



Sportingbet Plc

Unaudited results for the three months ended 31 October 2004

Sportingbet Plc (LSE: SBT), the world's largest online betting group, announces its unaudited results for the first quarter ended 31 October 2004.

Financial Highlights – 3 months ended 31 October 2004

- Turnover up 30% to £358.3m (2003: £276.1m); 38% at constant exchange rates.
- Operating profit pre goodwill and exceptional costs up 50% to £4.5m (2003: £3.0m).
- Profit before tax of £2.6m (2003: loss of £0.4m).
- Cash generation from operating activities up 65% to £17.5m (2003: £10.6m).
- Basic earnings per share pre goodwill and exceptional costs of 2.1p, up 91% from 1.1p.
- Diluted earnings per share pre goodwill and exceptional costs of 1.5p, up 88% from 0.8p.

Business Highlights – 3 months ended 31 October 2004

- Equivalent of 10 bets per second placed with the Group during the quarter.
- Casino, gaming, poker and fee income up £4.1m (52%) to £12.0m.
- Number of sports bets up 4.1m (57%) to 11.3m.
- Cost per sports bet reduced by 22% to £1.93 (2003: £2.48).
- Number of registered customers up 106,301 (9%) to 1,337,950.
- £162m acquisition of Paradise Poker completed 3 days after the end of this quarter.

Commenting on today's announcement, Peter Dicks, Chairman, said:

"I am delighted to report a record first quarter performance for Sportingbet in which we have seen the strength of the Group's broad product range and market leading position bear fruit. In a quarter where sports margins have been below their long term average, the scale of the Group's operations has increased considerably, to the extent that we are now taking the equivalent of ten bets every second. This has enabled us to deliver our lowest ever cost per sports bet, and this, together with strong casino, gaming and poker revenues, has yielded record cash inflow and profitability for the Group.

Following the acquisition of Paradise Poker at the beginning of the second quarter, Sportingbet now has over two million registered customers, giving the business considerably greater scale. With organic growth continuing, new products being launched, new markets being opened and the full benefits from the acquisition of Paradise Poker still to come, we continue to view the future with confidence.”

Commenting on the results, Nigel Payne, Chief Executive, said:

“We are particularly pleased with the first quarter’s performance. Our strategy is to offer a portfolio of online entertainment products to our customers in a regulated, localised manner. In so doing, we believe that not only do we increase the loyalty of our customer base but we also diversify margin risk.

In the three months ended 31 October 2004, we have once again seen the benefits of this strategy. The number of sports bets taken by the Group in the quarter has risen by 57% compared to the same period last year and the total number of bets including our casino and gaming products has risen by 52%. This increased scale has reduced the cost per sports bet to its lowest ever level of £1.93 per bet. Moreover, the increased activity level has also driven record income from each of our casino, gaming and poker products, which, together with fee income, have in total risen 52% to £12.0m in the quarter. The success from these products and the lower overall cost per bet have more than compensated for sports margins in the quarter, which have been below their long term average levels.

We have now commenced the integration of the recently acquired Paradise Poker business. We are pleased with the progress that this business is making post acquisition and the early stages of integration are proceeding well.”

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FINANCIAL RESULTS

Three months ended 31 October 2004

Turnover for the three months ended 31 October 2004 was £358.3m (2003: £276.1m), earning a gross margin of £26.8m (2003: £21.4m) at 7.5% of turnover (2003: 7.7%). Sports betting turnover was £346.3m (2003: £268.2m), earning a gross margin of £14.8m (2003: £13.5m) at a gross margin percentage of 4.3% (2003: 5.0%). Casino, gaming and poker contributed £10.2m and fee income contributed a further £1.8m respectively to both turnover and gross margin (2003: £6.8m and £1.1m).

Costs in the quarter of £22.3m (2003: £18.4m) represented 6.2% (2003: 6.6%) of turnover. Costs comprised marketing £6.7m (2003: £7.2m), commissions paid to marketing partners and third party software providers £3.8m (2003: £2.7m), banking fees £4.6m (2003: £3.1m), employee costs £4.0m (2003: £3.3m), other administration costs £2.7m (2003: £1.8m) and depreciation £0.5m (2003: £0.3m).

Operating profit for the quarter was £4.5m (2003: £3.0m), representing a margin of 1.3% of turnover (2003: 1.1%). The average dollar/sterling exchange rate for the quarter was \$1.80, a 10% decline over the corresponding period last year. The net impact of the adverse exchange rate movements during the period has been to reduce the Group's operating profit by £0.7m.

Profit before tax was £2.6m (2003: loss of £0.4m), after deducting exceptional costs of £Nil (2003: £1.0m), goodwill amortisation of £1.9m (2003: £1.8m), interest of £0.2m (2003: £0.4m) and adding share of operating profit in associate of £0.2m (2003: loss of £0.2m). Basic earnings per share, before exceptional costs and amortisation of goodwill, was 2.1p (2003: 1.1p). Diluted earnings per share, before exceptional costs and amortisation of goodwill, was 1.5p (2003: 0.8p).

During the quarter ended 31 October 2004, the Group generated cash from operating activities of £17.5m (2003: £10.6m). At the end of the quarter, gross debt amounted to £35.3m. This comprised a bank loan and overdraft totalling £15.0m, non-interest bearing, US dollar denominated creditors to the vendors of Sportsbook of £15.7m (\$28.6m), US dollar denominated deferred consideration to World Gaming of £3.8m (\$7.0m) and a contingent consideration payment in Australia of £0.8m pending the outcome of ongoing litigation.

Subsequent to 31 October 2004, the outstanding bank loan and overdraft have been repaid and replaced with a new £15.0m revolving credit facility and overdraft. This is part of a new £90.0m debt facility raised to partially finance the acquisition of Paradise Poker, completed on 3 November 2004. In addition, the outstanding creditors to the vendors of Sportsbook of £15.7m were repaid in full.

A pro forma balance sheet reflecting the position as if the acquisition of Paradise Poker and repayment of the outstanding creditors to the vendors of Sportsbook had taken place on 31 October 2004 is set out in the enclosed financial statements.

REVIEW OF OPERATIONS

Sportingbet Group

In the three months ended 31 October 2004, the Group has made solid progress across the business, with the number of registered customers increasing by 106,301 (8.6%) to 1,337,950, all of which has arisen through organic growth. Compared with the three months ended 31 October 2003, the number of sports bets placed has risen sharply by 4.1m (56.9%) to 11.3m (2003: 7.2m) and the cost per sports bet has been reduced by 22.2% from £2.48 to £1.93. The sports margin percentage before betting tax of 4.5% (2003: 5.3%) has, however, been below the long term average as a result of a higher than normal percentage of favourites winning.

The start of the busy sports betting season has seen a significant rise in overall database activity levels and this, combined with the benefit of a broader product range into an expanded number of markets, has led to a material increase in casino, gaming, poker and fee income. Margin from these revenue streams has risen sharply by £4.1m (51.9%) to £12.0m (2003: £7.9m). In light of the increased importance of these revenue streams to the Group, and following on from the acquisition of Paradise Poker, Sportingbet's results for the six months ending 31 January 2005 will contain expanded key performance indicators for these areas.

Europe

The European region continues to make good progress in the development of its business. During the three months ended 31 October 2004, the region's key performance indicators have advanced well. The European region now has a well developed business in sixteen European markets, operating in fifteen different languages.

In the three months ended 31 October 2004, the number of customers rose by 58,062 (12.9%) from 450,585 to 508,647. Compared with the three months ended 31 October 2003, the number of sports bets placed increased sharply by 2.1m (91.3%) to 4.4m (2003: 2.3m) and the cost per sports bet has reduced by 10.0% from £1.80 to £1.62. The average bet size within each individual European market was broadly constant, though the average for the region as a whole fell to £14 (2003: £17), reflecting greater penetration into lower staking markets.

A particular area of success has been the growth of the European region's poker room, casino and virtual games. In the three months to 31 October 2004, these products generated a 88.9% rise in margin to £3.4m (2003: £1.8m). Margin from these activities has more than compensated for a below average sports margin percentage at the start of the busy European sports season of 6.2% (2003: 6.8%).

America

The US region had a strong quarter. In the three months ended 31 October 2004, the number of customers rose by 46,380 (6.3%) from 733,078 to 779,458. As compared to the three months ended 31 October 2003, the number of sports bets placed increased sharply by 1.8m (40.0%) to 6.3m (2003: 4.5m) and the cost per sports bet reduced by 22.5% from £2.67 to £2.07, the lowest ever recorded for the region. The average sports bet size was constant at \$57.

As in Europe, a particular area of success in the three months to 31 October 2004 has been the growth of the US region's poker room, casino and virtual games. In the three months to 31 October 2004, the increase in scale of the US region helped to generate a 40.9% rise in margin to £8.6m (2003: £6.1m). Again, margin from these activities has more than compensated for a below average sports margin percentage at the start of the busy US sports season of 5.0% (2003: 5.8%).

In October 2004, Sportingbet's restructured relationship with its US facing software supplier was approved by the shareholders of World Gaming. The new arrangements provide Sportingbet with joint ownership of the software platform for its US facing business and control over the future development of that software.

Australia

The transition continues in the Australian sports betting market from being a primarily telephone based betting market to one where the internet is increasingly important. In the twelve months ended 31 October 2004, the percentage of bets taken over the internet rose to 55% (2003: 33%).

In the three months ended 31 October 2004, the number of customers rose by 1,859 (3.9%) from 47,986 to 49,845. The number of sports bets placed increased by 0.23m (54.8%) to 0.65m (2003: 0.42m). The average sports bet size has fallen in line with the increase in lower staking internet activity to AUS\$328 (2003: AUS\$430). The increased activity level and particularly the introduction of the higher volume, lower cost internet betting platform have resulted in the average cost per sports bet falling significantly to £2.74 per bet (2003: £4.08).

The margin performance of the region, particularly the telephone business, has been disappointing during the quarter. The gross margin percentage in the region was below the average level for this time of year at 2.0% (2003: 3.4%). Whilst the fast expanding internet business delivered a margin of 3.5% and is growing well, the telephone business delivered a low margin of 1.7%. The Board recognises that low telephone margins were an industry wide issue in the region, nevertheless it has initiated a full review of the Australian telephone business.

Paradise Poker

In line with our strategy to become the world's leading online sports betting and gaming entertainment business, on 3 November 2004, Sportingbet completed the acquisition of Paradise Poker. A detailed plan to integrate the business and to put in place the technology to maximise the cross selling opportunities between the Group's sports and poker brands has been developed and is being implemented. At this early stage, integration is proceeding to schedule and integration for the US region will be rolled out between now and Spring 2005. The European region will follow thereafter.

Since acquisition, Paradise Poker, which will form the Group's global poker brand, has traded in line with management's expectations. The Group's results for the three months ended 31 October 2004 do not include any pre-acquisition results from Paradise Poker.

Regulatory Developments

The UK Government continues on its path towards the enactment of the Gambling Bill. Notwithstanding the debate that the Bill has generated, it is likely that it will receive Royal Assent during the current parliament and will be in force by the end of 2005 or early 2006. The Board has always been supportive of the principle of proper regulation for the remote gambling industry and in this context it is supportive of the Gambling Bill.

The Board remains concerned, however, that there are still a number of core matters that are not defined in the Bill, including inter alia, equipment location, employee functions and intermediary services. The lack of clarity afforded over these, and other areas, renders proper business planning difficult. The Board believes that primary legislation must be the correct place for such issues to be dealt with and that the newly formed Gambling Commission should not be put in the position where it is making law by providing its own clarification. In addition, the taxation regime and rates under the new legislation are still to be clarified. Sportingbet is therefore making its concerns known to those involved with the legislation and seeking clarification of these uncertainties.

In the US, the Board is pleased to note the publication by a WTO Panel of its Report into the legality of restrictions on market access to internet gaming services in the US. The Report follows a complaint against the US filed by Antigua and Barbuda, and finds that the US has not complied with its legal commitments under the WTO's Services Agreement. Although the Report is likely to be appealed by the US, it raises the international profile of the debate regarding the public interest justifications for restrictions on the supply of internet gaming services, in jurisdictions where gaming opportunities are otherwise unrestrained.

The Report concludes that the US is not able to demonstrate that a US ban on foreign internet gaming services is in the public interest (especially where the US has failed to assess whether there are other less restrictive ways to address concerns, such as regulation or international co-operation). The Board has always advocated the pursuit of a fully transparent debate on this issue and welcomes the opportunity that the publication of the Report now presents. The outcome of any US appeal is not likely to be known until Spring 2005.

The Board is also closely monitoring a First Amendment challenge in the US between a US based internet gambling company and the Department of Justice. In August 2004, internet portal Casino City filed a complaint against the US Department of Justice. This action sought a declaratory judgment that advertising online casinos and sportsbooks on the internet represents constitutionally protected commercial free speech under the First Amendment of the United States. The challenge is expected to last some time.

In Australia, the Government has now published its review of the Interactive Gambling Act 2003. Although the Act did not make any significant changes to the internet gaming industry, the Board notes that, subsequent to the review, a number of Australian based websites are now offering gaming services from outside of the jurisdiction of the Australian Government. The Board is following developments in this area closely.

Outlook

After the first three weeks of the second quarter, trading is in line with management's expectations. Sports betting volume continues to grow at a strong pace and Sportingbet's casino, gaming and the newly acquired Paradise Poker revenue streams are performing well. The sports margin percentage in Europe has recovered back to the long term average level for the industry though the sports margin percentage in the US remains unusually volatile.

Sportingbet will report its results for the six months to 31 January 2005 on 24 February 2005.

Sportingbet Plc
Unaudited Consolidated Profit and Loss Account
3 months ended 31 October 2004

	Notes	3 months 31 October 2004 £m	3 months 31 October 2003 £m
TURNOVER	2	358.3	276.1
Cost of sales		(331.5)	(254.7)
GROSS PROFIT		26.8	21.4
Gross profit %		7.5%	7.7%
Exceptional costs		-	(1.0)
Goodwill amortisation		(1.9)	(1.8)
Other administration expenses		(22.3)	(18.4)
Total administration expenses		(24.2)	(21.2)
Group operating profit before exceptional costs and goodwill amortisation		4.5	3.0
Exceptional costs		-	(1.0)
Goodwill amortisation		(1.9)	(1.8)
GROUP OPERATING PROFIT		2.6	0.2
Share of operating profit in associate		0.2	(0.2)
PROFIT BEFORE INTEREST		2.8	-
Finance costs	3	(0.2)	(0.4)
PROFIT BEFORE TAXATION		2.6	(0.4)
Taxation		-	(0.1)
PROFIT AFTER TAXATION	5	2.6	(0.5)
EARNINGS PER ORDINARY SHARE	6		
Basic		1.2p	(0.2)p
Diluted		0.9p	(0.2)p
ADJUSTED EPS (PRE EXCEPTIONALS AND GOODWILL)			
Basic		2.1p	1.1p
Diluted		1.5p	0.8p

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Unaudited Consolidated Balance Sheet
As at 31 October 2004

	31 October 2004 £m	31 October 2003 £m	Post Paradise Acquisition £m
FIXED ASSETS			
Intangible fixed assets – goodwill	128.9	129.1	355.5
Investments in associated companies	2.9	2.0	2.9
Tangible assets	5.5	4.8	5.5
	137.3	135.9	363.9
CURRENT ASSETS			
Debtors	7.4	12.8	9.2
Cash at bank and in hand	32.5	20.5	41.3
TOTAL CURRENT ASSETS	39.9	33.3	50.5
CREDITORS			
Amounts falling due within one year	37.0	26.4	43.7
Bank loans and overdrafts	15.0	10.3	42.1
Rescheduled earnout	15.7	27.2	-
Deferred consideration	3.8	-	3.8
	31.6	30.6	39.1
NET CURRENT LIABILITIES	31.6	30.6	39.1
TOTAL ASSETS LESS CURRENT LIABILITIES	105.7	105.3	324.8
CREDITORS			
Amounts falling due after more than one year	0.1	10.1	0.1
Provisions for liabilities and charges	1.8	1.8	26.9
Bank loan	-	-	42.9
	103.8	93.4	254.9
NET ASSETS	103.8	93.4	254.9
CAPITAL AND RESERVES			
Called up share capital	0.2	0.2	0.3
Shares to be issued	26.7	28.1	39.3
Share premium	52.7	51.1	191.1
Other reserves	21.3	21.3	21.3
Profit and loss account	2.9	(7.3)	2.9
	103.8	93.4	254.9
SHAREHOLDERS' FUNDS – EQUITY	103.8	93.4	254.9

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Unaudited Consolidated Cash Flow Statement
Three months ended 31 October 2004

	3 months 31 October 2004 £m	3 months 31 October 2003 £m
Cash inflow in respect of EBITDA	5.0	2.3
Net working capital movement	12.5	8.3
Net cash inflow from operating activities	<u>17.5</u>	10.6
Returns on investment and servicing of finance	(0.3)	(0.3)
Capital expenditure	(0.8)	(0.4)
Acquisitions / redemption of loan notes	<u>(2.1)</u>	(2.8)
CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND BEFORE FINANCING	14.3	7.1
Management of liquid resources	(8.8)	(5.4)
Financing	<u>(1.8)</u>	(2.5)
INCREASE/ (DECREASE) IN CASH IN THE PERIOD	<u>3.7</u>	(0.8)
 RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS		
Increase/ (Decrease) in cash in the period	3.7	(0.8)
Cash outflow from increase in liquid resources	8.8	5.4
Cash outflow from decrease in debt	2.0	2.5
MOVEMENT IN NET FUNDS RESULTING FROM CASH FLOWS IN PERIOD	<u>14.5</u>	7.1
Other movements	-	-
Movement in net funds in period	<u>14.5</u>	7.1
Net funds at start of period	<u>2.6</u>	(7.2)
NET FUNDS AT END OF PERIOD	<u>17.1</u>	(0.1)

Sportingbet Plc
Notes
Three months ended 31 October 2004

1. **Consolidated statement of total recognised gains and losses:**

	3 months 31 October 2004 £m	3 months 31 October 2003 £m
Profit for financial period	2.6	(0.5)
Exchange translation differences on consolidation	-	(0.3)
	2.6	(0.8)

2. **Analysis of turnover:**

	3 months 31 October 2004 £m	3 months 31 October 2003 £m
a) Analysis of revenue by activity		
Sports betting	346.3	268.2
Casino betting	10.2	6.8
Fee income	1.8	1.1
	358.3	276.1
b) Analysis of revenue by region		
AMER	208.0	163.1
EMEA	65.0	40.8
AA	85.3	72.2
	358.3	276.1

3. **Finance costs:**

	3 months 31 October 2004 £m	3 months 31 October 2003 £m
Interest receivable	-	-
Interest payable	(0.2)	(0.4)
Total finance costs	(0.2)	(0.4)

4. These results have been prepared on the basis of the accounting policies set out in the Group's 2004 statutory accounts. These results do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

5. All amounts on the profit and loss account relate to continuing activities.

6. The basic earnings per share for the quarter is based on the profit on ordinary activities after taxation of £2.6m (2003: loss of £0.5m), and on the weighted average number of shares in issue of 212,557,518 (2003: 207,775,718). The diluted earnings per share for the quarter is based on the profit on ordinary activities after taxation of £2.6m (2003: loss of £0.5m) and the weighted average number of shares in issue adjusted to assume the exercise of options over shares and the effect of dilutive earnout shares to be issued, of 308,222,029 (2003: 302,271,195).

Adjusted basic and diluted earnings per ordinary share before goodwill and exceptional costs exclude amortisation of goodwill of £1.9m (2003: £1.8m) and exceptional charges of £Nil (2003: £1.0m).