annual review process carried out by the Board and the new appointment made during the course of this financial year and referred to in more detail above were designed to ensure the Committee is meeting these responsibilities When necessary the Committee prepares a description of the role to be filled and engages external consultants to administer a detailed search and the generation of a shortlist Any recommendations for appointments or replacements are brought before the Board

Evaluation
The Board continued its ongoing evaluation processes of itself and its Committees to assess their performance and identify areas in which their effectiveness, policies and processes might be enhanced As part of this process the Board continues to comply with the Institute of Chartered Secretaries and Administrators' Code of Good Boardroom Practice The performance of individual Directors has been considered by the Chairman and Group Chief Executive in discussion with other Non-Executive Directors The Non-Executive Directors considered the performance of the Chairman, taking into account the views of the Executive Directors

Communication with investors
The Group places considerable importance on communication with its institutional and private shareholders and responds quickly to all queries received There is regular dialogue with institutional shareholders as well as general presentations after each quarter end and the issue of preliminary results

All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors are introduced and available for questions The Executive Directors endeavour to meet the Company's larger institutional shareholders at the time of the Company's quarterly results announcements and the Senior Independent Director, Sean O'Connor (up to 24 March 2011) and Brian Harris (since 24 March 2011) have been available to shareholders throughout the year

Accountability and audit
(a) Internal control
The Group has complied with provision C 2 1 of the Code and the Turnbull Guidance for the year ended 31 July 2011 and up to the date of approval of the Annual Report and Financial Statements The Board has ensured that there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Group This process has been regularly reviewed by the Board

Whilst acknowledging the overall responsibility for the system of internal control and for reviewing its effectiveness, the Board is aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss

The Group's internal control procedures continue to be reviewed, progressively developed and formalised to ensure that they sufficiently meet the requirements of the Group Executive members of the Board are involved daily in all aspects of the business and they attend regular management meetings at which performance against plan and business prospects are reviewed Additionally, the Board seeks to continually strengthen the internal control system where this is consistent with improving the relationship between risk and reward

Other key features and the processes for reviewing effectiveness of the internal control system that the Committee has applied during the current financial year are described as follows

- Monthly management information, including financial accounts and key performance indicators, have been defined and are produced on a timely basis for review by the Board
- A detailed formal budgeting process for all Group businesses culminates in an annual budget which is reviewed and approved by the Board Results for the Group and for its main constituent businesses are reported monthly against the budget to the Board and revised forecasts for the financial year are considered each quarter
- A comprehensive financial and accounting package sets out the principles of the minimum standards required by the Board for effective financial control This package sets out the financial and accounting policies and procedures to be applied throughout the Group Compliance with the policies and procedures set out in this package is reviewed regularly Formal reports for the Board are prepared by the senior management on the operation of those elements of the system for which they are responsible
- The Company has clearly defined guidance for capital expenditure These include annual budgets, detailed appraisal and review procedures, levels of authority and stringent due diligence requirements where businesses are being acquired

External audit

The Audit Committee meets periodically to review the adequacy of the Group's internal control systems, accounting policies and compliance with applicable accounting standards and to consider the appointment of external auditors and audit fees The Group's auditors are invited to attend its meetings The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and obtain outside legal or other independent professional advice as necessary The auditors and individual Board members are afforded the opportunity for separate meetings with the Audit Committee The Audit Committee consists wholly of Non-Executive Directors

The award of non-audit work to the auditors is subject to pre-clearance by the Audit Committee if the fee exceeds specified thresholds As a matter of best practice and in accordance with the International Standard on Auditing 260, the auditors have held discussions with the Audit Committee on the subject of auditor independence and have confirmed their independence in writing

Board and Committee attendance

	Possible meetings	Number	Meetings attended
Peter Dicks	Board	11	11
	Audit	2	2
	Remuneration	8	8
	Nomination	2	2
Brian Harris	Board	11	11
	Remuneration	8	8
	Nomination	2	2
Andrew McIver	Board	11	11
Sean O'Connor	Board	11	11
	Audit	2	2
	Remuneration	8	8
	Nomination	2	2
Nigel Payne	Board	11	11
	Audit	2	2
	Remuneration	6	6
	Nomination	2	2
Jim Wilkinson	Board	11	11
Rory Macnamara	Board	2	1
	Audit	1	1

Directors' Report

The Directors submit their Annual Report and Financial Statements of the Group for the year ended 31 July 2011

Principal activities
The principal activities of the Group are the operation of interactive licensed betting and gaming operations over the internet In Australia only, interactive betting is conducted over the internet and telephone

Results and dividends
The results of the Group for the year are set out on page 49 and show a profit after taxation for the year of £20 7m (2010 £3 9m) The Directors recommend payment of a final dividend of 1 1p per ordinary share (2010 1 1p) An interim dividend of 0 6p (2010 0 5p) was paid on 31 March 2011, meaning a total dividend for the financial year of 1 7p (2010 1 6p)

Review of the business and future developments
A more detailed review of the business and future developments is given in the Business Review on pages 18 to 21

Directors
The following Directors have held office during the year and subsequently

P Dicks	Chairman and Non-Executive
A McIver	Executive
J Wilkinson	Executive
N Payne	Non-Executive
S O'Connor	Senior Independent Non-Executive*
B Harris	Senior Independent Non-Executive**
R Macnamara	Non-Executive
C Moss	Non-Executive

* Up to 24 March 2011
** From 24 March 2011

All Directors will retire by rotation at this year's Annual General Meeting and will each seek re-election, being eligible

The interests of the Directors in the shares of the Company and options for such shares were as shown on pages 39 to 44 both reflecting the year end figures and any subsequent changes No Director has any interest in any other Group company Details of the Directors' remuneration and service contracts appear on pages 39 to 44

Auditor
The auditor, Grant Thornton UK LLP, is willing to continue in office and a resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting

Related party transactions
Transactions with related parties are disclosed in Note 22 of the Group Financial Statements

Corporate governance
The Board's statement on Corporate Governance appears on pages 32 to 35 and policies in relation to employees appear on pages 22 to 23

Charitable donations
During the year, the Group donated approximately £240,000 to a number of charities This figure includes donations to the GREaT Foundation (formerly the Responsibility in Gambling Trust), the Island Academy International School, Antigua, HEROS (Homing Ex-Racehorses Organisation Scheme) Included in this total was a donation of £16,500 to the Friends of Israel Sport Centre for the Disabled, of which Brian Harris is the founder

Directors' indemnity
Details of the Directors' indemnity insurance can be found in the Remuneration Report

Purchase of own shares
The Company was granted authority at the Extraordinary General Meeting in December 2010 to purchase its own shares up to a limit of 10% of its issued ordinary share capital No shares were purchased during the year under review

Share capital
The issued share capital of the Company is comprised of ordinary shares of 0 1p each Each share carries the right to one vote per share on a poll The liability of members of the Company is limited to the amount unpaid, if any, on the shares held by them All issued shares of the Company are fully paid

Changes to the Company's share capital are set out in Note 19 At 4 October 2011 the issued share capital stood at 660,831,780

There are no specific restrictions on the size of a holding nor on the transfer of shares No person has any special rights of control over the Company's share capital and all issued shares are fully paid

During the last year, the Company did not purchase any shares as treasury shares

Use of financial instruments
Information on the use of financial instruments by the Group is contained in Note 18

Policy and practice of payment of suppliers
In respect of the Group's next financial year, it is the policy of the Group that each company within the Group should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts Payments are to be made in accordance with these terms and conditions At 31 July 2011 the Company had a trade creditor balance of £nil (2010 £nil) Group trade payables represented 28 days of purchases (2010 18 days)

Substantial shareholdings
As at the opening of dealing on 4 October 2011 the following Shareholders hold, or control, interests in 3% or more of the Company's voting rights

	Number of shares	Voting rights %
Majedie Asset Management	64,428,737	9 75
UBS Global Asset Management	60,122,159	9 10
Marathon Asset Management	58,188,349	8 81
Paradise Poker	44,497,096	6 74
DBS Advisors Ltd	35,857,703	5 43
Legal & General Investment Management	35,577,364	5 39
Henderson Global Investors	24,769,237	3 75
Fidelity Investments	23,861,250	3 61
BlackRock	21,212,883	3 21
Credit Suisse as principal	21,203,858	3 21

Treasury management
The Board has laid out its policy on treasury management in the Financial Review on page 25

Going concern
The Directors have considered the implications of the potential impact of regulatory uncertainties discussed in Note 21 The Directors have reviewed the cash flow projections for the Group in light of these uncertainties and have considered the financial resources available to the Group Accordingly, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue operations for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the Financial Statements

Annual General Meeting
The Annual General Meeting will be held on 16 December 2011 The Notice of the Meeting is set out in a separate explanatory circular The Notice contains special business, including the renewal of authority to the Board to allot shares and the disapplication of statutory pre-emption rights on equity issues for cash – both in accordance with ABI and NAPF Guidelines Shareholders should complete the Proxy form accompanying the Notice of Meeting in accordance with the Notes contained in the Notice of Meeting

Significant agreements
The Companies Act 2006 requires the Company to identify those significant arrangements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover offer becoming fully unconditional, and the effects of any such agreements

IOESL and Interactive Sports (C I) Limited (together the "Sportingbet Party") have entered into an agreement with SEE Sports Limited and Flyer International S A ("Flyer") in relation to the provision of online gaming services in Greece (the "Joint Venture Agreement") Clause 12 5 of the Joint Venture Agreement provides that if any third party or series of connected third parties acquires the ownership or control of more than 50% of the beneficial and/or legal shareholding and/or legal voting rights of a Sportingbet Party, and the Sportingbet brand ceases to exist as a separate stand-alone brand or be supported by such third party, Flyer shall be entitled to terminate the Joint Venture Agreement with immediate effect

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"), and the Parent Company Financial Statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Directors' Report

Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing these 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, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Disclosure of information to the auditors

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware Each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

To the best of my knowledge

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

On behalf of the Board

A McIver
Director

4 October 2011

Company registration number 3534726

Remuneration Report
Information subject to audit

GOVERNANCE

1 Directors' emoluments

£000	Notes	Salary/ fees	Bonuses	Share options LTIP	Benefits	Total emoluments 2011	Pension 2011	Total emoluments 2010	Pension 2010
Executive Directors									
Andrew McIver	1, 2, 8	537	–	310	8	855	83	3,113	100
Jim Wilkinson	2, 8	315	–	125	1	441	51	1,555	45
Non-Executive Directors									
Peter Dicks	4, 5, 6, 7, 8	160	–	–	–	160	–	160	–
Brian Harris	3, 5, 6, 7, 8	120	–	–	–	120	–	120	–
Sean O'Connor	3, 4, 5, 6, 7, 8, 10	90	–	–	–	90	–	130	–
Nigel Payne	4, 5, 6, 7, 8, 10	88	–	–	–	88	–	128	–
Rory Macnamara	4, 9	6	–	–	–	6	–	–	–
		1,316	–	435	9	1,760	134	5,206	145

1 Aggregate emoluments for Andrew McIver as the highest paid Director excluding pension contributions amounted to £855 227 (2010 £3 113 315)
2 The average total emoluments of the Executive Directors was £648 522 (2010 £2 333 925) The average total emoluments of non Board employees was £58 406 (2010 £62 650) The ratio between the two averages was 11 1 (2010 37 1) The average total emoluments of the Executive Directors (excluding share options) was £430,598 (2010 £936 619) The ratio to non-Board employees was 8 1 (2010 15 1)
3 Member of the Social Responsibility Committee
4 Member of the Audit Committee
5 Member of the Remuneration Committee
6 Member of the Nomination Committee
7 Included within salary/fees is an annual share award valued at £40 000 which forms part of the Non-Executive remuneration
8 The Long Term Incentive Plan ("LTIP") awards relate to the final payments in the previous financial year of a scheme put in place in 2006 following the Group's withdrawal from the US
9 Rory Macnamara is paid salary/fees of £75 000 As he was appointed on 27 June 2011 the figure above has been prorated accordingly
10 Sean O'Connor and Nigel Payne were paid consultancy fees in addition to their emoluments details of which are available at Note 22 to the Financial Statements

2. Interests of Directors in share options and share plans of the Company

	Notes	No of options at 1 August 2010	No of options at 31 July 2011	Date of grant	Exercise price (p)	Earliest exercise date	Expiry of exercise period
Executive Directors							
Andrew McIver	1	1,959,566	1,567,652	20/01/09	–	01/11/11	01/12/12
Jim Wilkinson	1	1,077,760	862,208	20/01/09	–	01/11/11	01/12/12
Non-Executive Directors							
Peter Dicks		–	–	–	–	–	–
Nigel Payne		–	–	–	–	–	–
Sean O'Connor		–	–	–	–	–	–
Brian Harris		–	–	–	–	–	–
Rory Macnamara		–	–	–	–	–	–

1 Share awards granted under the Sportingbet Restricted Share Plan 2009 During the financial year Andrew McIver surrendered 391,914 awards under this plan in consideration of receiving an equivalent cash sum and 215,552 shares were released to Jim Wilkinson
2 3 496 788 awards were exercised during this financial year (2010 18 158 451) of which 391 914 awards were surrendered and 215 552 exercised by Directors of the Company (2010 2 999 932) The market price of shares at 31 July 2011 was 55 5p and the range during the financial period was 40 25p to 79 85p A summary of the performance criteria upon which awards or options may be exercised is set out below

Remuneration Report
Information subject to audit

3 Interests of Directors in shares in the Company

	Notes	2011	2010
Executive Directors			
Andrew McIver	1	**2,834,481**	4,234,481
Jim Wilkinson	2	**972,787**	1,517,166
Non-Executive Directors			
Peter Dicks	3	**416,878**	581,308
Sean O'Connor	4	**441,873**	593,685
Brian Harris	5	**294,031**	378,461
Nigel Payne	6	**111,398**	176,398

1 Andrew McIver sold 1 400 000 shares on 8 October 2010
2 Jim Wilkinson sold 650 000 shares on 8 October 2010 Jim Wilkinson received an interest in 215 552 shares on 24 November 2010 following the release of an award under the 2009 Share Plan 109 931 shares were sold to meet the tax liability of this award
3 Peter Dicks received an interest in 35 570 shares on 2 August 2010 forming part of his Non-Executive remuneration Peter Dicks sold 200 000 shares on 8 October 2010
4 Sean O'Connor received an interest in 35 570 shares on 2 August 2010 forming part of his Non-Executive remuneration Sean O Connor sold 200,000 shares on 8 October 2010 Sean O Connor received an interest in 7 502 shares on 11 January 2011 and in 5 116 shares on 31 March 2011 pursuant to the Company's Dividend Reinvestment Plan ("DRIP")
5 Brian Harris received an interest in 35 570 shares on 2 August 2010 forming part of his Non-Executive remuneration Brian Harris sold 120 000 shares on 8 October 2010
6 Nigel Payne received an interest in 35 570 shares on 2 August 2010 forming part of his Non-Executive remuneration all of which he subsequently gifted Nigel Payne sold 65 000 shares on 8 October 2010

Remuneration policy
Historic

The Company's remuneration policy has been heavily influenced by both the Group's and the industry's history – in particular the exit from the market in the United States As a result, the central principle of the Group's historic remuneration policy has been retention, in order to deliver stability during the Group's post-US "turnaround" period That period culminated in the settlement between the Company and the US Department of Justice, with the "turnaround" successfully achieved

Policy review

The Company's strategy is to continue to operate in both licence-issuing markets and markets which are yet to issue online licences within a regulated, non-discriminatory framework ("non-licence issuing markets") This means that the Group continues to face regulatory and operational risks, in the non-licence issuing markets served by the Group's European and Emerging Markets Divisions The Company has increased the proportion of its overall business generated from licence-issuing, competitive markets and plans to continue this approach in the future As a result, the risks facing the Group today are not on the same scale as in 2007 (immediately post-US exit) or 2005 (the point at which the Group had reached a pinnacle in terms of its growth and success prior to the US legislative changes which led to the Group's enforced withdrawal from the US market)

Following a review undertaken by the Company's external remuneration consultants, MM&K, the Committee has agreed upon a policy shift from "retention" to "value creation" – essentially, shareholders and Directors share in the added valued generated from the successful implementation of the Company's strategy

As recommended by the consultants, the Group's policy will be
a) to continue to pay at or about market upper quartile levels in order to attract and retain key management talent and to reflect the risks associated with operating a global online betting and gaming business in both licence-issuing, competitive markets and non-licence issuing markets,
b) to ensure all incentive remuneration (short-term and long-term) is wholly performance related and linked to demanding performance criteria, and
c) to allow remuneration arrangements which pre-dated the Company's move to the Official List in 2010 and which may not have been compliant with the Combined Code on Corporate Governance (as was then in force) to be honoured up to 31 July 2012 This date coincides with the expiration of the Restricted Share Plan 2009

Remuneration Report
Information NOT subject to audit

Remuneration Committee
The Remuneration Committee is chaired by Peter Dicks and its other members are Brian Harris, Sean O'Connor and Nigel Payne Both Sean O'Connor and Nigel Payne will resign on 16 December 2011 The Company recognises that having the Chairman of the Company as Chairman of the Remuneration Committee does not comply with the provision of D 2 1 of the UK Corporate Governance Code ("Code") and that this provision also requires the Committee to be made up of three independent Non-Executive Directors From 16 December 2011, Sean O'Connor will be replaced by Rory Macnamara and Nigel Payne will be replaced by Chris Moss both of whom are independent for the purposes of the Code The Board intends to revisit the composition of the Remuneration Committee in order to comply with the Code and intends to do so following the release of the Company's financial year results on 5 October 2011 In line with the policy shift to "value creation", the Remuneration Committee seeks to structure total benefits packages, including base salaries, which align the interests of shareholders and senior management with particular importance weighted upon the performance-related elements of such total remuneration

The Remuneration Committee aims to seek and retain the appropriate calibre of people and recommends fee levels to the Board consistent with prevailing market conditions, peer group companies and Directors' roles and responsibilities

Specifically, when considering adoption of the Sportingbet Restricted Share Plan 2009, the Remuneration Committee assessed the needs of the Company for the period through to 2012 compared to the Company's needs when the Sportingbet 2006 Restricted Share Plan was introduced in November 2006 immediately following the enactment of the Unlawful Internet Gambling Enforcement Act 2006

Directors' remuneration will continue to be the subject of regular review in accordance with the new remuneration policy in the next financial year

Terms of reference
The terms of reference of the Remuneration Committee include

- To determine the remuneration and benefits, including incentive arrangements, of the Executive Directors, the directors of divisional companies and other employees of similar status
- To set targets for performance-related pay elements of remuneration packages
- To review recommendations from the Board on the overall remuneration and benefits policy of the Group, with the power and authority to amend it if appropriate
- To have regard to the provisions of the Combined Code and associated guidance in its decision-making

The Directors intend that the Company's remuneration policy will be set by the Remuneration Committee in accordance with the terms of reference set out above for the following financial year and subsequent financial years

Salary review – CEO and CFO
Following an external benchmarking exercise to assess the salaries of both Chief Executive Officers and Chief Financial Officers across the Company's peer group[1], Jim Wilkinson was awarded a salary increase of 6% to £315,000 on 1 August 2010 As has been the case since Andrew McIver became Group Chief Executive in 2006, Andrew McIver was not awarded an increase in salary for the 2010–2011 financial year Following a change in the taxation of pension contributions, Andrew McIver elected to receive the sum of £16,667 from his pension contribution as salary instead The Remuneration Committee has decided that there will be no increase in Directors' salaries in the 2011–12 financial year

Service contracts
The Company's policy on the duration of Directors' contracts is that for both Executive and Non-Executive Directors notice periods will be no more than one year served by the Company or the Director

Andrew McIver and Jim Wilkinson have service contracts, dated 18 January 2006 and 21 January 2008 respectively, which provide for 12 months' notice by the Company or the Director and contain non-compete obligations There are no payments or compensation on early termination of the contract, save that where a payment is made in lieu of notice and the Executive commences new employment during such a period, they are under an obligation to repay the Company any prorated amounts

In the event of termination or constructive dismissal following a sale or reconstruction of Sportingbet each of the Executive Directors is entitled to the equivalent of 24 months' salary, bonus, pension contributions and other benefits payable under his respective service contract

Peter Dicks, Brian Harris, Sean O'Connor and Nigel Payne, each of whom is a Non-Executive Director, has a contract for services with a termination period of 12 months' notice It is the Company's policy that a proportion of their fee is paid in Sportingbet shares, which are to be retained until they cease to be a Director of the Company In line with the policy of the Remuneration Committee the Company has agreed that this arrangement whereby the proportion of their fee is paid in Sportingbet shares shall terminate on 31 July 2012 Given that Sean O'Connor and Nigel Payne will resign on 16 December 2011, it is anticipated that this arrangement will only apply to Peter Dicks and Brian Harris It is the Company's policy that this arrangement shall not apply to new Non-Executive Directors

1 Peer Group by size and activity
888 Holdings PLC ASOS PLC Autonomy Corporation PLC AVEVA Group PLC Betfair Group PLC Betsson AB Blinkx PLC, BWIN Interactive Entertainment AG Centrebet International Limited, Fidessa Group PLC Innovation Group (The) PLC Kofax PLC Micro Focus International PLC Moneysupermarket com Group PLC Paddy Power PLC Phoenix IT Group PLC Playtech Ltd Rank Group (The) PLC RM PLC SDL PLC Sportingbet PLC Unibet Group PLC

The peer group by size and activity was compiled by the Company s external remuneration consultants MM&K as part of their review

Remuneration Report
Information NOT subject to audit

By way of a variation agreement dated 17 January 2007 between Sportingbet and Sean O'Connor, and by way of a side letter dated 8 January 2007 from Sportingbet to Peter Dicks, in the event of the sale or reconstruction of Sportingbet (or any Sportingbet Group company), both Sean O'Connor and Peter Dicks are entitled to be paid a sum in cash equivalent to the difference between £0 44 and the price per Ordinary Share in Sportingbet agreed at completion of such sale or reconstruction of Sportingbet, multiplied by 500,000

In December 2006, and in the case of Jim Wilkinson, on 1 February 2008, and on 14 September 2011 in the case of Rory Macnamara and Chris Moss, Sportingbet Plc granted rolling indemnities to all of its Directors and the Company Secretary, uncapped in amount, in relation to certain losses and liabilities which they may incur in the course of acting as Directors and Company Secretary of Sportingbet Plc or of one or more of its subsidiaries These indemnities replace those previously granted on similar terms and continued to be in place as at 31 July 2011, or the date of grant if later

Bonuses
The Company operates a bonus incentive scheme which applies, at differing rates, to the employment terms of the Executive Directors and members of senior management Any payments under the scheme are subject to (i) operating profit targets for the Group being achieved and, (ii) the discretion of the Board 100% of annual salary can only be paid if stretch targets are achieved The financial results for the last financial year did not reach the targeted bonus level and as a result no bonuses were paid

The Remuneration Committee reviews the packages and varies individual elements when appropriate from year to year The Remuneration Committee has policies and procedures in place to monitor the size of potential rewards

Bonuses are included in termination payments on a case by case basis as determined by the Remuneration Committee

Pensions
The Company makes employer contributions of 20% of Andrew McIver's salary and 17% of Jim Wilkinson's salary to their personal pension schemes There are no Company pension arrangements in place

Share incentive schemes

Scheme name	Current scheme or date of scheme cessation	Outstanding at the beginning of the year (p)	Granted during the year (p)	Forfeited during the year (p)	Exercised during the year (p)	Lapsed during the year (p)	Total awards outstanding at the end of the year (p)	Exercisable at the end of the year (p)
Unapproved Share Option Scheme (the "Unapproved Share Option Scheme")	Closed on 1 November 2005	1,215,000	–	–	–	–	1,215,000	1,215,000
Sportingbet Plc Company Share Option Plan (the "IR Approved Scheme")	Closed on 1 February 2010	–	–	–	–	–	–	–
Sportingbet Plc Executive Share Option Scheme (the "Executive Scheme")	Closed on 1 February 2010	784,375	–	–	–	–	784,375	784,375
Sportingbet Long Term Retention Plan 2005 (the "2005 Share Plan")	Closed on 31 July 2008	22,250	–	–	–	–	22,250	22,250
Sportingbet 2006 Restricted Share Plan (the "2006 Share Plan")	Closed on 31 July 2009	1,626,802	217,391	–	891,323	50,385	902,485	–
Sportingbet Restricted Share Plan 2009 (the "2009 Share Plan")	Current	15,532,800	1,272,274	–	3,106,555	558,750	13,139,769	–
Totals		19,181,226	1,489,665	–	3,997,878	609,135	16,063,878	2,021,625

The 2009 Share Plan

Share options are now only granted under the 2009 Share Plan The 2009 Share Plan was adopted on 22 July 2008 and awards were granted under the 2009 Share Plan to the Executive Directors and the Group's senior management team on 20 January 2009 The Company's policy to grant awards under the 2009 Share Plan is at the Remuneration Committee's discretion as and when considered appropriate

Entitlements under the 2009 Share Plan comprise a loyalty element and a performance element in equal proportions

Year of Plan	Proportion of total award to be released (maximum award = 1 2 x salary)	Conditional upon
1	10%	Loyalty
	10%	Performance
2	15%	Loyalty
	15%	Performance
3	25%	Loyalty
	25%	Performance

Shares comprised within the loyalty element of the award may only vest and be released if the participant remains employed by the Company as at 31 July 2010, 31 July 2011 and 31 July 2012 respectively Shares comprised within the performance element of the award may only vest and be released if (a) the participant remains employed by the Company as at 31 July 2010, 31 July 2011, and 31 July 2012 respectively, and, (b) certain performance conditions are satisfied

The performance condition is based on the extent to which growth in the Company's earnings before interest, tax and amortisation ("EBITA Growth") exceeds RPI Growth over a financial year of the Company

For the performance award to be exercisable in full, EBITA Growth must exceed RPI Growth by 15% per financial year compound The proportion of the performance award exercisable increases on a straight-line sliding scale between 0 and 100% if EBITA Growth exceeds RPI Growth by any margin in excess of 5% over a financial year The Remuneration Committee believes that, in relation to the 2009 Share Plan, EBITA Growth in excess of RPI Growth is the appropriate measure for determining the increase in value delivered to shareholders by the Company's Executive Directors and other senior executives for the period 2009–2012 The Remuneration Committee reviews the appropriateness of the performance measure and the specific target set when considering each new grant of performance awards

During the current financial year, the Company has undertaken a remuneration and benchmarking study using industry consultants, MM&K The Remuneration Committee has resolved to follow the recommendation of their report, including that payments due under existing incentive plans introduced in good faith as part of the Company's historical remuneration policy should be honoured This means that the 2009 Share Plan under its current terms will expire in July 2012, with final awards being released in November 2012

Following its admission to the Official List, the Company intends to introduce a new share plan to replace the 2009 Share Plan which expires on 31 July 2012 Such share plan will be exclusively performance based

Cash-based long-term incentive plan

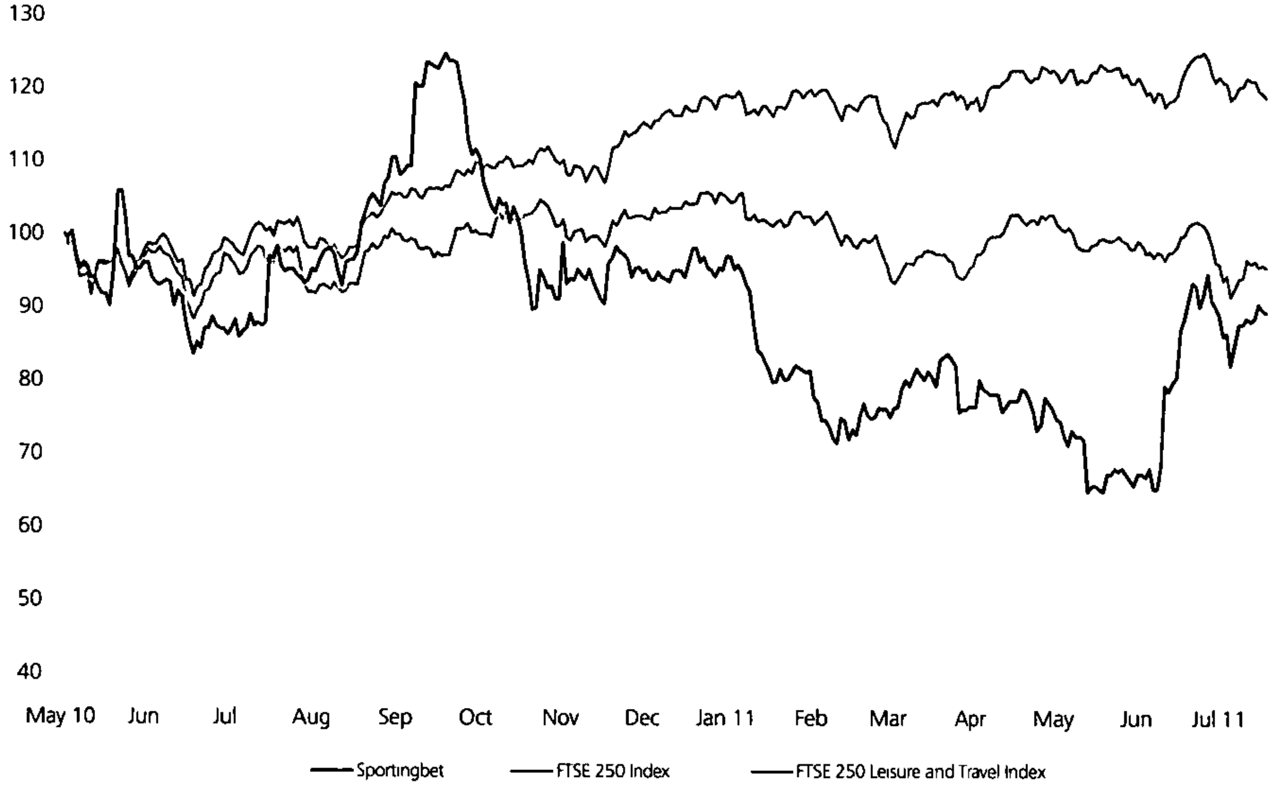
In 2008, the Remuneration Committee reviewed the remuneration and benefits packages of certain key employees As a result, a cash-based long-term incentive plan ("LTIP") was established and offered to the Executive Directors and a small number of key employees in order to retain such individuals The LTIP pays a cash sum in August 2012 based on the relevant employee's gross salary In line with the advice received from the specialist external consultants, MM&K, awards made prior to the Company's move to the Official List in good faith will be honoured In order for the employee to receive such payment under the LTIP, they need to be in employment up to and including 31 July 2012

Following the recommendations of the external remuneration consultants, MM&K and to ensure compliance with the Code and investor protection group guidelines, the Company will not adopt similar schemes in the future

Remuneration Report
Information NOT subject to audit

Total Shareholder Return ("TSR")
The following graph charts the movement in total cumulative shareholder return (assuming reinvestment of dividends) of the Company for the period from 14 May 2010 to 31 July 2011, compared with
1 total shareholder return relating to the FTSE 250 Index, and
2 total shareholder return relating to FTSE 250 Leisure and Travel Index
(chosen as the Company has been a constituent of both indices for a period of time since its admission to the Official List on 14 May 2010)

Sportingbet – TSR analysis



By Order of the Board

D Talisman LLB (Hons) FCIS
Company Secretary

D.T. Talisman

4 October 2011

Regulatory Developments

The supply of betting and gaming services continues to be subject to a complex, inconsistent and often protectionist approach by jurisdictions worldwide However, action to address this by international trade bodies (such as the World Trade Organisation and the European Commission) has resulted in the censuring of certain nations and, increasingly, the introduction of regulatory regimes for the activity

The Group continues to provide its services only from jurisdictions where it is licensed and regulated, and therefore the position in its place of supply (and where its regulator and applicable local laws deem the gambling transaction to take place) is explicitly legal

In order to provide its worldwide gambling service, the Group currently maintains licences in Alderney, Antigua and Barbuda, Australia, Curaçao, Malta, South Africa and the UK

Major issues of note in the last 12 months (all of which have been widely reported) include

a the possibility that the UK will impose regulatory requirements (which will attract licence fees) on offshore operators who target the local gambling market,
b the continued move towards regulation of the gambling sector in a number of EU jurisdictions, including Denmark, Greece and Spain and a maturing of the licensing regimes in France and Italy,
c reduced European Commission ("Commission") pressure on EU and EFTA Member States (principally Norway) to justify their national gambling regimes (including proposed new regulatory regimes) despite the free trade requirements of the Treaty on the Functioning of the European Union (the "TFEU") also reflected in the protectionist judgments of the European Court of Justice (the "ECJ"), albeit the impact of these judgments has been tempered to a degree by the Carmen Media (and others) case in Germany and by the fact the continued trend seems to favour local licensing regimes, and
d increasing attempts to impose indirect taxes (via "product fees") on gambling operators by certain States in Australia, and similar debates in the UK given that the horseracing levy (the "Levy") is due to be replaced with another form of payment

The European Union ("EU")
EU Member States are subject to scrutiny from the Commission and, as "guardian" of the TFEU, it closely monitors existing and developing legislation in the EU The principal method by which the Commission has applied pressure on Member States is through the use of "infringement proceedings" against EU Member States in contravention of EU law Through such proceedings, the Commission has asked a number of States to amend their laws restricting the free movement of gambling services The ongoing pressure from the Commission, and in some cases national court decisions declaring domestic legislation to be incompatible with EU law, has led to a domestic review of prohibitive legislation in a number of jurisdictions, including France and Italy

However, the ECJ has, in the course of the last two years, delivered a series of judgments which ostensibly have found in favour of the national monopolies In addition, where jurisdictions have or are in the process of implementing licensing regimes, the EC has been content to approve licensing systems which are discriminatory, both in terms of the barriers to entry, and in relation to the level of tax (or bond security), licensees are expected to pay France and Spain are in this category Both jurisdictions may yet be challenged at an EC level, but in the meantime, whilst the introduction of a licensing regime seems to be the necessary salve to ward off infringement proceedings, there appears to be no obvious blueprint for a licensing regime that will pass muster with the EC Therefore, jurisdictions will clearly incline towards creating regimes which will result in as much economic upside for them, without paying heed to the fact that the reduced margins for operators will result in poorer consumer choice, particularly where the licensing regime in question has not addressed the potential scope for creating vast jurisdictional liquidity, which is particularly important for the poker market

What is clear is that despite the EC Green Paper of last year, which called upon Member States to consider all the potential issues in relation to online gambling, including a form of harmonisation, such harmonisation is unlikely to occur in the short-term, and that the most likely trend to continue is for jurisdictions to introduce licensing regimes which may or may not be tempered by EC intervention

Spain
As a result of the uncertainty over the legality of the provision of online gambling, which is not expressly prohibited by Spanish law, Spain has historically adopted a tolerant approach to the supply of foreign gambling services into the jurisdiction

Madrid and the Basque Region have both introduced licensing regimes for online betting, which has led to the Spanish government implementing a nationwide system of regulation which will permit operators to obtain a Spanish gambling licence The application process is due to commence in November 2011 with the first licences expected to be granted during December amidst concerns about maximum spending obligations of players

United Kingdom
The Group holds a licence granted by the Alderney Gaming Control Commission, and is therefore permitted to advertise in the UK under the Gambling Act 2005, which permits UK advertising for Alderney licensees on the back of Alderney's "whitelisted" status

In March 2010, the Department for Culture, Media and Sport ("DCMS") initiated a consultation regarding a system for the regulation of remote gambling in UK The consultation also looked at whether operators who advertise in the UK should face new regulatory requirements (attracting consequential licence fees) to ensure a more even financial treatment of UK operators and non-UK operators who target the UK market

Regulatory Developments

The UK government announced its intention to proceed with these plans in July 2011 and the Treasury is currently canvassing input from stakeholders on the implications of a new gambling tax to capture all gambling with UK customers

France
France has historically been a staunch opponent of the provision of online gambling services by operators without a French licence which attitude has hardened in light of the introduction of an online gambling regime

The Group now blocks French-domiciled customers by residential address at registration and by IP address

Germany
Despite criticism from the Commission, the Interstate Gambling Treaty (the "Treaty") remains in force in Germany The Treaty effectively provides that all forms of online gambling are unlawful where they are targeted at German residents However, in the period prior to its expiry there has been wide debate in Germany as to whether an online licensing regime was necessary or desirable

The current state of flux was brought about as a consequence of the ECJ cases including Carmen Media all of which determined that there was an incompatibility between Germany's TFEU obligations and its domestic gambling laws, certainly in relation to betting This led to wide speculation about the enforceability of the Treaty and prompted the review of the licensing regime

Currently the EC does not accept that the proposed regime (which severely limits the number of licences available) is compatible with its TFEU obligations and whilst the German states (the Länder's) have to revert to the EC with their counter-proposals, this is not expected until late October 2011

On 14 September 2011, parliament of the state of Schleswig-Holstein passed the Schleswig-Holstein Gambling Act, which comes into force on 1 January 2012 Applications for licences may be made as of 1 January 2011 but will not become effective before March 2012 It is possible that Schleswig-Holstein passed its Gambling Act before October in order to put political pressure on the other federal states to pass an Interstate Treaty that is identical or at least contains similar provisions to the Schleswig-Holstein Gambling Act Schleswig-Holstein have reserved the right to become signatory to the Interstate Treaty on Gambling in which case the Schleswig-Holstein Gambling Act will be abolished

Greece
Greece has been the subject of several challenges by the Commission and has previously been steadfast in defending the monopoly providers' position (OPAP and ODIE) However, in July 2010 the Minister of Economy proposed a draft bill which would make several changes to the way in which gambling is regulated in Greece In July 2011 the new law was implemented in Greece, which envisages the licensing of online gambling Whilst all the underlying regulations have yet to be promulgated, operators wishing to obtain a licence must register to pay tax during the period prior to the licensing regime being initiated Again, this proposal may be subject to challenge

Italy
Italy has changed its monopoly-orientated stance on online gambling and has started to permit a number of non-Italian bookmakers to obtain licences to operate online enabling betting offerings from certain outlets such as newsagents, bars and cafes The Incentivi Decree recently extended licensable offerings to include cash ring games for poker and other casino games

The EC also approved Italy's Abruzzo Law on 5 May 2010 and announced that it had closed proceedings against Italy The Abruzzo Law allows gambling operators offering their services in Italy to have web servers and a registered company outside of Italy, as long as they are still within the European Economic Area or a country that has a bilateral agreement with Italy Also cash poker and casino games have now been introduced

Norway
Norway implemented legislation (which became effective in 2010) which established that processing of payments for unlicensed gambling where such gambling is unlicensed in Norway is an accessory offence for financial services providers The Group has ceased taking business from Norwegian citizens It plans to close Centrebet's Norwegian operations unless a sale can be completed by late October

Denmark
In line with the Group's desire to only operate in regulated markets, Denmark remains a territory of potential interest to the Group

The implementation of the new Danish Act on Gaming, which will liberalise part of the Danish gambling market by introducing a licensing system for certain online gambling activities, has been postponed due to a decision by the EU Commission to open a formal State Aid Investigation The investigation followed a challenge made in December 2010 by the Danish gambling machine trade and a Danish land based casino that the different levels of tax to be applied to land based gaming activities and gambling offered online were discriminatory and amounted to state aid The Danish tax ministry (Skatteminister) and the European Commission have confirmed that a decision on this State Aid Investigation will be received imminently

Rest of the World
Turkey
Provision of gambling services in Turkey is generally prohibited by Article 228 of the Turkish Criminal Code In addition, the Law no 7258 regarding Provision of Betting and Luck Games in Football and Other Sportive Competitions ("Law 7258") explicitly bans offshore originated online gambling conducted without a local authorisation, whether the operator is based in or outside Turkey

Turkish law asserts jurisdiction over any act that violates the laws of Turkey if the result of such act occurs within Turkey, irrespective of the location of the offender Accordingly, the activities of the Group, in taking online gambling custom from Turkey, are considered illegal under Turkish law

In addition, Article 8 of Law no 5651 regarding Regulation of Broadcasts in Internet Environment and Prevention of Committed by Broadcasting ("Law 5651") permits the Turkish authorities to block online gambling if "satisfactory suspicion regarding gambling services arises in such broadcasting"

Turkey is not a member of the EU, nor has it included online gambling in its WTO free trade commitments

The Group relies on the argument that a country's domestic law cannot make illegal a supply remotely and lawfully made from another jurisdiction It remains legal for customers to transact with offshore online operators, although customers may be subject to administrative (rather than criminal) enforcement under Turkish law The Group continues to accept bets from Turkish residents, although it does not have employees, nor does it conduct advertising activity from within the territory In the summer of 2011 it announced that it may consider exiting the Turkish market by a disposal

Australia

The Group holds sports betting licences in Australia in the Northern Territory and provides services from the Northern Territory to other states The Group blocks Australians from accessing any of the Group's other products It has been held, as a result of various court cases to which the Group and others have been a party, that holding a sports betting licence in one state entitles the licensee to advertise and supply in another However, there has been a growing trend in relation to payment of fees for the use of "sports products" (e g race fields and sporting fixtures) which is levied against betting operators in Australia Such fees are levied on operators licensed in Australia, in addition to taxes they pay in their licensing state

Race fields legislation exists in every Australian state except the Northern Territory The race fields legislation, however, is subject to ongoing legal challenge, principally on the basis that there exists anti-competitive discrimination between bookmakers and the tote incumbent monopolies The Productivity Committee (tasked with re-evaluating the gambling industry) has taken the view that there may be merit in such fees being dealt with on a national basis via some form of national statutory scheme, but this and other recommendations it made will not be taken up by the Australian Federal Government Despite this the government announced in August 2011 that it would again review the Interactive Gambling Act to assess the adequacy of the prohibition on gaming A report is expected in the early part of 2012 The report may highlight the importance too of continuing to ban in-running sports betting which is currently also precluded (except for horseracing)

Unlike race fields, and with the exception of Victoria, no state or territory has legislation that specifically requires betting operators to pay fees for the use of sporting fixture information Moreover in the summer of 2011 Victoria announced it was planning to toughen penalties for any infractions More generally, however, a practice has developed under which corporate bookmakers enter into direct commercial agreements with the national administrative bodies for each sport Such agreements typically provide for a fee equivalent to 5% of revenue to be paid to the administrative bodies

United States

The US continues to prohibit online gambling

Despite the current prohibitive position, there have been suggestions that, in light of the economic downturn in the US and the resultant loss of revenue for land-based casino operators, liberalisation may occur in the online gambling market Increasing pressure from consumers and lobby groups has also resulted in legislative proposals To date these have not amounted to a change in the existing prohibitive regime although several State bills are gaining momentum, particularly in New Jersey, albeit that there is concern that a Federal bill if introduced (which on the face of it may look ideal) may only favour certain States such as Nevada

On 20 September 2010, the Group entered into a Non-Prosecution Agreement (the "Agreement") with the Office of the United States Attorney for the Southern District of New York ("SDNY"), acting on behalf of the United States Department of Justice, with respect to the Group's previous activities in the United States Under the terms of the Agreement, SDNY will not seek to prosecute the Group for activities related to its internet gambling business with customers in the United States from 1998 to 2006 The Group ceased to offer online gambling to United States customers on 12 October 2006

As part of the Agreement, the Group has agreed to pay a total of \$33m (£21 3m) to SDNY, payable in three instalments (i) \$15m (£9 7m) payable no later than 30 September 2010, (ii) \$12m (£7 7m) no later than 30 September 2011, and (iii) \$6m (£3 9m) no later than 31 March 2012

In addition to the above, the Group has agreed to cooperate with SDNY and disclose information to SDNY relating to the Group's former internet gambling business in the United States and adhere to certain further obligations from the date of the Agreement with respect to its future conduct in the United States The Group has also acknowledged and accepted certain details regarding its former business activities in the United States which are set out in the Statement of Facts which form part of the Agreement

The Group believes that this settlement enables a line to be drawn under its previous activities in the United States

Asia

The regulatory regime in many Asian countries is currently prohibitive and, at present, the Group has no operations or activities in Asia

Independent Audit Report
For the year ended 31 July 2011

Independent auditor's report to the members of Sportingbet Plc
We have audited the Group Financial Statements of Sportingbet Plc for the year ended 31 July 2011 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow and the related Notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 37, the Directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion the Group Financial Statements
- give a true and fair view of the state of the Group's affairs as at 31 July 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion
- the information given in the Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements and,
- the information given in the Corporate Governance Statement set out on pages 32 to 35 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the Company

Under the Listing Rules, we are required to review
- the Directors' statement, set out on page 37, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board of Directors' remuneration

Other matter
We have reported separately on the Parent Company Financial Statements of Sportingbet Plc for the year ended 31 July 2011 and the information in the Directors' Remuneration Report that is described as having been audited

Paul Etherington BSc FCA CF
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

4 October 2011

Grant Thornton UK LLP

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2011

Continuing operations	Notes	Year ended 31 July 2011 £m	31 July 2010 £m
Amounts wagered	3	**2,053 9**	1,971 3
Net gaming revenue	2	**204 0**	207 5
Other operating revenue		**2 3**	–
Total revenue	3	**206 3**	207 5
Administrative expenses before exceptional items, share option charge and amortisation of other intangible assets		**(168 2)**	(172 1)
Group operating profit before exceptional items, share option charge and amortisation of other intangible assets	3	**38 1**	35 4
Other administrative expenses			
Exceptional items	4	**(10 8)**	(24 5)
Share option charge	6	**(1 2)**	(2 0)
Amortisation of other intangible assets	12	**(1 7)**	(1 8)
Total administrative expenses		**(181 9)**	(200 4)
Group operating profit		**24 4**	7 1
Finance income	8	**0 5**	0 4
Finance costs	8	**(1 1)**	(0 6)
Profit before taxation	5	**23 8**	6 9
Taxation	9	**(3 1)**	(3 0)
Group profit for the year		**20 7**	3 9
Profit attributable to the owners of the Parent		**20 7**	3 9
Other comprehensive income			
Amounts initially taken to equity as a result of applying hedge accounting		**(0 4)**	0 3
Amounts recycled to the Statement of Comprehensive Income to match the hedged items		**(1 2)**	0 3
Exchange differences on translation of foreign operations		**1 9**	1 5
Total comprehensive income for the period attributable to the owners of the Parent		**21 0**	6 0
Profit per ordinary share			
Basic	10	**3 9p**	0 8p
Diluted	10	**3 9p**	0 7p

The Notes on pages 53 to 77 form part of these Financial Statements

FINANCIALS

Consolidated Balance Sheet
For the year ended 31 July 2011

		As at	
	Notes	**31 July 2011 £m**	31 July 2010 £m
Non-current assets			
Goodwill	11	**41 8**	41 5
Other intangible assets	12	**33 2**	21 8
Property, plant and equipment	13	**26 2**	27 1
Deferred tax asset	9	**1 2**	2 0
		102 4	92 4
Current assets			
Trade and other receivables	14	**16 3**	12 6
Cash and cash equivalents	15	**180 2**	58 9
Derivatives	18	**–**	1 3
		196 5	72 8
Current liabilities			
Trade and other payables	16	**(60 4)**	(54 4)
Interest bearing loans and borrowings	16	**(6 0)**	(5 3)
Derivatives	16	**(0 2)**	–
		(66 6)	(59 7)
Net current assets		**129 9**	13 1
Non-current liabilities			
Trade and other payables	16	**–**	(11 6)
Interest bearing loans and borrowings	16	**(53 8)**	(1 2)
		(53 8)	(12 8)
Net assets		**178 5**	92 7
Equity			
Issued share capital	19	**0 7**	0 5
Share premium		**60 0**	59 9
Reserves		**117 8**	32 3
Total equity		**178 5**	92 7

The Notes on pages 53 to 77 form part of these Financial Statements These Financial Statements were approved by the Board and authorised for issue on 4 October 2011

A McIver
Director

Consolidated Statement of Changes in Equity
For the year ended 31 July 2011

	Issued share capital £m	Share premium account £m	Other reserves £m	Equity portion of convertible bond £m	Profit and loss account £m	Foreign exchange reserve £m	Total £m
As at 1 August 2009	**0 5**	**59 4**	–	–	**33 3**	–	**93 2**
Employee share options	–	0 5	–	–	(0 6)	–	(0 1)
Share option charge	–	–	–	–	1 1	–	1 1
Dividends paid	–	–	–	–	(7 5)	–	(7 5)
Profit for the year	–	–	–	–	3 9	–	3 9
Hedge accounting	–	–	–	–	0 6	–	0 6
Foreign currency exchange	–	–	–	–	–	1 5	1 5
As at 1 August 2010	**0 5**	**59 9**	–	–	**30 8**	**1 5**	**92 7**
Employee share options	–	0 1	–	–	(0 7)	–	(0 6)
Issue of shares	0 2	–	62 3	–	–	–	62 5
Equity portion of convertible bond	–	–	–	10 3	–	–	10 3
Share option charge	–	–	–	–	1 2	–	1 2
Dividends paid	–	–	–	–	(8 6)	–	(8 6)
Profit for the year	–	–	–	–	20 7	–	20 7
Hedge accounting	–	–	–	–	(1 6)	–	(1 6)
Foreign currency exchange	–	–	–	–	–	1 9	1 9
As at 31 July 2011	**0.7**	**60 0**	**62 3**	**10 3**	**41 8**	**3 4**	**178 5**

The increase in Group equity of £85 8m (2010 decrease of £0 5m) is wholly represented by the movements shown in equity reserves and share capital in Note 19 and the statement above

Other reserves represent amounts relating to the premiums arising on the issue of shares under the provisions of section 612 of the Companies Act 2006

The equity portion of the convertible bond reserve represents the equity portion of the £65m fixed rate 7% convertible bond (Note 16) after deduction of transaction costs of £0 5m attributable to the equity component

All Group equity is attributable to the owners of the Parent

Consolidated Cash Flow Statement
For the year ended 31 July 2011

	Notes	Year ended 31 July 2011 £m	31 July 2010 £m
Group profit after taxation		**20 7**	3 9
Depreciation		**5 2**	5 4
Software amortisation		**8 1**	5 7
Other amortisation		**1 7**	1 8
Share option charge		**1 2**	2 0
Finance cost		**0 6**	0 2
Taxation		**3 1**	3 0
Operating cash flows before movements in working capital		**40 6**	22 0
(Increase)/decrease in receivables		**(0 9)**	0 8
(Decrease)/increase in payables		**(8 7)**	25 0
Cash generated by operations		**31 0**	47 8
Income tax paid		**(2 1)**	(4 0)
Net cash from operating activities		**28 9**	43 8
Purchases of property, plant and equipment	13	**(4 1)**	(10 4)
Purchases of software	12	**(20 9)**	(13 3)
Acquisition of subsidiaries		**(0 1)**	(0 6)
Interest paid		**(0 8)**	(0 2)
Cash used in investing activities		**(25 9)**	(24 5)
Exercise of share options		**(0 7)**	(1 0)
Issue of shares		**61 8**	0 2
Finance leases		**0 7**	2 5
Dividends paid		**(8 6)**	(7 5)
Issue of convertible loan notes		**62 0**	-
Net cash from financing activities		**115 2**	(5 8)
Net increase in cash and cash equivalents in the year		**118 2**	13 5
Cash and cash equivalents at beginning of year		**58 9**	44 3
Effect of foreign exchange rate changes		**3 1**	1 1
Cash and cash equivalents at end of year	15	**180 2**	58 9

The Notes on pages 53 to 77 form part of these Financial Statements

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

The financial information provided is for the Group's financial year ending 31 July 2011

The financial information has been prepared in accordance with applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union

The IFRS Financial Statements have been drawn up on the basis of accounting policies consistent with those applied in the Financial Statements for the year to 31 July 2010, except for the following

- IFRS 2 (amendment) – Share-based payment – Group Cash-settled Share-based Payment Transactions
- Improvements to IFRSs 2010

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these Financial Statements The effect of adopting the above standards and interpretations is not material to Group profit or to total equity in the current or prior year Prior year information has not been restated, therefore an additional comparative Balance Sheet has not been presented

Standards in issue not yet effective

The IASB and IFRIC have issued the following Standards and Interpretations, applicable to the Group, which are effective for periods starting after the date of these Financial Statements and are yet to be adopted by the Group

- IFRS 9 Financial Instruments – 1 January 2013
- IFRS 10 Consolidated Financial Statements – 1 January 2013
- IFRS 11 Joint Arrangements – 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities – 1 January 2013
- IFRS 13 Fair Value Measurement – 1 January 2013
- IAS 24 Related Party Disclosures – 1 January 2011
- IAS 19 Employee Benefits (Revised June 2011) – 1 January 2013
- IAS 27 (Revised) Separate Financial Statements – 1 January 2013
- IAS 28 (Revised) Investments in Associates and Joint Ventures – 1 January 2013
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 – 1 July 2011
- Deferred Tax Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes – 1 January 2012
- Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 – 1 July 2012

The Group does not anticipate that the adoption of these Standards and Interpretations will have a material effect on its Financial Statements on initial adoption

Basis of consolidation – subsidiaries

The Group Financial Statements for the year consolidate the Financial Statements of Sportingbet Plc and the entities it controls (its subsidiaries)

Subsidiaries are consolidated from their date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights or by way of contractual agreement Accounting policies are consistently applied across the Group All inter-Company balances and transactions are eliminated

Business combinations

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Any excess of the consideration transferred over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i e discount on acquisition) is credited to the Statement of Comprehensive Income in the period of acquisition

Contingent and deferred consideration arising as a result of acquisitions is stated at a measure of fair value at the date of acquisition Contingent consideration is based on management's best estimate of the likely outcome The fair value of contingent share consideration is measured based on the market price of shares at acquisition Subsequent remeasurement of contingent consideration is recognised in the Statement of Comprehensive Income

Notes to the Financial Statements

1 Accounting policies continued

Amounts wagered

Amounts wagered do not represent the Group's statutory revenue They represent amounts staked in respect of bets placed on sporting events in the year, net win in respect of casino and gaming, and rake in respect of poker games that have concluded in the year Amounts wagered are stated net of certain promotional bonuses

Revenues

Net gaming revenue

Net gaming revenue is measured at the fair value of consideration received or receivable, and comprises the following

- Sports betting gains and losses in respect of bets placed on sporting events in the year stated after betting taxes and certain promotional bonuses
- Open positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue, as well as gains and losses realised on positions that have closed
- Casino and gaming net win in respect of bets placed on casino games that have concluded in the year, stated net of certain promotional bonuses
- Poker net win in respect of rake for poker games that have concluded in the year, stated net of certain promotional bonuses
- Where the Group refers to gaming revenue, this represents net gaming revenue before the deduction of promotional bonuses

Other operating revenue

Other operating revenue is comprised of transaction fees for payment processing services and is measured at the fair value of the consideration received

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired Goodwill is allocated to cash-generating units for the purpose of impairment testing

Goodwill allocated to each cash-generating unit is not amortised and is reviewed for impairment at least annually Where impairment arises on a cash-generating unit, it is allocated initially against goodwill and thereafter pro rata amongst other assets Any impairment is recognised immediately in the Statement of Comprehensive Income and is not subsequently reversed Goodwill arising on earlier acquisitions prior to IFRS conversion was being amortised over its estimated useful life of 20 years In accordance with the transitional provisions of IFRS 1 First time adoption of IFRS, the unamortised balance of goodwill at 31 July 2006 was frozen and reviewed for impairment at least annually

Computer software

Where, in the opinion of the Directors, the Group's expenditure in relation to development of internet activities results in future economic benefits, these costs are capitalised and amortised over the useful economic life of the asset

Development costs are capitalised only when it is probable that future economic benefit will result from the project and the following criteria are met

- The technical feasibility of the product has been ascertained
- Adequate technical, financial and other resources are available to complete and sell or use the intangible asset
- The Group can demonstrate how the intangible asset will generate future economic benefits and the ability to use or sell the intangible asset can be demonstrated
- It is the intention of management to complete the intangible asset and use it or sell it
- The development costs can be measured reliably

Amortisation is provided on computer software at a rate calculated to write each asset down to its estimated residual value, using the straight-line method, over its expected useful life, as follows

Computer software	20–33% on cost

Methods of amortisation, residual values and useful lives are reviewed and adjusted, if appropriate, at each Balance Sheet date

1. Accounting policies continued

Other intangible assets

Identifiable intangible assets acquired as part of business combinations, that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date and amortised over their useful economic life as follows

Superbahis URL	33% on cost
Belmond International Limited – marketing contract	20% on cost

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation Depreciation is provided on all property, plant and equipment except for freehold land at rates calculated to write each asset down to its estimated residual value, using the straight-line method, over its expected useful life, as follows

Fixtures, fittings and equipment	25% on cost
Leasehold improvements	10% on cost
Motor vehicles	25% on cost
Computer equipment	20–33% on cost
Freehold land and buildings	2% on cost

Methods of depreciation, residual values and useful lives are reviewed and adjusted, if appropriate, at each Balance Sheet date Leasehold improvements are included within fixtures, fittings and equipment in the property, plant and equipment note

Impairment of property, plant and equipment and intangible assets

At each Balance Sheet date, the Group reviews the carrying amounts of its property, plant and equipment and other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised as an expense immediately

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years A reversal of an impairment loss is recognised as income immediately

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount

Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated financial instrument

Financial instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument

Notes to the Financial Statements

1. Accounting policies continued

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within 'Other administrative expenses' When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables Subsequent recoveries of amounts previously written off are credited against 'Other administrative expenses' in the Statement of Comprehensive Income

Cash and cash equivalents

Cash and cash equivalents include cash in hand deposits with banks It also includes cash reserves and short-term cash in transit held by payment service providers

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

Interest bearing loans and other borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost, and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of borrowings using the effective interest method

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the Balance Sheet date

Trade payables

Trade payables are not interest-bearing and are stated initially at their fair value and thereafter at their amortised cost using the effective interest rate method The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying values recognised in the Balance Sheet to be a reasonable approximation of their fair value

Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs

Convertible bonds

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not remeasured The liability component is carried at amortised cost

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue The portion relating to the equity component is charged directly against equity

The finance cost on the liability component is calculated by applying the prevailing market interest rate, at the time of issue, for similar non-convertible debt to the liability component of the instrument The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates

The Group uses derivative financial instruments to reduce exposure to foreign exchange rate movements The Group does not hold or issue derivative financial instruments for speculative purposes

1. Accounting policies continued

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value, calculated using either discounted cash flow techniques or by reference to market prices supplied by banks The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged The Group designates certain derivatives as hedges of the variability of cash flows (cash flow hedge)

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives

Derivative financial instruments not eligible for hedge accounting are recognised in the Balance Sheet at fair value calculated using either discounted cash flow techniques or by reference to market prices supplied by banks Changes in their fair value are recognised in the profit or loss

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss

Amounts accumulated in equity are recycled in the consolidated Statement of Comprehensive Income in the periods when the hedged item will affect profit or loss However, when the hedged transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability

Fair value measurements are based on quoted prices in active markets for the same instrument

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated Statement of Comprehensive Income

Dividends
Dividends are recognised when they become legally payable Interim dividends are recognised when paid Final dividends are recognised when approved by the shareholders at the Annual General Meeting

Functional and presentational currency
Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") The consolidated Financial Statements are presented in sterling (£) which is the Parent's functional and presentational currency

Foreign currency translation
Foreign currency transactions of individual companies are translated at the rates ruling when they occurred Foreign currency monetary assets and liabilities are translated at the closing spot rate Any differences are taken to the Statement of Comprehensive Income

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets translated into sterling at the rates of exchange ruling on the Balance Sheet date Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the Statement of Comprehensive Income at an average rate are taken to reserves

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax

Notes to the Financial Statements

1. Accounting policies continued

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or of other assets and liabilities in a transaction (other than in a business combination) that affects neither the tax profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probably that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in accordance with laws which have been enacted or substantially enacted at the Balance Sheet date Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income

Employee benefits

Pension costs

For defined contribution arrangements the amount charged to the Statement of Comprehensive Income in respect of pension costs and other post-retirement benefits is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet

Share-based employee remuneration

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period, with the corresponding credit to the profit and loss reserve Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest Market vesting conditions are factored into the fair value of the options granted As long as all other vesting conditions are satisfied, a change is made irrespective of whether the market vesting conditions are satisfied The cumulative expense is not adjusted for failure to achieve a market vesting condition

Where the terms of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with the fair value of goods and services received

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All the other leases are classified as operating leases

1. Accounting policies continued

The Group as lessee

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as property, plant and equipment and are depreciated over the shorter of the lease terms and their useful lives The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the Statement of Comprehensive Income over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis

The Group as lessor

Rental income from the Group's land and buildings, accounted for within property, plant and equipment, is recognised on a straight-line basis over the lease term

Exceptional items

Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence in order for the user to obtain a proper understanding of the financial information

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material

Critical accounting judgements

In the application of the accounting policies, which are detailed in this note, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources The critical judgements are discussed below

Business combinations

Management apply judgement in respect of each business combination entered into in respect of their assessment of the date when control passes

Classification of convertible bonds

The terms of convertible bond instruments, including all conditions under which an adjustment to the conversion price can be made Where in management's judgement such terms are all considered to be anti-dilutive to the bondholder, the instrument is recognised as a compound financial instrument in accordance with the requirements of IAS 32

Key sources of estimation uncertainty

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant Actual results may differ from these estimates

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

The estimates and assumptions, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below

Share-based payments

Management applies valuation techniques to calculate the fair value of share option charges Note 20 provides information on the choice of valuation technique and the assumptions used in these Financial Statements

Customer liabilities

Customer liabilities represent cash held by the Group on behalf of customers These are stated net of an allowance for uncollected dormant balances Management apply judgement calculating the allowance by reference to player terms and conditions in assessing the likelihood of balances being reclaimed

Notes to the Financial Statements

1 Accounting policies continued

Measurement of convertible bonds

The finance cost of convertible bonds is calculated using an effective rate of interest, which is at a premium to the coupon rate This effective rate is calculated based on the estimate of the cost of a similar instrument without a conversion option

2. Net gaming revenue

	2011 £m	2010 £m
Gaming revenue	**224 3**	226 3
Promotional bonuses	**(20 3)**	(18 8)
Net gaming revenue	**204 0**	207 5

3 Operating segments

For management purposes, the Group is currently organised into three geographical regions – Europe, Australia and Emerging Markets These regions are the basis on which the Group reports its operating segments

The following table presents revenue and profit information and certain asset and liability information regarding the Group's operating segments for the years ended 31 July 2011 and 31 July 2010

Emerging Markets refer to the Group's operations in Canada, Brazil, Chile and South Africa

	2011				
	Europe £m	Australia £m	Emerging Markets £m	Unallocated central costs £m	Total £m
Amounts wagered	**1,125 5**	**822 0**	**106 4**	–	**2,053 9**
Total revenue	**158 6**	**37 1**	**10 6**	–	**206 3**
Depreciation and amortisation of software	**(11 4)**	**(1 8)**	–	**(0 1)**	**(13.3)**
Administrative expenses before exceptional items, share option charge and amortisation of intangible assets	**(108 2)**	**(26 4)**	**(7 1)**	**(13 2)**	**(154 9)**
Group operating profit/(loss) before exceptional items, share option charge and amortisation of other intangible assets	**39 0**	**8 9**	**3 5**	**(13 3)**	**38 1**
Other administrative expenses					
Exceptional items	**(1 2)**	–	–	**(9 6)**	**(10.8)**
Share option charge	**(0 5)**	**(0 2)**	–	**(0 5)**	**(1 2)**
Amortisation of other intangible assets	**(1 7)**	–	–	–	**(1 7)**
Total administrative expenses	**(123 0)**	**(28 4)**	**(7 1)**	**(23 4)**	**(181 9)**
Operating profit/(loss)	**35 6**	**8 7**	**3 5**	**(23 4)**	**24 4**
Finance income/(cost)	**0 8**	**0 5**	**(0 1)**	**(1 8)**	**(0 6)**
Taxation	**(0 2)**	**(2 9)**	–	–	**(3.1)**
Profit/(loss) for the year	**36 2**	**6 3**	**3 4**	**(25 2)**	**20 7**
Balance Sheet information					
Total assets	**268 2**	**30 7**	–	–	**298 9**
Total liabilities	**(114 8)**	**(5 6)**	–	–	**(120.4)**
Expenditure incurred to acquire property, plant and equipment and intangible assets	**22 3**	**2 7**	–	–	**25 0**

3. Operating segments continued

	2011				
	Sports betting £m	**Casino gaming £m**	**Poker rake £m**	**Other operating revenue £m**	**Total £m**
Amounts wagered	**2,009 0**	**47 5**	**17 7**	**–**	**2,074 2**
Promotional bonuses	**(12 4)**	**(3 5)**	**(4 4)**	**–**	**(20 3)**
Net amounts wagered	**1,996 6**	**44.0**	**13 3**	**–**	**2,053 9**
Revenue	**159 1**	**47 5**	**17 7**	**2 3**	**226 6**
Promotional bonuses	**(12 4)**	**(3 5)**	**(4 4)**	**–**	**(20 3)**
Total revenue	**146 7**	**44.0**	**13 3**	**2 3**	**206 3**

	2010				
	Europe £m	Australia £m	Emerging Markets £m	Unallocated central costs £m	Total £m
Amounts wagered	1,157 8	743 9	69 6	–	1,971 3
Total revenue	167 4	33 6	6 5	–	207 5
Depreciation and amortisation of software	(9 7)	(1 0)	–	(0 4)	(11 1)
Administrative expenses before exceptional items, share option charge and amortisation of intangible assets	(112 2)	(24 8)	(4 7)	(19 3)	(161 0)
Group operating profit/(loss) before exceptional items, share option charge and amortisation of other intangible assets	45 5	7 8	1 8	(19 7)	35 4
Other administrative expenses					
Exceptional items	–	–	–	(24 5)	(24 5)
Share option charge	(0 5)	(0 1)	–	(1 4)	(2 0)
Amortisation of other intangible assets	(1 8)	–	–	–	(1 8)
Total administrative expenses	(124 2)	(25 9)	(4 7)	(45 6)	(200 4)
Operating profit/(loss)	43 2	7 7	1 8	(45 6)	7 1
Finance cost	–	–	–	(0 2)	(0 2)
Taxation	(0 4)	(2 6)	–	–	(3 0)
Profit/(loss) for the year	42 8	5 1	1 8	(45 8)	3 9
Balance Sheet information					
Total assets	138 4	26 4	–	–	164 8
Total liabilities	(60 2)	(11 9)	–	–	(72 1)
Expenditure incurred to acquire property, plant and equipment and intangible assets	21 7	2 0	–	–	23 7

	2010				
	Sports betting £m	Casino gaming £m	Poker rake £m	Other operating revenue £m	Total £m
Amounts wagered	1,920 2	48 2	21 7	–	1,990 1
Promotional bonuses	(11 2)	(3 3)	(4 3)	–	(18 8)
Net amounts wagered	1,909 0	44 9	17 4	–	1,971 3
Revenue	156 4	48 2	21 7	–	226 3
Promotional bonuses	(11 2)	(3 3)	(4 3)	–	(18 8)
Total revenue	145 2	44 9	17 4	–	207 5

Notes to the Financial Statements

4. Exceptional items

	Notes	2011 £m	2010 £m
Department of Justice settlement	(a)	–	22 8
Centrebet acquisition costs	(b)	**6 4**	–
Costs associated with the possible disposal of the Turkish language website	(c)	**4 4**	–
Move to the main market	(d)	–	1 7
		10 8	24 5

(a) The agreed settlement payment to the United States Department of Justice in respect of the US-facing element of the Group's business operating prior to the implementation of the Unlawful Internet Gambling Enforcement Act ("UIGEA") In return, the US Federal Government will not seek to prosecute the Group with regard to its former actions in the US

(b) The costs related to the fees incurred in relation of the acquisition of Centrebet International Limited ("Centrebet"), which completed after the balance sheet date (Note 23)

(c) Legal and professional fees relating to the strategic review of the Turkish language website

(d) The costs related to transferring the listing of the Group's entire issued share capital from AIM to a premium listing on the Official List of the UK Listing Authority ("Official List")

5. Profit before taxation

	2011 £m	2010 £m
Net foreign exchange losses	–	(1 9)
Depreciation of property, plant and equipment	**5 2**	5 4
Amortisation of software	**8 1**	5 7
Auditors' remuneration		
Audit services	**0 1**	0 1
Audit of subsidiaries pursuant to legislation	**0 3**	0 3
Tax services	–	0 1
Transaction support services	**0 8**	0 4

6. Share option charge

	2011 £m	2010 £m
Share option charge	**1 2**	1 1
Social security costs on share options	–	0 9
	1 2	2 0

7. Staff costs

	2011 No	2010 No
The average monthly number of employees (including Executive Directors) was.		
Europe	**517**	468
Australia	**113**	103
	630	571

	2011 £m	2010 £m
Employee costs (including Executive Directors) were as follows.		
Wages and salaries	**33 1**	35 7
Social security costs	**3 3**	3 8
Pension costs	**2 2**	1 5
	38 6	41 0

The following table sets out Directors' remuneration There are no key management personnel other than the Group's Directors

	2011 £m	2010 £m
Directors' remuneration		
Salary and fees	**1 3**	1 4
Bonuses	**–**	1 1
Share-based payments	**0 4**	2 8
Total emoluments	**1 7**	5 3
Pension contributions	**0 1**	0 1
	1 8	5 4

Further disclosures on the remuneration of each individual Director are given in the Remuneration Report on pages 39 to 44

8. Net finance income/(costs)

	2011 £m	2010 £m
Bank loans and overdrafts	**(0.9)**	(0 5)
Finance lease interest	**(0 2)**	(0 1)
	(1 1)	(0 6)
Interest receivable	**0 5**	0 4
	(0 6)	(0 2)

Notes to the Financial Statements

9. Taxation

The tax charge for the year is higher than the standard UK rate of corporation tax as explained below

	2011 £m	2010 £m
Note 9(a) Analysis of charge in the period		
Current tax		
UK corporation tax on losses of the period	**–**	–
Overseas taxation	**2 9**	3 0
Adjustments to overseas taxation in respect of previous periods	**(1 0)**	0 6
Total current tax	**1 9**	3 6
Deferred tax		
Current year movement to deferred tax	**1 2**	(0 6)
Total deferred tax (Note 9(c))	**1 2**	(0 6)
Tax on profit on ordinary activities (Note 9(b))	**3 1**	3 0
Note 9(b) Factors affecting the tax charge for the period		
Profit on ordinary activities before tax	**23 8**	6 9
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK 27% (2010 28%)	**6 5**	1 9
Effects of		
Expenses not deductible for tax purposes	**2 1**	10 4
Effect of lower tax rates on overseas earnings	**(8 7)**	(10 6)
Difference between fixed assets and capital allowances	**0 2**	–
Tax losses arising in year	**3 1**	3 3
Other timing differences	**(0 3)**	(1 4)
Adjustments to tax charge in respect of previous periods	**(1 0)**	(0 6)
Tax charge for the period (Note 9(a))	**1 9**	3 0
Note 9(c) Provision for deferred tax (deferred tax asset)		
Other timing differences	**–**	(0 6)
Provision for deferred tax at 27% (2010 28%)	**–**	(0 6)
As at the beginning of the year	**(2.0)**	(1 4)
Current year movement	**1.2**	(0 6)
As at the end of the year (deferred tax asset)	**(0 8)**	(2 0)

UK deferred tax assets in respect of accelerated capital allowances of £nil, trading losses of £23 6m and non-trading loan relationship deficits of £2 8m have not been recognised on the basis that it is not probable that there will be sufficient taxable profit in future years against which the assets can be recovered

A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011 On 5 July 2011 a further cut in the main UK corporation tax rate from 26% to 25% was substantively enacted, with the reduction to take effect on 1 April 2012 The deferred tax balance has therefore been recognised at 25%

In addition to the change in rate of corporation tax disclosed above, further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 None of these expected rate reductions had been substantively enacted at the Balance Sheet date and, therefore, are not included in these Financial Statements

10. Earnings per share

	2011 Total	2010 Total
Profit per ordinary share		
Basic	**3 9p**	0 8p
Diluted	**3 9p**	0 7p
Adjusted earnings per ordinary share (before exceptional items, share option charge and amortisation)		
Basic	**6 6p**	6 5p
Diluted	**6 3p**	6 2p

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation attributable to shareholders of Sportingbet Plc and the weighted average number of shares in issue during the year

The Group has adjusted its earnings per ordinary share to exclude exceptional items, share option charge and amortisation

	2011 £m	2010 £m
Basic earnings	**20 7**	3 9
Exceptional items	**10 8**	24 5
Share option charge	**1 2**	2 0
Amortisation	**1 7**	1 8
Adjusted earnings	**34 4**	32 2

After taking into account the dilutive effects of convertible bonds, the diluted earnings are £21 7m (2010 £3 9m) and the adjusted diluted earnings are £35 4m (2010 £32 2m)

During the year the Group had the following weighted average number of shares in issue and potentially dilutive shares

	2011 No	2010 No
Weighted average number of shares in issue	**524,559,273**	496,107,615
Employee share schemes	**16,360,174**	19,181,226
Convertible loan notes	**18,373,559**	–
Fully diluted number of weighted average number of shares in issue	**559,293,006**	515,288,841

As at 31 July 2011 the Group had the following shares in issue and potentially dilutive shares

	2011 No	2010 No
Number of shares in issue	**660,543,128**	502,038,144
Employee share schemes	**16,360,174**	19,181,226
Convertible loan notes	**128,968,253**	–
Fully diluted number of shares in issue	**805,871,555**	521,219,370

Notes to the Financial Statements

11. Goodwill

	£m
Cost	
As at 1 August 2009	242 8
Exchange movements	0 4
As at 1 August 2010	243 2
Exchange movements	0 4
As at 31 July 2011	**243 6**
Impairment losses	
As at 1 August 2009	201 6
Exchange movements	0 1
As at 1 August 2010	201 7
Exchange movements	0 1
As at 31 July 2011	**201 8**
Net book value	
As at 31 July 2011	**41.8**
As at 31 July 2010	41 5

Movements arose as a result of changes in the underlying value of the amount payable to satisfy the contingent consideration

Subsequent to the annual impairment test for 2011, the carrying amount of goodwill is allocated to the following cash-generating units

	2011 £m	2010 £m
Europe	**17.8**	17 8
Australia	**24 0**	23 7
	41 8	41 5

The recoverable amounts for the cash-generating units above are determined based on internal discounted cash flow evaluation The cash flow evaluation is based on actual operating results and five year forecasts at the growth rates stated in the key assumptions

Management consider the key assumptions to be the selection of growth and discount rates

Discount rates for the goodwill impairment review are based on Company specific pre-tax weighted average cost of capital percentages and range from 10% to 15%, based on management's assessment of comparable companies in the sector The future cash flows are modelled based on budgeted projections and cash flows beyond the budget period are extrapolated using a growth rate of 1% The growth rate applied is based on past experience Future cash flows are projected assuming no changes to the current regulatory environment

Determining whether goodwill is impaired requires an estimation of the value in use of each Cash-Generating Unit based on the key assumptions above A change of 2% in either of the key assumptions would not result in the impairment of goodwill

12 Other intangible assets

	Software £m	Other £m	Total £m
Cost			
As at 1 August 2009	23 4	13 9	37 3
Additions	13 3	–	13 3
Disposals	(0 7)	–	(0 7)
Exchange movements	–	0 1	0 1
As at 1 August 2010	36 0	14 0	50 0
Additions	20 9	–	20 9
Disposals	–	–	–
Exchange movements	0 3	–	0 3
As at 31 July 2011	**57 2**	**14 0**	**71 2**
Amortisation and impairment losses			
As at 1 August 2009	13 8	7 6	21 4
Charge for the year	5 7	1 8	7 5
Disposals	(0 6)	–	(0 6)
Exchange movements	(0 2)	0 1	(0 1)
As at 1 August 2010	18 7	9 5	28 2
Charge for the year	8 1	1 7	9 8
Disposals	–	–	–
Exchange movements	–	–	–
As at 31 July 2011	**26 8**	**11 2**	**38 0**
Net book value			
As at 31 July 2011	**30 4**	**2 8**	**33.2**
As at 31 July 2010	17 3	4 5	21 8

The £14 0m of other intangible costs includes £5 3m capitalisation of the Superbahis URL and contract, and £8 7m relating to the Belmond International Limited marketing contract

Amortisation of software is charged to administrative expenses in the Statement of Comprehensive Income Other amortisation and impairment losses are charged to other amortisation within other administrative expenses

FINANCIALS

Notes to the Financial Statements

13. Property, plant and equipment

	Fixtures fittings and equipment £m	Motor vehicles £m	Computer equipment £m	Freehold land and buildings £m	Total £m
Cost					
As at 1 August 2009	6 0	0 1	15 4	12 7	34 2
Additions	1 4	0 1	7 5	1 4	10 4
Disposals	(0 2)	–	(0 7)	–	(0 9)
Exchange movements	0 1	–	0 2	–	0 3
As at 1 August 2010	7 3	0 2	22 4	14 1	44 0
Additions	0 7	–	3 4	–	4 1
Disposals	(1 5)	–	–	1 2	(0 3)
Exchange movements	–	–	0 5	–	0 5
As at 31 July 2011	**6 5**	**0 2**	**26 3**	**15 3**	**48 3**
Depreciation					
As at 1 August 2009	3 0	0 1	8 5	0 7	12 3
Charge for the year	1 1	–	3 9	0 4	5 4
Disposals	(0 2)	–	(0 6)	–	(0 8)
Exchange adjustments	–	–	–	–	–
As at 1 August 2010	3 9	0 1	11 8	1 1	16 9
Charge for the year	0 9	–	3 9	0 4	5 2
Disposals	(0 1)	–	–	0 1	–
Exchange adjustments	–	–	–	–	–
As at 31 July 2011	**4 7**	**0 1**	**15 7**	**1 6**	**22 1**
Net book value					
As at 31 July 2011	**1 8**	**0 1**	**10 6**	**13 7**	**26 2**
As at 31 July 2010	3 4	0 1	10 6	13 0	27 1

The net book value of assets held under finance leases amounts to £2 9m (2010 £1 9m)

14. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**12 8**	9 0
Provision for impairment of trade receivables	**(4 2)**	(4 9)
Trade receivables, net	**8 6**	4 1
Other receivables	**2 3**	3 2
Prepayments and accrued income	**5 4**	5 3
	16 3	12 6

Other receivables includes £0 8m of called up share capital net paid All called up share capital was fully paid in August 2011

Trade receivables that are less than 30 days past due are not considered impaired As of 31 July 2011, trade receivables of £8 6m (2010 £4 1m) were past due but not impaired These related to a number of independent customers for whom there is no recent history of default

The ageing analysis of these trade receivables is as follows

	2011 £m	2010 £m
Up to 2 months past due	**4 8**	3 6
2 to 6 months past due	**2 4**	0 1
Over 6 months past due	**1 4**	0 4
	8 6	4 1

The carrying amounts of the Group's trade receivables are denominated entirely in Australian dollars

Movements on the Group provision for impairment of trade receivables are as follows

	2011 £m	2010 £m
As at 1 August	**4 9**	2 4
Provision for receivables impairment	**0 1**	3 2
Receivables written off during the year as uncollectable	**(0 8)**	(0 7)
As at 31 July	**4 2**	4 9

The creation and release of provisions for impaired receivables have been included in 'administrative expenses' in the Statement of Comprehensive Income Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash

The other classes within trade and other receivables do not contain impaired assets

Trade receivables are usually due within 30 days and do not bear any effective interest rate All trade receivables are subject to credit risk exposure, however the Group does not identify specific concentration of credit risk with regards to trade receivables, as the amount recognised consists of a large number of receivables from various customers

The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value

Notes to the Financial Statements

15. Cash and cash equivalents

	2011 £m	2010 £m
Cash	**98 8**	42 3
Short-term cash deposits	**15 0**	16 5
Restricted cash	**66 4**	0 1
	180 2	58 9

Restricted cash includes £62 0m (2010 £nil) of cash held in escrow in respect of the acquisition of Centrebet, which was completed after the Balance Sheet date and described in Note 23 The remaining £4 4m (2010 £0 1m) is held in designated accounts which have certain restrictions

Short-term cash deposits consist of balances held by payment service providers

16. Trade and other payables

a) Amounts falling due within one year

	2011 £m	2010 £m
Bank loans	**4 0**	4 0
Finance leases	**2 0**	1 3
Trade payables	**11 0**	6 8
Other payables	**0 1**	3 8
Customer liabilities	**20 9**	16 2
Tax and social security	**2 0**	1 5
Accruals and deferred income	**24 6**	24 1
Derivatives	**0 2**	–
Open bets	**1 8**	2 0
	66 6	59 7

Included within accruals and deferred income is £11 6m (2010 £22 8m) outstanding in respect of the agreed Department of Justice settlement as referred to in Note 4 The final settlement date is 31 March 2012

Although repayable on demand, the Group has a bank loan of £4 0m which is available up to July 2012 The Directors do not anticipate early repayment The loan is secured by a floating charge over the assets of the Group, and bears an interest rate of 1 5% above LIBOR

The open bets at the year end are within the scope of IAS 39 as derivative contracts These bets are held at fair value with gains and losses recognised in revenue Management's assessments of the exposure to significant changes in the fair value of open bets is assessed as negligible due to the short-term exposures to such liabilities and the minimal movement on average betting odds between the date of bet placing and period end

16. Trade and other payables continued

b) Amounts falling due after more than one year

	2011 No	2010 No
Accruals and deferred income	–	11 6
Finance leases	**1 1**	1 2
Convertible bonds due 2016	**52 7**	–
	53 8	12 8

On 8 June 2011, the Group issued £65 0m of 7% fixed rate convertible bonds, raising cash of £62 0m net of issue costs The equity portion of the convertible bond issue is included within reserves

These bonds are convertible into ordinary shares of the Company at a conversion price of £0 504 on 8 June 2016 unless otherwise redeemed

Interest is payable semi annually in arrears

Interest on the debt proportion, after the deduction of issue costs of £2 5m, will be charged to the Statement of Comprehensive Income using an effective rate of 12 63%

17. Leases

a) Obligations under finance leases

	2011 £m	2010 £m
Minimum lease payments		
Within 1 year	**2 2**	1 2
Within 2-5 years	**1 0**	1 3
	3 2	2 5
Future finance charges	**(0 1)**	–
Present value of lease obligations	**3 1**	2 5

	2011 £m	2010 £m
Present value of minimum lease payments		
Within 1 year	**2 0**	1 2
Within 2-5 years	**1 1**	1 3
	3.1	2 5
Accounts due for settlement within 1 year	**2 0**	1 2
Accounts due for settlement after more than 1 year	**1.1**	1 3
	3 1	2 5

The Group has entered into three separate lease arrangements for the purchase of computer hardware and other associated assets, each commencing on September 2009, August 2010 and December 2010 The lease terms for all these arrangements were three years As at 31 July 2011, the average life outstanding on each lease was one year and two months for the lease commencing in September 2009, two years and one month for the lease commencing in August 2010, and two years and five months for the lease commencing in December 2010 The average effective borrowing rate for the above leases were 5 1%, 4 8% and 2 8% respectively The Group's obligations under these finance leases are secured by the lessor's charges over the leased assets themselves as well as fixed and floating charges over the current assets of Sportingbet Plc and three of the Group's subsidiaries

Notes to the Financial Statements

17. Leases continued

b) Commitments under operating leases

The minimum lease payments under operating leases in respect of land and buildings that have been recognised as an expense for the period

	2011 £m	2010 £m
Minimum lease payments	**2 0**	1 8

The Group had outstanding commitments from the future minimum lease payments in respect of land and buildings

	2011 £m	2010 £m
Within 1 year	**1 9**	1 3
Within 2-5 years inclusive	**3 7**	2 7
In more than 5 years	**2 1**	2 8
	7 7	6 8

Operating lease payments represent payable by the Group for office property costs

18. Financial instruments

The Group uses financial instruments, comprising cash and cash equivalents, short-term borrowings and trade receivables, which arise directly from its operations

Short-term receivables

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk

Derivative instruments

The Group takes out forward currency contracts in euro and Australian dollars Hedge accounting is applied to certain derivative instruments as set out below

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank facilities Interest on the convertible bond is at a fixed coupon rate of 7% Bank borrowings are made using variable interest rates The interest rate risk on the Group's £4 0m bank loan is not considered to be significant

Liquidity risk

The Group seeks to manage liquidity risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

Sufficient cash reserves are held to maintain short-term flexibility, together with short-term borrowings

The following table details the contractual maturity analysis of the Group's financial liabilities

	31 July 2011			
	1 year or less £m	2–5 years £m	5 years and over £m	Total £m
Financial liabilities				
Trade payables	**13 1**	–	–	**13.1**
Customer liabilities	**20.9**	–	–	**20 9**
Bank loans	**4 0**	–	–	**4 0**
Convertible bond	**4 6**	**83 2**	–	**87 8**
Finance leases	**2 0**	**1 1**	–	**3 1**
Sports betting open positions	**1 8**	–	–	**1 8**
Total	**46 4**	**84 3**	–	**130 7**

18 Financial instruments continued

Customer liabilities represent cash held by the Group on behalf of customers net of an allowance for uncollected balances In the event that the level of balanced reclaimed exceeds management's expectation, the gross cash outflow could be higher

The maturity analysis in respect of sports betting open positions reflects the fair value of the liability position at the Balance Sheet date In the event that the outcome of bets adversely affected the business, the gross cash outflow could be higher

	31 July 2010			
	1 year or less £m	2–5 years £m	5 years and over £m	Total £m
Financial liabilities				
Trade payables	12 1	–	–	12 1
Customer liabilities	16 2	–	–	16 2
Bank loans	4 0	–	–	4 0
Finance leases	1 2	1 3	–	2 5
Sports betting open positions	2 0	–	–	2 0
Total	35 5	1 3	–	36 8

Credit risk

As explained in the Financial Review, the Group recharges its credit risk, arising from credit facilities allowed to certain customers in the Australian region, by making appropriate credit checks before bets are placed and setting credit limits based on this information

Currency risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates, a significant proportion of its income is derived from foreign currencies whilst the majority of its costs are in sterling

The Group maintained its proactive position and continued to hedge foreign currency sales with forward contracts for up to one year, purchasing currencies to cover the first 80% of its exposure on quarter ahead, 80% two quarters ahead, 70% three quarters ahead and 60% four quarters ahead This policy is approved by the Board and the Board receives updates on a regular basis in respect of the hedging position

The Group's derivative transactions comprise currency forward contracts During the year the Group entered into a number of forward contracts over highly probably forecast euro sales

Amounts initially taken to other comprehensive income under designated cash flow hedges totalled a loss of £0 4m (2010 £0 3m gain) of which a £1 2m gain (2010 £0 3m loss) has been reclassified to the Statement of Comprehensive Income on the completion of designated hedge relationships Remaining hedges continue to be highly effective

The tables below show the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency

	Net foreign currency monetary assets					
	Euro £m	US dollars £m	Australian dollars £m	Brazilian real £m	Other currencies £m	Total £m
2011						
Sterling	**15 8**	**5 1**	**2 5**	**2.2**	**3 7**	**29 3**
	15 8	**5 1**	**2 5**	**2 2**	**3 7**	**29 3**
2010						
Sterling	16 2	11 9	0 2	3 3	4 6	36 2
	16 2	11 9	0 2	3 3	4 6	36 2

Notes to the Financial Statements

18 Financial instruments continued

Carrying values

The carrying amounts of the Group's financial instruments are set out below As these financial instruments are not publicly traded, the fair values presented are determined by calculating present values of the cash flows anticipated until maturity of these financial assets

	Assets at fair value through the Statement of Comprehensive Income		Loans and receivables	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Financial assets as per Balance Sheet				
Trade and other receivables	–	–	**10 9**	7 3
Cash and cash equivalents	–	–	**180 2**	58 9
Derivatives	–	1 3	–	–
	–	1 3	**191 1**	66 2

	Assets at fair value through the Statement of Comprehensive Income		Financial liabilities at amortised cost	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Financial liabilities as per Balance Sheet				
Trade and other payables	**1 8**	2 0	**32 0**	26 8
Interest bearing loans and borrowings	–	–	**56 7**	4 0
Derivatives	**0 2**	–	–	–
	2 0	2 0	**88 7**	30 8

Foreign currency sensitivity

Sportingbet Plc is exposed to market risk through its use of financial instruments and specifically to currency risk

Exposures to currency exchange rates arise from the Group's retranslation of its foreign subsidiaries as well as the Group's overseas sales and purchases, which are primarily denominated in euros and Turkish lira

The following table illustrates the sensitivity for the net result for the year and equity with regard to the Group's financial assets and financial liabilities and the euro/sterling exchange rate and Turkish lira/sterling rate It assumes a +/– 0 5% movement in the sterling/euro exchange rate for the year ended 31 July 2011 (2010 0 2%) and a +/– 1 0% movement for the sterling/Turkish lira exchange rate (2010 0 5%)

These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months

If sterling has strengthened against the euro and Turkish lira by 0 5% (2010 0 2%) and 1 0% (2010 0 5%) respectively then this would have had the following impact

	2011			2010		
	Euro £m	**Turkish lira £m**	**Total £m**	Euro £m	Turkish lira £m	Total £m
Net profit	**(0 1)**	**(0 2)**	**(0 3)**	(0 1)	(0 1)	(0 2)
Equity	**(0 1)**	**(0 2)**	**(0 3)**	(0 1)	(0 1)	(0 2)

18. Financial instruments continued

If sterling had weakened against the euro and Turkish lira by 0 5% (2010 0 2%) and 1 0% (2010 0 5%) respectively then this would have had the following impact

	2011			2010		
	Euro £m	**Turkish lira £m**	**Total £m**	Euro £m	Turkish lira £m	Total £m
Net profit	**0 1**	**0 2**	**0 3**	0 1	0 1	0 2
Equity	**0 1**	**0 2**	**0 3**	0 1	0 1	0 2

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk

Capital management

In common with many internet companies that have few physical assets, the Group has no policy as to the level of equity capital and reserves other than to address statutory requirements Following the issue of £65m of convertible bonds in June 2011, the primary capital risk to the Group is the level of indebtedness The convertible bond includes a financial covenant, which limits the Group's indebtedness (excluding the bonds themselves) to £35m without the prior approval of an Extraordinary Resolution of Bondholders As at 31 July 2011, the Group had £4 0m (2010 £4 0m) of bank loans which are secured on the Group's land and buildings

Details of the Group's dividend policy are disclosed on page 57 of this Annual Report

19. Share capital

	2011 £000	2010 £000
Authorised		
1,000m (2010 1,000m) ordinary shares of 0 1p each	**1,000**	1,000
Allotted, issued and fully paid		
As at 31 July 2010 502,038,144 shares of 0 1p each	**502**	484
Issues of ordinary shares 154,761,904 shares	**155**	–
Other share issues in respect of exercised share options 3,743,080 shares	**4**	18
As at 31 July 2011 660,543,128 shares of 0 1p each	**661**	502

At 31 July 2011 the following share options were outstanding in respect of ordinary shares

Date of grant	Ordinary shares of 0 1p	Period of option	Exercise price (p)
December 2003	1,115,000	December 2006–December 2010	39 5
January 2004	539,375	January 2007–January 2011	49
February 2004	100,000	February 2007–January 2011	39 5
May 2004	50,000	May 2007–May 2011	94
October 2004	100,000	October 2007–October 2011	97 5
November 2004	95,000	November 2007–November 2014	131
August 2005	22,250	July 2007–July 2008	–
June 2008	902,484	November 2009–November 2011	–
January 2009	11,164,161	November 2010–November 2012	–
August 2009	703,334	November 2010–November 2012	–
August 2010	455,736	July 2011–July 2013	–
November 2010	671,538	July 2011–July 2014	–
January 2011	145,000	July 2011–July 2012	–

As at 31 July 2011 there were 16,063,878 options or awards over ordinary shares outstanding, 2,429,860 of which relate to Directors, details of which can be found in the Remuneration Report on pages 39 to 44

Of the share options detailed above 784,375 relate to the Executive Scheme, 1,215,000 relate to the Unapproved Scheme, 22,250 relate to the 2005 plan, 902,484 relate to the 2006 Share Plan, and 13,139,769 relate to the 2009 Restricted Share Plan

Notes to the Financial Statements

20. Share-based payments

The Company operates five equity-settled share-based remuneration schemes for employees across the Group, as listed in Note 19 All employees are eligible to participate in these schemes, the vesting conditions being that the individual still remains in employment at the date of the release of the option and in respect of the 2005 and 2006 share plans satisfy certain performance criteria The terms of these schemes are discussed in more detail in the Remuneration Report on pages 39 to 44

	2011		2010	
	Weighted average exercise price (p)	No	Weighted average exercise price (p)	No
Outstanding at the beginning of the year	**2 3**	**19,181,226**	2 5	39,630,748
Granted during the year	**–**	**1,489,665**	–	703,334
Forfeited during the year	**–**	**–**	–	(250,000)
Exercised during the year	**–**	**(3,997,878)**	2 1	(18,158,451)
Lapsed during the year	**–**	**(609,135)**	6 7	(2,744,405)
Outstanding at the end of the year	**2 7**	**16,063,878**	2 3	19,181,266
Exercisable at the end of the year	**50 1**	**2,021,625**	50 1	2,021,625

The exercise price of options outstanding at the end of the year ranged between 0p and 131p (2010 0p and 131p) and their weighted average contractual life was 406 days (2010 675 days)

Of the total number of options outstanding at the end of the year, 2,021,625 had vested and were exercisable (2010 2,021,625)

The weighted average share price (at the date of exercise) of options exercised during the year was 60 8p (2010 74 4p)

The weighted average fair value of each option granted during the year was 58 1p (2010 56 3p)

The following information is relevant in the determination of the fair value of options granted during the year under the equity and cash-settled share-based remuneration schemes operated by Sportingbet Plc

	2011	2010
Equity-settled		
Options pricing model used	**Black–Scholes**	Black–Scholes
Weighted average share price at grant date (p)	**61 70p**	59 75p
Exercise price (p)	**nil**	nil
Weighted average contractual life (days)	**724**	830
Equity-settled		
Expected volatility	**50%**	50%
Expected dividend growth rate	**2%**	2%
Risk-free interest rate	**5%**	5%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years

	2011 £m	2010 £m
The share-based remuneration expense comprises		
Equity-settled schemes	**1.2**	1 1

21 Contingencies

(a) From time to time the Group is subject to legal claims and actions The Group takes legal advice as to the likelihood of success of the claims and actions and no provision or disclosure is made where the Directors feel, based on that advice, that action is unlikely to result in a material loss

As part of the ongoing operational risk assessment process adopted by the Group, there is continued monitoring of the legal and regulatory developments and their potential impact on the business Appropriate advice continues to be taken in respect of these developments

There is uncertainty as to what actions, if any, may occur from the Group's regulatory history, and any impact such action may have on the Group However, the Board does not consider it likely that a material liability or a material impairment in the carrying value of assets will arise as a result of any potential action

(b) The Group has been paying taxes in the form of product fees to various states of Australia to the three racing codes The Group's management believes the legal bases of these taxes is flawed and have been making payments under protest The Group has paid A$13m to the state of New South Wales this financial year, which may be recoverable if legal action is successful

22. Related parties

Transaction with Non-Executive Directors

Nigel Payne (Non-Executive Director) provided financial consultancy services to the Group amounting to £45,000 (2010 £20,000) via Merlin Financial Advisors LLP

Sean O'Connor (Non-Executive Director) provided marketing consultancy services to the Group amounting to £60,240 (2010 £19,800) via The Sean O'Connor Consultancy Limited

Transaction with key management personnel

The Group makes contributions into an Employee Benefit Trust ("EBT") as part of a cash-based long-term incentive plan for certain key employees Two Directors are beneficiaries of the EBT into which contributions of £0 5m was made in 2011 (2010 £0 4m)

23. Post Balance Sheet event

On 26 May 2011, the Group announced a recommended proposal to acquire the entire issued and to be issued share capital of Centrebet International Limited ("Centrebet") effected by way of two schemes of arrangement under Australian law (the "Schemes")

Following the approval of the Schemes by Centrebet Shareholders and Performance Rightholders on 17 August 2011 and by the Federal Court of Australia on 22 August 2011, the Schemes were implemented on 31 August 2011 and Centrebet became a wholly-owned subsidiary of Sbet Australia Pty Limited

In addition, Centrebet Ordinary Shares were suspended from quotation on the Australian Securities Exchange on 23 August 2011 and an application to remove Centrebet from the official list of the Australian Securities Exchange was made on 31 August 2011

The total fair value of the purchase consideration was £118 0m, comprising of 154,761,904 new Sportingbet ordinary shares at 42p raising gross proceeds of £65 0m and an issue of £65 0m of 7% fixed rate convertible bonds due 2016, which raised a further £65 0m, gross of issue costs

The initial accounting for the business combination has not been finalised hence an estimate of the financial effect of the transaction cannot yet be made

Parent Company Independent Auditor's Report

Independent auditor's report to the members of Sportingbet Plc

We have audited the Parent Company Financial Statements of Sportingbet Plc for the year ended 31 July 2011 which comprise the Parent Company Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Parent Company Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion the Parent Company Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 July 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Parent Company Financial Statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter
We have reported separately on the Group Financial Statements of Sportingbet Plc for the year ended 31 July 2011

Paul Etherington BSc FCA CF
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

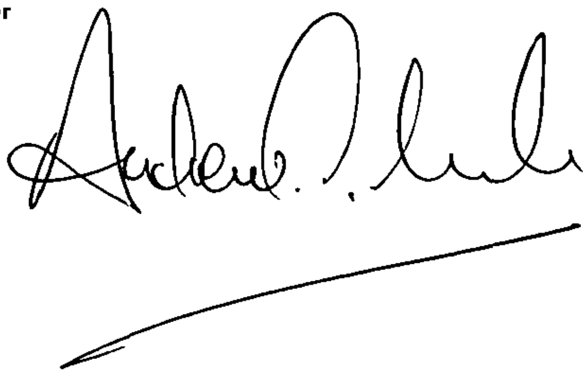
4 October 2011

Parent Company Balance Sheet
As at 31 July 2011

	Notes	31 July 2011 £m	31 July 2010 £m
Fixed assets			
Investments	4	**89 1**	88 3
		89 1	88 3
Current assets			
Debtors	5	**111 4**	79 3
Cash at bank and in hand	6	**62 1**	–
		173 5	79 3
Creditors – amounts falling due within one year	7	**(19 0)**	(16 9)
Net current assets		**154 5**	62 4
Creditors – amounts falling due after more than one year	7	**(52 7)**	(11 6)
Net assets		**190 9**	139 1
Shareholders' funds			
Issued share capital	8	**0 7**	0 5
Share premium	9	**58 9**	58 8
Reserves	9	**131 3**	79 8
Equity shareholders' funds		**190 9**	139 1

The Notes on pages 80 to 84 form part of these Financial Statements These Financial Statements were approved by the Board and authorised for issue on 4 October 2011

A McIver
Director



Notes to the Parent Company Financial Statements

1. Parent Company accounting policies

The Financial Statements for the Company have been prepared in accordance with UK law and applicable UK GAAP accounting standards

The principal accounting policies are summarised below They have been applied consistently throughout the financial year and the preceding year

The following principal accounting policies have been applied

Exemptions

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss for the Company alone

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment

Leased assets

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet

Share-based employee remuneration

Where shares options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period

Where share options are granted to employees of subsidiary undertakings, the fair value of the options is added to the cost of investment in these subsidiary undertakings over the vesting period

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest Market vesting conditions are factored into the fair value of the options granted As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied The cumulative expense is not adjusted for failure to achieve a market vesting condition

Where the terms of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit and loss account over the remaining vesting period

Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instruments legal form

1. Parent Company accounting policies continued

Convertible bonds

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not remeasured The liability component is carried at amortised cost

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue The portion relating to the equity component is charged directly against equity

The finance cost on the liability component is calculated by applying the prevailing market interest rate, at the time of issue, for similar non-convertible debt to the liability component of the instrument The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds

2. Loss after tax

Company loss after tax for the year amounted to £13 0m Audit fees for the Company were borne by other members of the Group and are disclosed in the notes to the consolidated Financial Statements

3 Staff costs

	2011 £m	2010 £m
Employee costs including Directors were as follows		
Wages and salaries	**2 8**	3 2
Social security costs	**0 4**	0 4
Pension costs	**0 2**	0 2
	3 4	3 8

During the year 14 employees were employed by the Company (2010 14)

There were 2 (2010 2) Directors in the Company's defined contribution pension scheme Further disclosures on the remuneration of each individual Director are given in the Remuneration Report on pages 39 to 44

4. Investments

	Shares in subsidiary undertakings £m
Investment in subsidiary undertakings	
As at 1 August 2010	88 3
Acquisitions	–
Options issued to employees of subsidiary undertakings	0 8
As at 31 July 2011	**89 1**

The Company made no acquisitions in respect of subsidiary undertakings during the year (2010 £41 3m)

Notes to the Parent Company Financial Statements

4. Investments continued

The following principal subsidiaries were wholly owned at 31 July 2011

	Activity	Country of incorporation or registration
Interactive Sports (CI) Limited	Online betting	Alderney
Interactive Sports Limited	Online betting	England
Sportingbet Australia Pty Limited	Online and telephone betting	Australia
Sbet Australia Pty Limited	Australia holding company	Australia
Internet Opportunity Entertainment (Sports) Limited	Online betting	Antigua and Barbuda
Sporting Odds Limited	Online betting	England
MLB Limited	Contract call centre	Ireland
Anfield Group Limited	Investment holding company	B V I
Sb Properties (Guernsey) Limited	Investment property holding company	Guernsey
Sportingbet (Management Services) Limited	Administrative services	England
Sportingbet (IT Services) Limited	Software development and IT related services	England
Sportingbet (Product Services) Limited	Market research, project management and web design services	England
Sportingbet Holdings Limited	Group holding company	England
Spread Your Wings Limited	Online betting	Malta
SBT Software Operations (SA) (PTY) Limited	Online betting	South Africa

For all undertakings listed previously, the country of incorporation is the same as the country of operation Sportingbet Holdings Limited, Spread Your Wings Limited and SBT Software Operations (SA) (PTY) Limited are wholly owned subsidiaries of Sportingbet Plc All other companies listed above are wholly owned subsidiaries of Sportingbet Holdings Limited

5 Debtors

	2011 £m	2010 £m
Other debtors	**1 1**	0 7
Prepayments and accrued income	**0 9**	1 4
Owed by subsidiary undertakings	**109.4**	77 2
	111 4	79 3

The Company has agreed to provide its subsidiary undertakings with such financial support as is necessary to enable the subsidiaries to continue to trade and meet their obligations to third party creditors as and when they fall due

6. Cash at bank and in hand

	2011 £m	2010 £m
Cash	**62 1**	–
	62 1	–

7. Creditors

a Amounts falling due within one year

	2011 £m	2010 £m
Bank loans	**4.0**	4 0
Accruals and deferred income	**15 0**	12 5
Due to subsidiary undertakings	–	0 4
	19 0	16 9

b Amounts falling due after more than one year

	2011 £m	2010 £m
Accruals and deferred income	–	11 6
Convertible bonds due 2016	**52 7**	–
	52 7	11 6

Further description of the convertible bonds are given in Note 16 of the Group Financial Statements

8. Share capital

	2011 £000	2010 £000
Authorised		
1,000m (2010 1,000m) ordinary shares of 0 1p each	**1,000**	1,000
Allotted, issued and fully paid		
As at 31 July 2010 502,038,144 shares of 0 1p each	**502**	484
Issues of ordinary shares 154,761,904 shares	**155**	–
Issues in respect of exercised share options 3,743,080 shares	**4**	18
As at 31 July 2011 660,543,128 shares of 0 1p each	**661**	502

As at 31 July 2011 the following share options were outstanding in respect of ordinary shares

Date of grant	Ordinary shares of 0 1p	Period of option	Exercise price (p)
December 2003	1,115,000	December 2006–December 2010	39 5
January 2004	539,375	January 2007–January 2011	49
February 2004	100,000	February 2007–January 2011	39 5
May 2004	50,000	May 2007–May 2011	94
October 2004	100,000	October 2007–October 2011	97 5
November 2004	95,000	November 2007–November 2014	131
August 2005	22,250	July 2007–July 2008	–
June 2008	902,484	November 2009–November 2011	–
January 2009	11,164,161	November 2010–November 2012	–
August 2009	703,334	November 2010–November 2012	–
August 2010	455,736	July 2011–July 2013	–
November 2010	671,538	July 2011–July 2014	–
January 2011	145,000	July 2011–July 2012	–

Notes to the Parent Company Financial Statements

8. Share capital continued

As at 31 July 2011 there were 16,063,878 options or awards over ordinary shares outstanding, 2,429,860 of which relate to Directors, details of which can be found in the Remuneration Report on pages 39 to 44

Of the share options detailed above 784,375 relate to the Executive Scheme, 1,215,000 relate to the Unapproved Scheme, 22,250 relate to the 2005 plan, 902,484 relate to the 2006 Share Plan, and 13,139,769 relate to the 2009 Restricted Share Plan

Further descriptions of the Group's share-based payment plans are given in Note 20 of the Group Financial Statements

9. Reserves

	Share premium account £m	Other reserves £m	Equity portion of convertible bond £m	Profit and loss account £m
As at 1 August 2010	58 8	–	–	79 8
Employee share options	0 1	–	–	(0 7)
Convertible loan notes	–	62 3	–	–
Equity portion of convertible bond	–	–	10 3	–
Share option charge	–	–	–	1 2
Dividends	–	–	–	(8 6)
Profit for the year	–	–	–	(13 0)
As at 31 July 2011	**58 9**	**62 3**	**10 3**	**58 7**

The movement in Company shareholders' funds of £51 6m (2010 £72 3m) is wholly represented by the movements shown in reserves and share capital in Notes 8 and 9

10 Related parties

The Company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related Party Disclosures" from the requirement to disclose transactions with Group companies on the grounds that all companies are wholly owned

Transaction with Non-Executive Directors

Nigel Payne (Non-Executive Director) provided financial consultancy services to the Group amounting to £45,000 (2010 £20,000) via Merlin Financial Advisors LLP

Sean O'Connor (Non-Executive Director) provided marketing consultancy services to the Group amounting to £60,240 (2010 £19,800) via The Sean O'Connor Consultancy Limited

Transaction with key management personnel

The Company makes contributions into an Employee Benefit Trust ("EBT") as part of a cash-based long-term incentive plan for certain key employees Two Directors are beneficiaries of the EBT into which contributions of £0 5m was made in 2011 (2010 £0 4m)

Shareholders' Information

Registrars
All enquiries relating to shares or shareholdings should be addressed to
Capita Registrars
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Shareholder Helpline 0871 664 0300 – calls cost 10p per minute plus network extras, lines are open 8 30am–5 30pm Monday–Friday If calling from overseas +44 (0) 20 8639 3402
Facsimile 01484 601512
Email shareholder services@capitaregistrars co uk

www sportingbetplc com
The Company's website provides, amongst other things, the latest news and details of the Company's activities, share price information and links to the websites of our brands The investor relations section of www sportingbetplc com contains up-to-date information including the Company's latest results, the Company's financial calendar and archived webcasts Non-shareholders can register to receive notifications of the Company's Annual Report and Accounts, and webcasts at www sportingbetplc com

www sportingbet-shares com
Shareholders who prefer to receive communications about the Company by email are encouraged to register their details at the Company's shareholder portal – www sportingbet-shares com You will need your investor code (found on your share certificate or on correspondence from Capita Registrars) to complete this process at the first time of registering Capita Registrars will send you a username and activation code by post and, upon receipt, you will then be able to access the Company's shareholder portal The shareholder portal provides shareholders of the Company with the ability to choose from the following services

(i) Annual Report and Accounts, AGM and EGM notices and webcasts
Shareholders can choose to have these emailed to a specified email address rather than by post,

(ii) Web proxy voting
Shareholders can vote at AGMs or EGMs through www sportingbet-shares com or alternatively, via www capitaregistrars com by clicking on the "shareholder portal" and entering Sportingbet as the Company name You will need your investor code for this service (which can be found on your share certificate),

(iii) Announcements made to the London Stock Exchange
UK based shareholders can choose to receive certain RNS announcements by email,

(iv) Direct dividend payments
Dividends can be paid automatically into a shareholder's bank or building society account There are two primary benefits of this service a) there is no chance of a shareholder's dividend cheque going missing in the post, and b) the dividend payment is received more quickly because the cash sum is paid directly into the account on the payment date without the need to pay in the cheque and wait for it to clear

As an alternative, shareholders can download a dividend mandate to complete and post to Capita Registrars,

(v) Change of address
Shareholders can change their address directly online at www sportingbet-shares com or by notifying Capita Registrars in writing at the above address,

(vi) Your shareholding
Shareholders can value their shareholding and view previous transactions in the Company's shares, and

(vii) Share dealing
A share dealing service is available to the Company's shareholders to buy or sell the Company's shares at Capita Share Dealing Services via www sportingbetplc com or www sportingbet-shares com Telephone dealing is also available via Capita Registrars on 0871 664 0445 (calls cost 10p per minute plus network extras)

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell the Company's shares Shareholders of the Company who are in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000

Lost share certificate
If your share certificate is lost or stolen, you should immediately contact the Shareholder Helpline who will advise on the process for arranging a replacement

Duplicate shareholder accounts
If, as a shareholder, you receive more than one copy of a communication from the Company you may have your shares registered in at least two accounts This happens when the registration details of separate transactions differ slightly If you wish to consolidate such multiple accounts, please call the Shareholder Helpline

ShareGift
ShareGift is a charity share donation scheme It is a free service for shareholders wishing to give shares to charitable causes It may be useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth There are no capital gains tax implications (i e no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief Further information can be found at www sharegift org

Shareholders' Information

Financial calendar

Ex-dividend date for 2011 final dividend	14 December 2011
Record date for 2011 final dividend	16 December 2011
Annual General Meeting at 4th Floor, 45 Moorfields, London EC2Y 9AE	16 December 2011
Final dividend payment date for the financial year ended 31 July 2011	12 January 2012

Consolidated dividend tax vouchers

Sportingbet Plc has a consolidated tax voucher ("CTV") service for those shareholders who choose to receive dividends directly into their bank or building society account Dividend funds will continue to be credited to your chosen account on the dividend payment date, but instead of receiving individual tax vouchers, you will receive a CTV detailing all the dividend payments in the tax year These will be mailed at or shortly before the end of each tax year

Choosing to have your dividends paid directly into your bank account and joining the CTV service helps shareholders and Sportingbet Plc reduce their environmental impact If you would like to receive your dividends paid directly to your bank, please visit the shareholder portal at www sportingbet-shares com to download the form or to register your preference online

If you wish to continue to receive individual tax vouchers for each dividend payment but prefer to receive the dividend electronically to your bank account, please contact our Registrars

Electronic tax vouchers

By registering your email address and choosing to receive documents electronically, you will be assisting the Company in reducing its environmental impact Shareholders registering a valid email address will receive notification via email that an electronic tax voucher or electronic CTV is available for download from the shareholder's website at www sportingbet-shares com/forms/login aspx at the time each dividend is paid

Dividend Reinvestment Plan

A Dividend Reinvestment Plan is a convenient, easy and competitively priced way to build your shareholding by using your cash dividends to buy additional shares in Sportingbet The service is provided by Capita IRG Trustees Ltd Capita IRG Trustees Ltd is authorised and regulated by the Financial Services Authority

For further information about the Dividend Reinvestment Plan, please contact Capita, using the Shareholder Helpline

Would you prefer to receive your next dividend in a currency other than sterling?

Capita Registrars can now convert your dividend into an alternative currency such as sterling, dollar or Australian dollar, and send you the funds by draft, or if you prefer pay them straight into your bank account For more information about this service please contact our Registrars at

Email IPS@capitaregistrars com

Telephone +44 20 8639 3405 (from outside the UK)
Or 0871 664 0385 (from within the UK)
calls cost 10p per minute plus network extras, lines are open 9 00am–5 30pm Monday–Friday

or go to
www capitaregistrars com/international

Financial Summary

	Year ended 31 July 2007 £m	Year ended 31 July 2008 £m	Year ended 31 July 2009 £m	Year ended 31 July 2010 £m	**Year ended 31 July 2011 £m**
Amounts wagered	1,060 9	1,347 8	1,577 2	1,971 3	**2,053 9**
Net gaming revenue	117 2	144 3	163 6	207 5	**204 0**
Other operating revenue	–	–	–	–	**2 3**
Total revenue	117 2	144 3	163 6	207 5	**206 3**
Operating profit before exceptional items, share option charge and amortisation	7 8	24 7	31 1	35 4	**38 1**
Exceptional items	(26 8)	(12 0)	(4 2)	(24 5)	**(10 8)**
Share option charge	(9 9)	(8 0)	(3 1)	(2 0)	**(1 2)**
Amortisation	(1 8)	(3 9)	(1 9)	(1 8)	**(1 7)**
Group operating profit/(loss)	(30 7)	(0 8)	21 9	7 1	**24 4**
Net finance income/(cost)	1 0	0 4	0 4	(0 2)	**(0.6)**
Profit/(loss) before taxation	(29 7)	1 2	22 3	6 9	**23 8**
Taxation	(1 2)	(3 5)	(0 5)	(3 0)	**(3 1)**
Profit/(loss) for the period	(30 9)	(2 3)	21 8	3 9	**20 7**
Loss for the period from discontinued operations	(281 3)	(2 0)	(9 4)	–	**–**
Group profit/(loss) for the period	(312 2)	(4 3)	12 4	3 9	**20 7**
Earnings per share					
Basic	(73 2p)	(0 5p)	4 6p	0 8p	**3.9p**
Basic adjusted	4 4p	4 8p	6 5p	6 5p	**6 6p**
Diluted adjusted	4 0p	4 2p	6 0p	6 2p	**6.3p**

Corporate Directory

Secretary
D Talisman LLB (Hons) FCIS

Registered Office
4th Floor
45 Moorfields
London EC2Y 9AE
Company Number 3534726

Registrars
Capita Registrars
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors
Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

Financial Advisers
Lazard & Co , Limited
50 Stratton Street
London W1J 8LL

Stockbrokers
Oriel Securities Limited
150 Cheapside
London EC2V 6ET

Daniel Stewart & Company PLC
Becket House
36 Old Jewry
London EC2R 8DD

Solicitors
Nabarro
Lacon House
84 Theobald's Road
London WC1X 8RW

Principal Bankers
Barclays Bank Plc
Floor 27
1 Churchill Place
London E14 5HP

Press Office
Maitland
Orion House
5 Upper St Martin's Lane
London WC2H 9EA

www.sportingbetplc com

Sportingbet Plc
4th Floor, 45 Moorfields
London EC2Y 9AE
Tel +44 20 7184 1800
Email investor@sportingbet com