

2005/06 ANNUAL REPORT



CONTENTS

2	HBLB BOARD MEMBERS AND EXECUTIVES	41	THE NATIONAL STUD ANNUAL REPORT
3	STATEMENT OF RESPONSIBILITIES OF HBLB BOARD, FUNCTIONS OF THE BOARD, OFFICES & ADVISERS	42	THE NATIONAL STUD BOARD, MANAGEMENT COMMITTEE, STUD TEAM, PATRONS AND TRUSTEES
4	CHAIRMAN'S STATEMENT	43	THE NATIONAL STUD CHAIRMAN'S STATEMENT
6	CHIEF EXECUTIVE'S REVIEW OF THE YEAR	46	STALLIONS IN 2005
9	IMPROVEMENT OF HORSERACING	47	STATEMENT OF RESPONSIBILITIES INDEPENDENT AUDITORS' REPORT
15	BREEDS	48	FINANCIAL STATEMENTS
16	VETERINARY		
17	OTHER SERVICES TO RACING AND ASSOCIATED BODIES		
18	44TH & 45TH LEVY SCHEMES		
20	POLICY STATEMENT		
24	CORPORATE GOVERNANCE		
25	INDEPENDENT AUDITORS' REPORT		
26	FINANCIAL STATEMENTS		

HBLB BOARD MEMBERS AND EXECUTIVES

MEMBERS



Chairman Robert Hughes CBE
Appointed by the Secretary of State



Deputy Chairman Sir John Robb
Appointed by the Secretary of State



Keith Elliott
Appointed by the Secretary of State



Chris Deuters
Appointed by the Jockey Club



Greg Nichols
Appointed by the Jockey Club



David Thorpe
Appointed by the Jockey Club



Warwick Bartlett, Ex Officio
Chairman, Bookmakers' Committee



Peter Jones Ex Officio
Chairman, Horserace Totalisator Board

EXECUTIVES



Sir Tristram Ricketts Bt
Chief Executive



Godfrey Ayres
Deputy Chief Executive



Libby Archer
Scientific Liaison Executive and
Human Resources Executive



David Bradshaw
Racing Executive



Stephen Haywood
Financial Controller

STATEMENT OF RESPONSIBILITIES

STATEMENT OF RESPONSIBILITIES OF THE MEMBERS OF THE HORSERACE BETTING LEVY BOARD

The members are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Betting, Gaming and Lotteries Act 1963 (as amended) requires the Horserace Betting Levy Board to prepare proper financial statements in respect of each levy period. In preparing those financial statements, the members 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 Group will continue its activities.

The members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Board and to enable them to ensure that the financial statements comply with the Betting, Gaming and Lotteries Act 1963 (as amended). 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 above statement should be read in conjunction with the statement of auditors' responsibilities set out in the auditors' report.

FUNCTIONS OF THE BOARD

The Horserace Betting Levy Board is a corporate body, operating in accordance with the provisions of the Betting, Gaming and Lotteries Act 1963 (as amended).

The Board is charged with the duty of assessing and collecting monetary contributions from bookmakers and the Horserace Totalisator Board, and with applying them for purposes conducive to any one or more of:

- the improvement of breeds of horses;
- the advancement or encouragement of veterinary science or veterinary education;
- the improvement of horseracing.

OFFICES

52 Grosvenor Gardens
London SW1W OAU
Tel: 020-7333 0043
Fax: 020-7333 0041
E-Mail hblb@hblb.org.uk
Web Site www.hblb.org.uk

ADVISERS

Bankers

HSBC
89 Buckingham Palace Road
London SW1W 0QL

Auditors

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Harbottle & Lewis
Hanover House
14 Hanover Square
London W1R 0BE

Burges Salmon
Narrow Quay House
Narrow Quay
Bristol BS1 4AH

CHAIRMAN'S STATEMENT



Robert Hughes CBE
Chairman

You really could not make it up. Since last year's Report, when I reported yet another extension to the Levy Board's life, it has become apparent that there is, at the present time, no obvious commercial solution to British horseracing's future financial requirements. The Minister for Sport, Richard Caborn, has made it clear that he is only willing to countenance an indefinite extension to the Levy Board's existence on condition that the modernisation of British horseracing is implemented forthwith. The good news is that the Industry has taken up the challenge and there are encouraging signs that the Minister's requirements can be met.

At a roundtable meeting of both the Racing and Bookmaking Industries to discuss the situation and the conclusions of Lord Donoughue's further report on a commercial mechanism (which broadly came to the conclusion that there wasn't one), the Minister also concluded that if the Levy was to continue, it needed to be reformed. Accordingly, he asked Lord Donoughue to carry out a review of the Levy Legislation and Procedures.

Lord Donoughue immediately asked myself and the Chief Executive, Tristram Ricketts, to join him in this task. The result are proposals currently before the Minister, recommending changes to Levy Board membership, the length of Levy agreements, and the procedure for agreeing them. It has been both a pleasure and a privilege working with Lord Donoughue and his Group, and I believe that the recommendations, if implemented, will provide a robust and workable solution to three issues in particular: Racing's representation on the Board following the demise of the BHB; the length of Levy deals

(currently they have to be decided every year); and the ongoing problem of determination by the Secretary of State in the event of no agreement.

Meanwhile, under the Chairmanship of the BHB's Martin Broughton, another Group was formed, representing the main interests of the Racing Industry, to reform its future Governance and Regulation. Martin kindly asked me to join that Group as well so I have been almost uniquely placed to view progress on both strands of the Minister's requirements. With the forthcoming demise of the BHB, it soon became clear that we were looking at the creation of a wholly new body, unique in British sport. It will be dominated by independent board members, albeit with industry and regulatory representatives. It will, for the first time since the Jockey Club relinquished control of Governance to the BHB, reunite Governance and Regulation, something which is only possible because of the independent nature of the new Body. I recall that one of Peter Savill's many aspirations for

British horseracing was a BHB Board constituted along these same lines. The new British Horseracing Authority will belatedly deliver that aspiration. I believe it augurs well for the Industry that its various interests have been able to work together to deliver such a solution. I think that we should all be grateful to the Minister for giving it the necessary impetus.

Meanwhile, back at the ranch, the staff of the Levy Board have had to come to terms with the possibility of yet another change in their future. Many have already laid plans, based on the Board's proposed abolition, and I must commend them all for the way in which they have accepted so many changes over the last five or six years and maintained both their morale and motivation. The challenges to the Board remain much the same as last year: diminishing income and greater demands for expenditure. 2007 is likely to prove a particularly difficult year in this respect.

In looking at new processes and procedures for the Levy Board, I think it important that we look at the structure of the Levy as well, and I have invited our bookmaker colleagues to explore alternatives to the current flat rate Levy. It seems to me that, as things stand, there is no encouragement for them to promote the Racing product when alternative products do not carry the burden of the 10% Levy. The answer might lie in developing the concept of a marginal Levy, at a reduced percentage rate, over a given financial threshold. If bookmakers paid less Levy at the margin, in percentage terms, for every pound they received in bets over a given threshold, then it just might remove the existing impediment to growth created by what is, in effect, a flat rate tax. Watch this space.

Reports on all aspects of the Board's work can be found on the following pages. However I cannot end without paying tribute to the work of two stalwart members of the Levy Board. Last year, the tributes were for our outgoing Chief Executive, Rodney Brack who deservedly received a CBE in the New Year's Honours list, and I am pleased to say that his successor, Tristram Ricketts, is already well ensconced in, what must seem to him, a second homecoming. Later this year, Sir John Robb and Keith Elliott will complete their respective periods of office. Sir John has been on the Board for almost fourteen years, as both my predecessor's and my Deputy. During his long and distinguished service, he has taken on a heavy burden of duties and I am most grateful to him for the unswerving support he has given me during that time. Keith has been a most vigorous and enthusiastic Independent Member, taking particular interest in issues affecting the punter and the Betting Industry. They have been part of a very effective team and both I and the Board thank them most sincerely for their service.



ROBERT HUGHES CBE

Chairman

CHIEF EXECUTIVE'S REVIEW OF THE YEAR



Sir Tristram Ricketts Bt
Chief Executive

I am pleased to report that the Levy year 2005/06 saw increased investment in most of the Board's expenditure programmes which make such a vital contribution to the health and development of British Racing. The Levy's contribution to the main prize money fund reached a record £62.5m for the year 2006, while its allocations to the cost-effective protection of the integrity of the sport, industry training, veterinary science and education and schemes for the improvement of breeds all increased, underlining the continuing need for the sort of sustainable and enforceable mechanism for the central funding of the sport on which the Chairman has commented in his own Statement.

Sadly, it became clear towards the end of the year that the Board's income would not be sufficient to allow its overall investment levels to be maintained, let alone further increased. A combination of results, reducing profit margins on British horseracing business and continuing competitive pressure from other betting and gaming products all contributed to a significant reduction in Levy income in 2005/06, necessitating a detailed review of future expenditure plans. This was conducted in full consultation with the British Horseracing Board and other key Racing bodies, with whom more detailed information was shared at an earlier stage than had been the practice hitherto. This contributed to an orderly and constructive review process which was widely welcomed by Racing. The Board is fully committed to continuing transparency and information-sharing going forward.

It is important that these principles are also properly reflected in the annual Levy negotiations. This and other procedural changes currently under consideration should help to improve a system whose

deficiencies were again highlighted on 31st October 2005, when it took until nearly the statutory midnight deadline to conclude an agreement on a Levy Scheme for 2006/07 which was basically little changed from its predecessor.

The highest priority given to the cost-effective protection of the Integrity of Racing was again reflected in an increased allocation to the costs of the Horseracing Regulatory Authority and BHB Field Forces, the research-backed drug screening services provided by the Horseracing Forensic Laboratory, and camera patrol and photofinish services. In making these very substantial allocations, the Board continued to emphasise the need for improved cost-effectiveness and efficiency to ensure that, particularly in the context of declining Levy income, central costs are contained.

In all areas of activity, an organisation is only as good as the people it employs. Racing and breeding are no different, requiring properly trained personnel with the range of skills and expertise appropriate to

its continuing development as a major sport and industry. The ever increasing emphasis on such training continues to be fully supported and encouraged by the Board who again contributed significantly to education and training programmes. The British Racing School and Northern Racing College, via the British Horseracing Education and Standards Trust (BHEST), the Thoroughbred Breeders Association and the National Stud are all beneficiaries of the Board's investment in this key activity. BHEST's Schools Education programme was again funded by the Board as it progressed towards its target of 20,000 participating students a year by 2010.

Although most public attention is inevitably focussed on the Board's activities for the improvement of horseracing, its work in support of its other two statutory objectives relating to veterinary science and education and the improvement of breeds continues to be of critical importance to those two sectors. During the year, the Board supplemented its normal veterinary budget by taking over, by agreement with the Minister for Sport, the BHB's commitment in respect of funding for the TBAs Equine Fertility Unit and for the Equine Genome Programme. This resulted in a significant increase in the Board's total commitment to this key area.

As part of its continuing push for modernisation and maximising the effective use of Industry funds, the Board initiated a comprehensive review of Industry financing of veterinary research and services. The Review attracted a positive response from Industry bodies and the Board is now consulting on the scope for improving efficiency and effectiveness by greater central coordination of the limited funds available.

The Improvement of Breeds was effected through increased funding for the Breeders' Prizes and Owners' Premium Schemes for the Thoroughbred, whilst the native breeds again benefited from higher grant support from the Board for their own Premium Schemes and other improvement initiatives.

Investment in improvements at racecourses large and small continued apace, much assisted by interest free loans from the Board's Capital Fund and use of the valuable Capital Credits Scheme. Britain's second floodlit All Weather Track opened at Kempton Park at the end of March 2006, while work continues at Great Leighs in Essex where the country's first new racecourse for some 80 years is scheduled to open in October 2006. The first phase of the major improvement project at Aintree was completed in time for the 2006 John Smith's Grand National and the Racing Industry now awaits with eager anticipation the opening in June 2006 of the £200m Grandstand redevelopment at Ascot.

Following the sale of United Racecourses and RaceTech in the 1990s, the Board's remaining significant capital asset is the Horseracing Forensic Laboratory near Newmarket. Following a detailed review, carried out under my chairmanship over the winter, the Board has, with the approval of the Minister for Sport, initiated the sale of this world-class facility on the open market, reflecting in part a continuing recognition that Racing can confidently secure key services from providers which are not in its central ownership. In pursuance of its priority commitment to Integrity, the Board will ensure, as part of the sale process, that Racing continues to have access to a high quality research-backed drug screening service.

The Board continued to recognise the importance to the Sport of comprehensive media coverage and exposure and, in welcoming The Sportsman newspaper which was launched in March 2006, expresses Racing's gratitude to all those who, in print and on radio and television, help to promote the great sport of Racing. Such promotion greatly assists Racing to attract sponsors, who make a valuable contribution to the Sport and whose support is again gratefully acknowledged.

Racing's largest single sponsor, the Tote, broke new ground with its sponsorship of Channel 4's Racing coverage this year. After detailed negotiations, involving racecourses, Channel 4 and the Tote, the Board agreed to make a grant of £1m to facilitate the continuation of that coverage in 2006, which not only greatly assists general exposure of the Sport but also helps protect the Board's income.

The National Stud, which the Board has looked after on behalf of the Nation for over 40 years, will soon pass into the ownership of an independent Charitable Trust. As part of the transition arrangements, the Board, by agreement with the Minister for Sport, made available a £2m Endowment Grant. We wish this fine facility at Newmarket, under the creative leadership of Andrew Parrish, well with its commercial activities and as both a continuing centre of training excellence and a popular showcase for the breeding industry.

We continued to work closely throughout the year with the National Joint Pitch Council whose work is vital to the continuing efficient and effective administration and control of racecourse betting rings. We are particularly grateful to Chairman Tom Clarke and Chief Executive Tim Moore for their support and advice on changes to the National Pitch Rules designed to underpin the collection of on-course bookmakers' statutory levy liabilities in respect of betting exchange activity. This initiative has the welcome support of the Bookmakers' Committee and the Federation of Racecourse Bookmakers.

We never lose sight of the vital contribution by punters, one of Racing's key customer groups. The Board again assisted with the funding of the Independent Betting Arbitration Service (IBAS), of which I am proud to be Chairman. Led by Chief Executive Chris O'Keeffe, and with an expert Panel of adjudicators, IBAS continued to provide a professional and effective arbitration service which attracted the favourable attention of the Gambling Commission with which it, like the Board itself, has already established an excellent working relationship.

I am very grateful to Rodney Brack, whom I congratulate on his CBE in the New Year Honours List and who has me as both his predecessor and successor, on facilitating such a smooth transition of responsibilities when he left and I arrived back in October 2005. I also thank most warmly the Levy Board staff who made me immediately welcome and with whom, if the Levy Board continues beyond 2009, I look forward to working closely to further modernise and strengthen the Board's operations and ensure that there is no unnecessary and costly duplication of functions with the new Racing bodies that are in the process of being created.

At the time of writing, much remains to be settled, including the future of the Levy and the Tote and the establishment of the new unitary Governance and Regulatory Authority. The negative impact of this uncertainty is compounded by the growing pressures on levy

income from increasingly competitive and diverse gambling and leisure markets. Unless current trends can be significantly reversed, and if other investors in the Sport are to be properly rewarded, there will be an ever greater reliance on the ability of racecourses to generate additional income. They should be given the maximum freedom to do so consistent only with the need to maintain a balanced programme and infrastructure for the benefit of all.

I do not however want to leave the reader with the impression that all is doom and gloom. Yes, we have our political and financial

difficulties. Yes, factionalism and the pursuit of sectional interests still, sadly, seems as endemic as ever. But despite all that, we also still have the finest racing in the world on the Flat and over Jumps. Long may it remain so.



SIR TRISTRAM RICKETTS BT

Chief Executive

FINANCIAL SUMMARY

For reasons noted in the Chief Executive's Review, the Levy yield for 2005/06 was at £89.5m, 8% lower than the £97.3m achieved for the previous year. The Tote's contribution also fell from £8.3m to £8.2m.

The breakdown of the yield from the 43rd and 44th Schemes is as follows:

	2005/06 £'m	2004/05 £'m	Change %
Levy Scheme	44th (est.)	43rd	
Off-Course Bookmakers			
Cash	68.0	74.8	-9
Telephones	9.9	11.8	-16
Internet	5.2	4.8	+8
Betting Exchanges	5.5	5.0	+10
On-Course Bookmakers	0.8	0.8	=
Spread Betting Bookmakers	0.1	0.1	=
Total	89.5	97.3	-8

The Board's Revenue Account for the year ended 31st March 2006 shows a deficit of £10.2m, compared to a surplus of £7.4m in 2004/05,

excluding the effect of the FRS pension disclosure. This results from investment decisions taken by the Board at a time of significant cash surpluses achieved when the bookmakers' levy yield (excluding the Tote) had reached £102m in 2003/04, and which the Board was seeking to reduce pending closure.

In addition to expenditure detailed elsewhere in this Report, the Board made a further contribution of £6.9m to its Retirement Benefits Scheme to ensure sufficient funding in anticipation of closure. In December 2005 the Board took a major initiative in removing the risk of further pension cost escalation by entering into a ground-breaking Structured Buy-Out agreement with a major insurance company whereby investment and longevity risks were removed up to the planned closure date of September 2009.

When the effect of the FRS 17 pension disclosure is included, the published Revenue Account shows a deficit of £3.8m (£13.3m surplus restated for 2004/05). The resultant Balance Sheet pension liability of £5m arises from the Board's actuary's recalculation of the Structured Buy-Out on an FRS 17 basis, which will be zero by September 2009 (the Board's currently assumed closure date).

Expenditure 2005/06

		£'000	
	Prize money	64,019	(62%)
	Integrity services	18,214	(18%)
	Other racecourse expenditure	9,614	(9%)
	Administration	3,606	(3%)
	Veterinary	3,178	(3%)
	Improvement of breeds	3,952	(4%)
	Training	874	(1%)
	Other improvements	(161)	
	Bookmakers' Committee	211	
	Total	103,507	

IMPROVEMENT OF HORSERACING

John Waiton / Empics



Jon Buckle / Empics



Photo courtesy of Kempton Park



KEMPTON PARK 2006 saw the opening of the floodlit All Weather Track at Kempton Park, to which the Board contributed a £2.5m loan for floodlighting and a new stableyard complex. The project supports the Board's policy objective for the winter evening opening of betting shops.

RACECOURSE MODERNISATION

During the year, the Board approved interest-free loans of £13.6m and Capital Credit grants of £42.1m for racecourse improvement schemes.

Loans were made available as contributions towards the cost of 15 improvement projects at 14 racecourses. The most significant of these were the replacement or extension of grandstands at Aintree, including a new parade ring and weighing room (£3.5m), Doncaster, including a new stableyard and hostel (£2m), and Haydock Park (£525,000); the replacement of stableyards at Carlisle, including a hostel and groundsman's house (£1.1m), Wincanton (£500,000) and Newcastle (£1m); and new toilet facilities at Bath (£246,000).

Smaller loans were made available to Beverley (£175,000) for the refurbishment of the Rapid Lad Bar; Kelso (£50,000) and Nottingham (£60,000) for the refurbishment of stableyards; and Ludlow (£50,000) for improvements to the parade ring, saddling boxes, hostel and horsewalks.

Other loans were made towards the provision of floodlighting systems at the new All Weather Tracks (AWTs) at Kempton Park, including a new stableyard (£2.5m), and Great Leighs (£1.8m).

The Board also supported the modification of starting stalls with loans to Arena Leisure Group racecourses (£26,688), RHT Group racecourses (£80,071) and RaceTech (£65,241).

INTEGRITY OF RACING

The Board's continued emphasis on maintaining public confidence in the integrity of racing was



RACING AT CARLISLE The racing calendar for 2006 is being supported with a budgeted allocation to the main prize money fund of £62.5m, the highest-ever contribution by the Board, and an increase of £1.6m on the previous year.

Prize money 2006	£'000
Allocation based on	
betting turnover	4,688

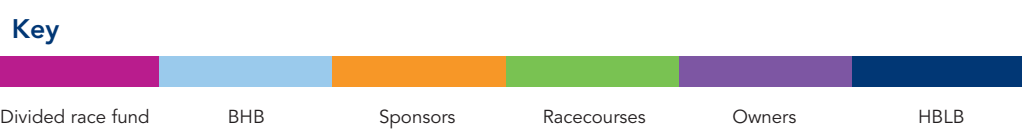
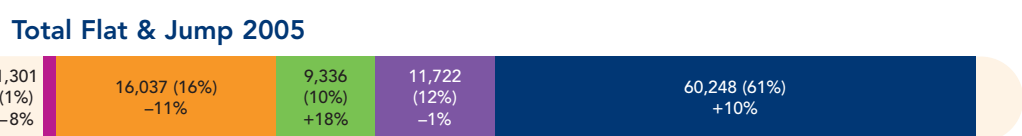
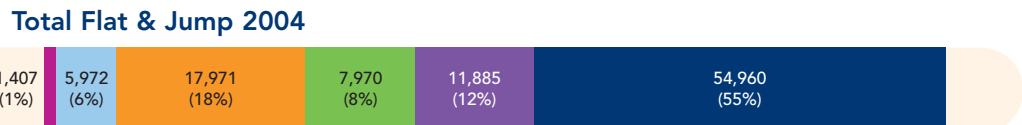
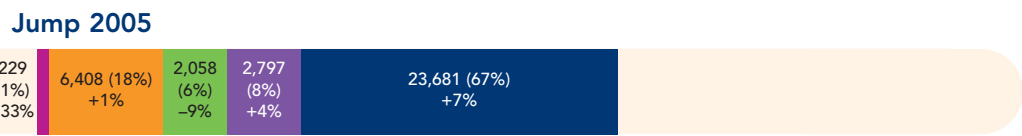
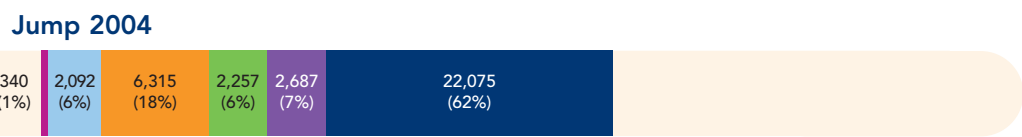
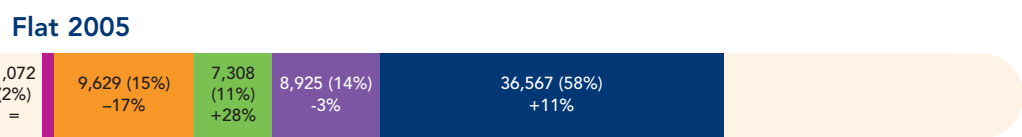
Flat	
Basic Daily Rate	33,199
Seventh Races	1,040
Apprentice Races	88
Sub total	34,327

Jump	
Basic Daily Rate	22,219
Seventh Races	666
Sub total	22,885

Regional Racing	
Sub total	600

Grand Total	62,500
--------------------	---------------

Contribution to prize money £'000



reflected in the total amount of £18.2m expended under this heading in 2005/06 (2004/05: £17.1m). This amount was second only to the Board's contribution to Prize Money.

The Board reimbursed to racecourses a total of £9.3m in respect of BHB/Jockey Club Fixture Fees (2004/05: £8.7m). The Fixture Fees covered the cost of licensed officials, the security and veterinary field forces and other costs deemed necessary to ensure that the high standards of integrity demanded by the Rules of Racing were met for every fixture.

Drug testing services, designed to underpin the integrity of racing, were provided to the Jockey Club by HFL Ltd, whose operations at a revenue cost to the Board of £3.6m (2004/05: £3.5m) are described on page 17.

The Board also continued to make grants to racecourses for the provision of camera patrol and photo finish services. These were again largely purchased from RaceTech. Grants for this purpose totalled £5.0m (2004/05: £4.9m)

Financial support was again provided at 100% of costs for the Horseracing Scientific Advisory Panel, 50% of costs for the Jockey Club's Counter Analysis Advisory Committee and 50% for Britain's one-fifth share of the annual costs of the European Horse Scientific Liaison Committee. Funding for these activities in 2005/06 totalled £26,000.

INDUSTRY TRAINING AND EDUCATION

The Board's commitment to racing and breeding industry education and training programmes was underlined in 2005/06 by a 9% enhancement of total funding to £874,000 from the previous high of £798,000 in 2004/05.

The racing industry enjoyed a 13% increase in the grant to the British Horseracing Education and Standards Trust (BHEST) to £668,342. The grant continued to support vocational training, to NVQ2 level, of 16 to 18 year old learners at the British Racing School and the Northern Racing College (NRC) towards employment as stable staff in racing yards, and NVQ1 training at the emerging Scottish Racing Academy, a collaboration between Oatridge College and the NRC. Other activities that continued to benefit from the grant included stable staff recruitment, short courses to prepare students in equine colleges for employment in racing yards and professional development for jockeys through continuation courses for apprentices and conditionals and the Hands 'n' Heels race series.

The grant also supports the BHEST's Schools Education Programme, which assists delivery of the National Curriculum while introducing young people to racing. The Programme continues to maintain its reputation as one of Britain's leading industry-school learning partnerships and a feasibility study funded by the Board in 2004 made a strong case for its development. In consequence, the BHEST prepared a plan to expand the Programme from participation by 8,000 students a year in 2005 to 20,000 a year over the five years to 2010. The Board welcomed the plan and increased its support for the Programme by £50,000 a year, to £211,096, from 2005/06 to facilitate the expansion.

The preparation of learners for careers in Thoroughbred breeding through courses run centrally for the breeding industry by the National

Stud was supported for a third successive year with a grant of £231,745 for the 2005 calendar year (2004: £186,029). This supported the internationally renowned National Stud Diploma course, the Foundation Modern Apprenticeship, short term work experience programmes for school, college and veterinary students and the development of initiatives, for introduction in 2006, to extend the range of learning opportunities available for people working in the industry.

In further support of Thoroughbred breeding, 2005 saw the introduction of funding for the Stud Staff Project, a central initiative taken by the TBA to implement, in the industry, the recommendations on the employment, retention and development of stud staff in the Report of the BHB Stable and Stud Staff Commission published in June 2004. The TBA established a new post dedicated to the management of the Project and work commenced in February 2005. Through a 'top-slice' from the Breeders' Prizes Fund for 2005, the Board made available £120,000 to fund the operating costs while, in partnership, the TBA undertook to support the employment costs of the Recruitment and Training Manager. The top-slice will continue to support the project in 2006, with the addition of a direct grant of £19,226 for the year, of which £4,226 fell into the Board's 2005/06 financial year.

Overall, support for the recruitment, retention and professional development of racing and breeding industry staff remains a high priority for the Board and, at a new record level in 2005/06, provided substantial underpinning for this important area of the industries' interests.

PRIZE MONEY SCHEME

The Prize Money Scheme for the calendar year 2006 was framed within an allocation of £62.5m, the Board's highest ever contribution, and an increase of £1.6m on the 2005 level of £60.9m.

Full Basic Daily Rate (BDR) funding is being provided in 2006 for Criteria Fixtures (two afternoon fixtures on Mondays and Tuesdays, three on Wednesdays, Thursdays and Fridays, four/five on Saturdays and Bank Holidays and two/three on Sundays) and for Reserve Criteria Fixtures (third fixtures on Mondays and Tuesdays from January to April and September to December, and AWT fixtures in the main AWT season not designated as Criteria Fixtures). Funding of 80% is provided for all evenings, except single evening fixtures. Funding of 50% is available for all other fixtures with the exception of BHB National fixtures which receive between £30,000 and £50,000 and Regional racing fixtures which receive standard funding of £12,000 per fixture.

The racecourse BDRs, details of which are shown on the Board's website, www.hblb.org.uk, were computed in accordance with established Merit Table arrangements, which comprise three elements:

- a merit award computed by reference to a Merit Table based on the latest three year average amount of executive and sponsorship contributions to Prize Money,
- an element comprising £4.7m allocated by reference to the off-course betting turnover generated by each racecourse, and
- an underpinning element relating to the number of fixtures in the 2006 Fixture List.

For 2006, the Flat BDR for AWT racecourses during the main winter period was set at £40,000.

SEVENTH AND APPRENTICE RACE SCHEMES

The allocation to the 2006 Seventh Race and Apprentice Race Schemes remained unchanged from the 2005 level of £1.7m and £88,000 respectively.

FIXTURES INCENTIVE SCHEME

The allocation to the 2006 Fixtures Incentive Scheme was reduced to £7.3m from £7.6m in 2005.

ABANDONMENT PAYMENT SCHEME

The 2006 Scheme provides for the reimbursement to the racecourse of £10,000 following the abandonment of a race day. £500,000 was reimbursed to racecourses under these arrangements in 2005.

ALL WEATHER TRACKS

The Board continues to support racing on AWTs and the seventeenth AWT season comprises a total of 133 afternoon meetings, including Regional racing, scheduled from 1st January to 22nd March and from 6th November to 31st December 2006. In addition, six evening meetings under floodlights at Wolverhampton are scheduled. The Board is also funding 40 'Twilight' fixtures between 31st October and 30th December 2006.

APPEARANCE MONEY SCHEME

The Board's allocation for Appearance Money in 2006 remains unchanged from the 2005 level of £3.1m.

From 1st April 2006, owners who run their horses at any Sunday fixture receive a guaranteed payment of £225 per



NORTHERN RACING COLLEGE Students practicing a stalls start as part of their NVQ2 learning, which is grant-aided by the Board through the British Horseracing Education and Standards Trust.



WINCANTON The new stable staff canteen and hostel, converted from an old stone barn in the centre of the course. The Board contributed a £500,000 loan which also included the construction of a new stableyard to comply with HRA General Instructions.



TOWCESTER The start of the 2005/06 season saw the opening of the new Empress Stand. Facilities include a new betting hall, and a restaurant and hospitality boxes on the first and second floors respectively. Officials also benefit from a new integrity tower.



DONCASTER The demolition of the Yorkshire Stand commenced in spring 2006. The Board has approved a loan of £8m towards this major redevelopment project over the next two years.

runner, with deductions for trainer, jockey and stable staff. Furthermore, owners who run their horses in selected Conditions Stakes, Juvenile Hurdles, Novice Hurdles and Novice Chases receive payments ranging from £250 to £500 per runner (with deductions), depending on the time of year. Mares running in steeplechases which otherwise do not qualify for Appearance Money payments, are also eligible. Flat horses rated 50 or lower do not qualify for Appearance Money in 2006.

POINT-TO-POINT MEETINGS

In 2005, the Board continued its support for point-to-points with a grant of £315,000 (2004 : £210,000). The Board's funding was significantly enhanced in 2005, in order to ensure that the provision of veterinary, medical and security services, as well as course maintenance, remained of the highest standard.

TRAINING AREA IMPROVEMENT GRANTS

During 2005/06, the Board continued to make available, on a matched funding basis, grants to major training areas to support improvements in facilities.

Jockey Club Estates received a £100,000 grant for all weather gallop improvements at Newmarket. A grant of £120,000 was made to the Middleham Trainers' Association for the construction of a new all weather gallop on Middleham Moor training grounds.



AINTREE Numbersixvalverde, winner of the 2006 John Smith's Grand National, enters the new Winners' Enclosure in front of the new Weighing Room and Press Centre. Phase 2 incorporates two new grandstands to be open for the 2007 Grand National. The Board is to loan £7m towards these projects.



MIDDLEHAM TRAINING AREA Horses training on the newly refurbished all weather gallop, for which the Middleham Trainers Association received a £100,000 grant from the Board on a matched funding basis.

BREEDS

WORKING TO IMPROVE BREEDS

Board funding for the improvement of breeds of horses embraces the Thoroughbred via its Breeders' Prizes Scheme, and other breeds important to the national heritage through grants to individual breed societies. The report and financial statements of the National Stud, to whom the Board made a £2m endowment grant in anticipation of its transfer to an independent Charitable Trust, are set out on pages 41 to 56.

BREEDERS' PRIZES SCHEME

The Board's grant for Breeders' Prizes in 2006 has been reduced to £1.8m from the 2005 level of £2.4m.

Following a major review conducted with the TBA and BHB, the 2006 Scheme has been redesigned to give Racing materially better value for the investment; to encourage the maintenance of a Thoroughbred horse population capable of sustaining the present range of distances on the Flat; to provide a mechanism for supporting the production of fillies, particularly for NH racing; and to maintain the present diversity of the sport, both Flat and NH.

Breeder's Prizes on the Flat are payable to qualifying winners of all Class 1-4 races, with the level of payment dependent on the distance over which the race is run. Payments for fillies and mares will be 50% more than for colts and geldings, subject to differential caps, although winners of races restricted to fillies and mares will not qualify for the 50% additional payment.

Breeders' Prizes for NH racing are payable to qualifying winners of Class 1-4 Steeplechases (excluding Class 4 Handicaps), NH Hurdle

races in Classes 1-4, all NH Flat races and Class 1 Hurdle races. In order to provide significant incentives for NH fillies and mares prizes of up to £10,000 will be available.

GRANTS TO BREED SOCIETIES

Support for rare and heavy breeds of the non-Thoroughbred horse and pony continued in 2005/06 at £159,737 (2004/05: £145,000). Grants were made to 13 breed societies and used to preserve the breeds and maintain high standards in pure-bred breeding, principally through stallion, mare and foal premiums and a range of other breed improvement activities.

Society	Grant £
British Percheron Horse Society	15,900
Cleveland Bay Horse Society	13,720
Clydesdale Horse Society	11,800
Hackney Horse Society	10,000
Irish Draught Horse Society (GB)	17,710
Shire Horse Society	39,900
Suffolk Horse Society	19,407
Dales Pony Society	7,350
Dartmoor Pony Society	5,450
Exmoor Pony Society	3,700
Fell Pony Society	5,550
Highland Pony Society	3,600
Welsh Pony and Cob Society	5,650
Total	159,737



BREEDING Dartmoor pony mare and foal.

ADVANCING VETERINARY SCIENCE AND EDUCATION

In May 2005, the Board committed £1.9m to veterinary science and education for October 2005 to September 2006 with the aim of improving the health and welfare of racing and breeding Thoroughbred horses (2004/05: £1.9m). The Board is advised on this investment by its Veterinary Advisory Committee (VAC), which consults with the HRA Veterinary Committee and the British Equine Veterinary Association to ensure that funds are directed towards the Thoroughbred's needs and priorities.

Several changes in VAC membership took place in the year. Professor Barrie Edwards (University of Liverpool) retired after eight years' valuable service and, following the extension of the Levy from 2006 to 2009 announced in March 2005, re-appointments and new appointments were made to ensure that a full Committee would be available to serve until the Board's closure and provide continuity on the anticipated hand over of responsibility for veterinary funding to another body in 2009.

Of the £1.9m, £1.1m was applied to nine new equine veterinary research projects, £412,130 to veterinary education in the form of three new Veterinary Research Training Scholarships and two new Senior Equine Clinical Scholarships and £286,979 to equine infectious disease surveillance and epidemiology programmes at the Animal Health Trust (AHT). The balance was applied to, among other purposes, the publication and distribution of the annual Codes of Practice on equine venereal diseases (£18,500), sponsorship of the annual Thoroughbred Racing and Breeding Seminar at Cheltenham racecourse (£15,000), travel grants (£12,500), sponsorship for the annual BEVA Congress (£3,325) and publication of the Board's annual veterinary newsletter (£4,800).

Funding at £50,000, drawn from a saving in the prior year's veterinary budget, was approved during the year for the development of the Training and Welfare System, a Horseracing Regulatory Authority initiative that will allow racehorse trainers to keep, for the first time, internet-enabled data to monitor and improve the health of horses in their care by reference to their own records and by anonymous comparison to those of other trainers.

The Board also approved material funding for two additional veterinary purposes, in line with the Minister for Sport's statement, made as part of his March 2005 announcement of the extension of the Levy to 2009, that the Government wished "... to see the Board, while it continues in being, take over the funding commitments previously given by the British Horseracing Board in respect of the Equine Fertility Unit and the equine genome project (and) to maintain support for veterinary science and education at 2.5% of levy income". The statement was prompted by the BHB's withdrawal in 2004, as a result of adverse court judgements, from its commitments to provide annual core funding to the TBA Equine Fertility Unit (EFU) from 2005/06 on the cessation of the TBA's previous long-standing commitment to do so and to support the Equine Genetics Programme (EGP) at the AHT, due to begin in 2005/06.

Prior to the statement, the Board was already applying 2% of the Levy annually to veterinary purposes. An additional 0.5% was therefore available for these new purposes. Following scientific review of detailed

proposals from the EFU, and from the AHT and its collaborator, the Royal Veterinary College, the Board approved support in principle for both purposes for four years to 2009. A commitment of £300,000 a year was planned for the EFU and a grant of that amount was approved to support the Unit's core running costs for October 2005 to September 2006, underpinning its research, clinical and educational activities. Over the four years 2006 to 2009, the EGP will cost £1.3m, of which the Board plans to contribute £1m and the TBA £300,000. The Board approved a grant for the first year of £323,743.

The TBA's annual £75,000 contribution to the EGP stems from the £150,000 that it will have available annually for veterinary purposes from 2006 following the cessation of its core funding for the EFU. During 2005, formal arrangements were agreed for the TBA to channel the balance of £75,000 to equine veterinary research projects or education awards of interest to breeders through the Board's established grant awarding systems from 2006. The Board looks forward to this collaboration.

In committing funding to the EFU and EGP, the Board took the view that it would be timely to review the sources, distribution and management of all funding available within the Racing and Breeding Industries for equine veterinary science. As well as the Levy and breeders, racehorse owners are a significant source. A review was carried out in consultation with all industry organisations with key interests in Thoroughbred health and welfare and the results were presented to the Board's March 2006 Strategy Review. Of the options identified by the review, the Board preferred that of forming a single pool into which all available funds would be placed and which (on the expressed preference of participants in the review) would be based at the Board, for central allocation, management and administration. The feasibility of this concept is currently being investigated.

In addition to its involvement in the funding programmes described above, the VAC carried out its normal range of other activities in 2005/06. These included publication of the annual veterinary newsletter and a visitation to the Royal Veterinary College.

VETERINARY ADVISORY COMMITTEE

Professor Os Jarrett BVMS PhD MRCVS FRSE (*Chairman*)

Professor William Donachie BSc PhD CBiol FIBiol

Professor Barrie Edwards BVSc DVetMed FRCVS
(retired 30th June 2005)

Dr Celia Marr BVMS MVM DEIM DipECEIM MRCVS

Professor Peter O'Shaughnessy BSc PhD
(appointed 1st October 2005)

Mr John Parker MA VetMB FRCVS

Professor Tim Skerry BVetMed PhD CertSAO FRCVS

Dr Geraldine Taylor BSc

Mr John Walmsley MA VetMB CertEO DipECVS Hon FRCVS

Professor Claire Wathes BSc PhD DSc

Libby Archer BSc(Hons) (*Secretary*)

OTHER SERVICES TO RACING AND ASSOCIATED BODIES

HORSERACING FORENSIC LABORATORY (HFL)

Established more than 40 years ago, HFL is the only laboratory in the world engaged in both sports doping control and pharmaceutical contract research. This unique background in high-integrity analysis enables HFL to deliver a cost-effective, high quality and timely drug testing service for Horseracing's Regulatory Authority (previously the Jockey Club, now the HRA) and other sporting authorities and pharmaceutical companies world-wide.

Drug testing services at HFL for the GB Regulator alone in 2005/06 included 9,039 post race samples and 843 other samples including from horses in training. Of these, just 18 produced positive results and were the subject of stewards' enquiries. The average turn-around time from receipt of samples at HFL to reporting results was 7.3 days, a significant reduction from the previous year.

HFL's analytical work has always been backed by a strong commitment to research and development. Alongside the on-going research programmes to study metabolism and clearance times of licensed veterinary drugs, HFL has reacted to the shift towards proteins and antibodies as potential doping agents.

HFL is currently involved in two major research projects which will provide a technology platform from which to address new threats such as gene doping. One project is with the World Anti-Doping Agency (WADA, £200,000 over 3 years) looking at gene doping in human athletes, and the other funded by the Levy Board (£866,000 over three years). Both are focused on the identification of biological markers of abuse, rather than the direct identification of a doping event, a novel approach that could revolutionise doping control in the future.

HFL performs drug screening analyses for various equine sports authorities around the world and also for the National Greyhound Racing Club. In addition, HFL is providing analytical services to pharmaceutical companies and to other research organisations. HFL is now working for most of the UK's largest pharmaceutical companies, in addition to companies in Europe, the USA and Japan.

As well as providing significant income, these contracts enhance HFL's expertise in drug detection and its international reputation as a major research centre. After a period of difficult market conditions in the pharmaceutical sector, which restricted activity and profitability, HFL was pleased to go into 2006 with a record order book.

HFL also provides a pre-purchasing analytical service for equine sales, providing peace of mind for the buyer at the time of purchase.

During the year HFL was delighted to receive the East of England Excellence Award and the British Safety Council's 4 Star Safety Award. Both awards reinforce HFL's commitment to providing an exceptionally high quality service to all its customers. HFL is inspected and accredited independently each year by both the United Kingdom Accreditation Service (UKAS) and the Department of Health's Good Laboratory Practice Monitoring Program.

HFL is particularly proud of its developments for internal process and culture over recent years and of initiatives such as the creation of an HFL Public Speaking Group. The Group present to local community

groups, schools and colleges on a variety of topics including the use of supplements in sports and gene doping. This engages HFL with the non-scientific community and is an arena to spread the word on what it does and stands for.

BOARD OF HFL LTD

Mr Robert Hughes CBE (*Chairman*)

Sir John Robb

Sir Tristram Ricketts Bt

Major Michael Wyatt MBE

Dr Edward Houghton

Dr David Hall (*Chief Executive*)

Dr Steven Pleasance

Mr Steve Maynard

Dr David Griffiths

NATIONAL JOINT PITCH COUNCIL (NJPC)

The Board delegates to the NJPC responsibility for the administration of the on-course betting rings, in accordance with its National Pitch Rules (NPR). This remit was again fulfilled successfully in 2005/06. The Council again recommended to the Board a number of amendments to the NPR to ensure that the on-course betting market remains competitive and its administration continues to be of the highest standard. Copies of its 2005 Annual Report may be obtained from www.njpc-ltd.co.uk

INDEPENDENT BETTING ARBITRATION SERVICE (IBAS)

In accordance with its policy of providing improved arrangements for the protection of punters, the Board again made a financial contribution to the costs of IBAS, of £71,000 (2004/05: £59,000). Copies of its 2005 Annual Report may be obtained from: The Secretary, IBAS, PO Box 44781, London, SW1W 0WR or from www.ibas-uk.com.

CHARITABLE DONATIONS

Each year the Board makes donations to charities associated with racing, gambling and equine welfare. Three charities were selected for support in 2005/06, with donations of £6,000 being made to each of the Mark Davies Injured Riders Fund and the International League for the Protection of Horses, and £12,000 to Racing Welfare.

RETRAINING OF RACEHORSES

The Board supports the BHB charity, Retraining of Racehorses, the aims of which are to raise funds to provide and maintain facilities for the retraining and rehoming of ex-racehorses and to raise the profile of ex-racehorses in the wider equestrian community in order to promote their adaptability for other equestrian pursuits. The charity is supported by a wide range of sectoral interests in the Racing, Thoroughbred Breeding and Bookmaking Industries. The Board's contribution in 2005/06 was £54,000 (2004/05: £52,000).

44th & 45th LEVY SCHEMES



THE 44TH LEVY SCHEME

The 44th Levy Scheme (1st April 2005 to 31st March 2006) was agreed between the Board and the Bookmakers' Committee in September 2004.

A bookmaker's 2005/06 levy contribution was calculated by reference to the gross profit on British Horserace Betting Business (BHBB). For bookmakers who could not accurately calculate their gross profit derived from BHBB (excluding Fixed Odds Betting Terminals), a default percentage of 49% applied.

For off-course betting through licensed betting offices or media platforms (cash, telephone or internet) showing a gross profit on BHBB of £75,000 or more per year, a flat percentage charge of 10% applied. Abated charges applied to any licensed betting office/media platform with gross profits of less than £75,000.

Levy for on-course betting was charged at 6% of gross profits derived from racecourse BHBB, with a system of abated charges for a business showing a gross profit of less than £75,000 per 365 day year. On-course bookmakers who use and/or operate a betting exchange were also liable to pay levy at a rate of 10% on their gross profits derived from BHBB

Levy payable by bet-brokers including betting exchanges was charged at a rate equivalent to 10% of their gross profits, defined as gross commission on BHBB deducted from the winnings paid out to bettors and bet-takers. Spread betting business was charged at 2% of gross profits.

Bookmakers who conducted BHBB on point-to-point and/or harness racing and/or trotting events paid a fixed contribution of £142.

The 44th Levy Scheme is forecast to yield some £89.5m.

THE 45TH LEVY SCHEME

The 45th Levy Scheme (1st April 2006 to 31st March 2007) was agreed between the Board and the Bookmakers' Committee in October 2005. Details are available on the Board's website, www.hblb.org.uk.

A bookmaker's 2006/07 levy contribution is calculated by reference to the gross profit on BHBB.

For off-course betting through licensed betting offices or media platforms (cash, telephone or internet) showing a gross profit on BHBB of £80,000 or more per year, a flat percentage charge of 10% applies. Abated charges apply to any licensed betting office/media platform with gross profits of less than £80,000.

Levy for on-course betting is charged at a flat fee of £182 plus a fixed ring charge for each racecourse attendance (£4 for the silver/minor rings and £8 for all other rings). On-course bookmakers who use and/or operate a betting exchange are also liable to pay levy at a rate of 10% on their gross profits derived from BHBB.

Levy payable by bet-brokers including betting exchanges is charged at a rate equivalent to 10% of their gross profits, defined as gross commission on BHBB deducted from the winnings paid out to bettors and bet-takers. Spread betting business is charged at 2% of gross profits.

Bookmakers who conduct BHBB on point-to-point and/or harness racing and/or trotting events pay a fixed contribution of £146.

CONTRIBUTIONS FROM THE HORSE RACE TOTALISATOR BOARD

The Board agreed that, for the 44th and 45th Levy periods, the Tote should contribute as if it were a bookmaker in respect of off-course SP

and Tote odds, cash, internet and telephone BHBB and additionally, in respect of Tote Direct, at the rate of 10 % of gross profits.

The Tote's contribution in respect of the 44th Levy period was some £8.2m (43rd Levy period: £8.3m).

THE BOOKMAKERS' COMMITTEE

The main function of the Committee is to recommend annually to the Board the categories, rates, conditions and definitions of the Levy Scheme for the following year and, if appropriate, to revise such recommendations in the light of observations made by the Board. The Committee was therefore in negotiation with the Board during autumn 2005 on the terms of the 45th Scheme.

The Committee's recommendations for the 45th Scheme were similar in most respects to those of the 44th Scheme, although a change was made to the threshold above which licensed betting offices are assessed for levy at 10% of gross profits (increased from £75,000 to £80,000) and to the basis upon which racecourse bookmakers pay levy. This was changed from a percentage of gross profits to a flat fee and a fixed ring charge per attendance as experience had shown that the mechanism was complex and time consuming to administer and difficult to enforce accurately. The recommendations were accepted by the Board on 31st October 2005 following protracted discussions and are reflected in the Scheme described above.

The default percentage is the percentage assumed to be attributable to BHBB to be used on Forms of Declaration by those bookmakers unable to identify the exact figure for their particular business. The figure for the 44th Scheme was derived by taking the actual outturn of such business as reported by Coral, Ladbroke, William Hill, BetFred and Corbett Bookmakers, averaged across their combined licensed betting office estates. The reporting period was the calendar year 2005 and the sample, which included over 6,000 shops, yielded a final figure of 49%, the same as under the previous Scheme.

The Committee expresses its thanks to those who have contributed to this exercise over the last three years and to those who will continue to do so.

At time of writing, the Committee estimates that the yield from the 44th Levy Scheme will be some £89.5m.

Mr John Whittaker, Managing Director of Stanley Racing Ltd and an ABB appointee to the Committee since June 1999, relinquished his seat on the Committee in July 2005 following the acquisition of his company by William Hill plc. Mr Michael Corbett, a Director of Corbett Bookmakers Ltd, was appointed by the ABB in his place.

Mr Vaughn Ashdown, Chief Executive of Coral Eurobet, stood down from the Committee in January 2006 following the acquisition of the company by Gala Group plc. Mr Ashdown, who had been a member of the Committee since June 2000, was succeeded by Mr Neil Goulden, Group Chief Executive of the Gala Group.

The costs of the Committee, which in 2005/06 amounted to £211,000 (2004/05: £180,000), are met by the Board.

THE BOOKMAKERS' COMMITTEE 2005/06

Warwick Bartlett ABB (*Chairman*)

Chris Bell Ladbrokes plc (*Vice-Chairman*)

Vaughn Ashdown Coral Eurobet plc (until January 2006)

Howard Chisholm ABB

Michael Corbett ABB

Neil Goulden Gala Group (from January 2006)

David Harding William Hill plc

George Moir NAB

Will Roseff ABB

Alan Ross Ladbrokes plc

Ian Spearing William Hill plc

Wilf Walsh Coral (UK) Ltd

Andrew Watson NAB

John Whittaker ABB (until July 2005)

Edward Wray The Sporting Exchange

Group Captain Patrick Nixon (*Secretary*)

ABB: appointed by the Association of British Bookmakers

NAB: appointed by the National Association of Bookmakers

Levy Yield – 10 year record

2005-2006	£89.5m
2004-2005	£97.3m
2003-2004	£102m
2002-2003	£74.5m
2001-2002	£67m
2000-2001	£55.2m
1999-2000	£53.9m
1998-1999	£51.5m
1997-1998	£55.5m
1996-1997	£53.7m

Levy Payments in advance – £'000 collections performance

2004/05 43rd Levy

82,705

90,007 (109%)

2005/06 44th Levy

97,805

94,113 (96%)

Legal Payments collectable

Legal Payments collected

POLICY STATEMENT



POLICY STATEMENT

Introduction

1. Section 24(1) of the Betting, Gaming and Lotteries Act 1963 requires the Horserace Betting Levy Board to assess and collect monetary contributions from bookmakers and the Horserace Totalisator Board, and to apply them for purposes conducive to any one or more of:

- (a) the improvement of breeds of horses;
- (b) the advancement or encouragement of veterinary science or veterinary education;
- (c) the improvement of horseracing.

2. This Policy Statement sets out 2006/07 strategic objectives and, within that framework, income and expenditure policy objectives, which the Board will pursue in its discharge of these statutory obligations. It will continue to review its objectives annually.

3. The Board will continue to monitor the achievement of its objectives and to seek to ensure that it is securing value for money and cost effectiveness both in its direct expenditure and in its funding of its subsidiary, HFL Limited (Horseracing Forensic Laboratory).

STRATEGIC OBJECTIVES

4. The Board will, within current financial constraints, pursue the following complementary strategic objectives:

- (a) to support, as cost-effectively as possible, the provision, countrywide, of horseracing in a form which retains high standards of integrity and is attractive to the racehorse owner, the racegoer and the off-course punter, thus protecting and making optimum use of the Board's levy income;
- (b) to apply funds at an appropriate level to the improvement of breeds

- of horses and to veterinary science and education;
- (c) to encourage a yet more commercial approach within the racing industry, with a continuing emphasis on modernisation and tight control of central costs;
- (d) to seek to achieve a levy agreement covering the year commencing 1st April 2007;
- (e) to ensure that the optimum use is being made of the Board's assets for the benefit of racing;
- (f) to tailor its financial support for the racing industry so as to incentivise recipients to increase their own direct, or indirect, contributions and to strive to improve their performance against the criteria of the Board's other policy objectives;
- (g) to maintain adequate cash balances;
- (h) to contribute to the consideration currently being given by the Minister for Sport to the continuation of the Levy beyond 2009 and to respond appropriately to the Government's decision;
- (i) to maintain its support for the Winter evening opening of licensed betting offices.

POLICY OBJECTIVES

Levy Board Income

Betting Turnover and Levy Rates

5. In order to secure the income through which it discharges its responsibilities, the Board will be prepared to tilt its support for racing in a direction which helps to generate horserace betting turnover and gross profits, thus enhancing the Levy and therefore the funds available for pursuing its statutory and policy objectives, whilst taking proper account of the needs of racegoers, the horse population and all the other interests involved in racing. In this connection the Board

recognises the important role played by the Fixture Criteria and the Fixtures Incentive Scheme.

6. The Board will continue to support improvements to the arrangements for punter protection.

7. It is the Board's intention to work with the Bookmakers' Committee to secure a levy agreement covering 2007/08 taking account of the informal agreement reached between the Board, the Bookmakers' Committee and the British Horseracing Board (BHB) in March 2005 when the Minister for Sport agreed the extension of the Levy and of the further Government announcement about the future of the Levy, expected in July 2006. Pending that announcement, financial planning will continue to be based upon the assumption that the Board will close in September 2009.

FINANCIAL POLICY

8. The Board will not borrow, other than when absolutely necessary for very short term cash flow purposes.

9. The Board will seek to budget during 2006/07 and subsequently, for adequate cash balances, sufficient to minimise any adverse effects on the funding of the racing industry from any fluctuations in levy income. The cash balances will be kept under regular review.

10. The Board will seek to ensure that the Capital Fund will continue to support new loans to racecourses by the re-investment of loan repayments. Provisional allocations of funds for 2006/07 and the subsequent two years have already been agreed.

11. The Board will budget for a deficit on revenue account in 2006/07 and fund it from cash balances brought forward.

LEVY BOARD EXPENDITURE

Improvement of Horseracing

The Integrity of Racing

12. The Board's first priority for the expenditure of that part of its funds devoted to the improvement of horseracing remains the most cost-effective provision of technical, security and officials' services, for the protection of the integrity of racing, in the interests of the racing public, the punter and participants. It will provide increased funds towards the cost of these services and, for the first time, make a substantial contribution to the head office costs of the Horseracing Regulatory Authority.

13. The Board will continue to contribute in 2006/07 to the cost-effective provision of high quality camera patrol and photofinish services, and of a research-backed drug screening service at the Horseracing Forensic Laboratory.

RACECOURSES

General

14. The Board will maintain its support for the provision of a country-wide live horseracing entertainment and wishes, in principle, to see existing racecourses continue in business. It will not, however, support any racecourse regardless of cost.

15. The Board will not be prepared to give a racecourse special financial assistance by way of revenue support to enable it to remain in business.

CAPITAL SUPPORT

16. The Board, in recognition of the need to promote racing as a spectator sport and, therefore, to improve facilities for the racegoing public and punters, will support a continuing programme of improvements with interest-free loans from its Capital Fund.

17. The Board, in assessing priorities, will seek to direct funds to improve facilities for the general public, particularly for innovative projects and those aimed at providing for families and young racegoers. It will continue to accord a high priority to projects connected with the improvement of the track and working areas (such as weighing rooms, stables and hostels). Priority will also be given to projects relating to safety and integrity.

18. In reviewing project proposals, regard will be taken of the ability of racecourses to exploit other sources of contribution, including commercial borrowing. The Board's critical review of racecourses' applications for assistance will continue to embrace, with increased emphasis, discussions of business plans, marketing strategies, prize money policies and an appraisal of management initiatives, performance and potential. Support for projects may be made conditional on improvements in management when this is judged to be deficient. Loan funding will be restricted to those racecourse proposals which, as well as meeting the foregoing criteria, seek to address environmentally-friendly principles and to support sustainable development.

19. The Board will help finance both revenue-earning and non revenue-earning projects on racecourses, by interest-free loans, repayable over the shortest practicable period and/or by capital credit grants. Where a racecourse elects to fund a material part of a project's cost via the latter means, no cash investment will be required.

20. Where appropriate, security for a loan will be required, taking into account the group's debt ratio if the racecourse concerned is part of a group. In so far as the Board has insufficient funds to satisfy all racecourse applications in respect of revenue generating projects, the allocation process will take into account the respective forecast returns on investment.

21. During the course of the year the Board will invite racecourses to update their five year plans for their development projects, together with supporting loan and capital credit grant applications.

CAPITAL CREDITS SCHEME

22. The Board will retain the Capital Credits Scheme but projects which racecourses wish to finance in this way will continue to be subject to the same procedures for examination, consideration and control as those applied to schemes which are proposed for financing from its Capital Fund. In considering such proposals the Board will wish to satisfy itself, in the context of the racecourse's long-term improvement programme, as to priorities.

GROUPING

23. The Board is mindful of the advantages which can accrue to racecourses from grouping, at least for management, financial and promotional purposes, and will, when relevant, include in its discussions with racecourses about capital assistance, consideration and encouragement of grouping potential.

NEW RACECOURSES

24. In reviewing any application for revenue grants in respect of a new racecourse, to which the Horseracing Regulatory Authority indicate a willingness in principle to grant a licence, and the BHB to grant, or to approve the transfer of, fixtures, the Board will have particular regard to the long-term viability of the project and will also assess its likely impact on existing racecourses and the Fixture List.

PRIZE MONEY

25. Prize money levels affect all those participating in the British Racing industry and have a direct influence on the overall quality of the horse population. In recognition of this, the Board plans, subject to further review, to make a contribution to prize money in 2007 of £54m. It will continue to incentivise racecourses, through the Merit Table, to complement this allocation by maximising their own contributions, with a view to increasing the size of the total prize money pool. The Board recognises however that, in determining their allocations, racecourses will have regard to their overall investment priorities.

26. Basic Daily Rates for 2007 will again be calculated on the basis that 7.5% of the total funding will be allocated by reference to the off-course betting turnover generated by each racecourse. Of the balance, 40% will be allocated in order to underpin Minimum Values, and 60% will be allocated by reference to the Merit Table system. This formula will be kept under review.

27. Differing funding levels for criteria and non-criteria fixtures will be retained for 2007. The Board will pay Basic Daily Rates (BDRs) in 2007 of 100% to all afternoon, and 80% to all evening, criteria fixtures. BDRs of 50% will continue to be paid for non-criteria fixtures.

28. The Board will also utilise prize money to stimulate off-course betting turnover through continuing support for the Seventh Race Scheme. It will also make a continuing contribution to the Divided Race Fund.

FIXTURE CRITERIA

29. In order to support the development of horseracing, the Fixture Criteria for 2007 will provide support for 1,392 funded fixtures, an increase of 2 on 2006, with funding for a further 22 fixtures in the event that year round evening opening of Betting Offices commences, as anticipated, in September 2007. In other respects, the criteria will remain unchanged from 2006.

30. Funding for the 2007 Fixtures Incentive Scheme, which has been reviewed in consultation with BHB and the Racecourse Association, will be restricted to £6.75m.

APPEARANCE MONEY SCHEME

31. The Board will maintain its support for the Appearance Money Scheme in 2006 with an allocation of £3.1m. The 2006 Scheme will again focus on support for Sunday racing and certain categories of race that tend to attract small fields. Mares in steeplechases will again be supported. The Board will review the Scheme and the allocation for 2007 in Autumn 2006, in consultation with interested parties.

INDUSTRY TRAINING AND EDUCATION

32. The Board will continue to contribute to the financing of the British

Horseracing Education and Standards Trust (BHEST) system of National Vocational Qualifications for stable staff, to the National Stud's Training Scheme and to the TBA's British Stud Staff Project. It will again make available funding for the BHEST education programme.

OTHER HEADS OF EXPENDITURE

33. The Board will make increased Point-to-Point Grants in 2007.

34. The Board will again provide a budget allocation in 2006/07 for Research and Development (R and D) in the racing industry, and will be prepared to consider, on their merits, applications for R and D grants.

35. The Board will in 2006/07 make to Lambourn the final matched funding grant in its programme of support for strategic improvements to gallops at major training centres.

36. The costs in 2006/07 of the Future Funding of Racing Review Group, chaired by Lord Donoughue, will be met by the Board.

IMPROVEMENT OF BREEDS

37. The Board will continue its support for Breeders' Prizes Scheme on the revised basis agreed with BHB and the TBA for 2006.

38. The Board will provide funding in 2006 to support the continuation of the Owners' Premium Scheme. This will involve premiums of 5% of prize money for qualifying horses in qualifying races, with 10% for National Hunt fillies and mares. This is estimated to cost £1.24m in 2006.

39. Funding for Horse and Pony Societies in 2006/07 will be allocated on the basis of the agreed arrangements, which provide for funding for rare and heavy breeds of horses and ponies. Additions to the list of such breeds will result in an increased financial allocation.

40. The Board will continue to work in 2006/07 with the National Stud and officials of the Department for Culture Media and Sport (DCMS) to complete the transfer of the Stud to a fully independent Charitable Trust.

VETERINARY SCIENCE AND EDUCATION

41. The Board will maintain support to veterinary science and education in 2006/07, including the surveillance of infectious respiratory diseases by the Animal Health Trust and financial contributions to the Equine Fertility Unit and the Equine Genetics Programme. In continuing to examine carefully the recommendations of its Veterinary Advisory Committee, which will consult with the Racing industry as to research priorities, the Board will pay particular regard to the application of individual projects to the racing and breeding of Thoroughbred horses.

42. The Board's financial support for veterinary science and education will equate to not less than 2.5% of forecast levy income in 2006/07.

CHARITABLE DONATIONS

43. The Board will continue to make donations to charities whose work is relevant to the interests of the Racing and Bookmaking industries, including to the charitable Retraining of Racehorses.

HORSERACING FORENSIC LABORATORY (HFL)

44. The Board will progress the sale of HFL Ltd following recommendations from its HFL Ownership Review Group, as endorsed by the Minister for Sport.

PUNTER PROTECTION

45. The Board will continue to support improved arrangements for the protection of on and off-course punters, in the interests of maximising levy income. To this end, it will maintain a financial contribution to the costs of the Independent Betting Arbitration Service (IBAS), so as to enable it to continue to offer its services to punters. The future role of this body, in the context of the Gambling Act 2005, will be the subject of further consultations with the Gambling Commission and, subsequently, the industry.

APPROVAL OF BETTING AREAS

46. The NJPC's seventh annual report and recommendations in respect of the National Pitch Rules will be considered.

GREEN POLICY

47. The Board has adopted a green policy and has introduced environmentally-friendly principles into all relevant areas of its work and activities. This is being applied to all purchasing and office management procedures. It is also being applied as a condition, where appropriate, to its expenditure for the benefit of the racing industry.

DISABILITY ACTION PLAN

48. The Board will ensure that the needs of disabled people are fully considered as its policies are developed. In particular, racecourse capital project proposals will be scrutinised to ensure they provide for disabled spectators to have access and viewing of the sport in compliance with the intended requirements of the Disability Discrimination Act.

BOARD STAFF

49. Pending a further Government announcement about the future of the Levy, the Board will continue to offer to its employees appropriate financial incentives designed to retain and motivate them in the period through to the currently planned closure date of September 2009, and will continue to make budgetary provision for closure costs, including those associated with its Retirement Benefits Scheme.

RELATIONS WITH OTHER BODIES

50. The Board will seek to maintain good working relationships with the various authorities and organisations with which it works on a regular basis within the Racing and Bookmaking Industries, and with DCMS and the Gambling Commission.

CORPORATE GOVERNANCE

The Board's obligations in respect of corporate governance have been fulfilled by the following:

CODE OF PRACTICE

The Board has adopted a Code of Practice designed to ensure a high standard of corporate governance incorporating those main provisions of the Treasury's recommended Code of Practice that were deemed relevant.

REGISTER OF MEMBERS' INTERESTS

The Members of the Board have made a declaration of their personal interests relevant to their responsibilities as members of the Board. The register of members' interests is kept at the Board's offices which may be viewed on request, and is also available on the Board's website, www.hblb.org.uk.

STATEMENT ON INTERNAL CONTROL

As Accounting Officer for the Horserace Betting Levy Board and its subsidiary, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Board's policies, aims and objectives, and in accordance with the Betting, Gaming and Lotteries Act 1963 (as amended), whilst safeguarding the public funds and the Board's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process to identify the principal risks to the achievement of the Horserace Betting Levy Board's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31st March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

As Accounting Officer, I also have the responsibility for reviewing the effectiveness of the system of internal control. The Horserace Betting Levy Board has established the following processes:

- monthly Board meetings which are also attended by the executives;
- an Audit Committee which meets three times a year;
- an Annual Report from the Audit Committee to the Board;
- internal audit and risk review undertaken by external advisors;
- an internal control and risk manual;
- allocation of risk ownership;
- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Board;
- regular reviews by the Board of quarterly and annual financial reports which indicate financial performance against the budget;
- as appropriate, formal project management disciplines.

AUDIT COMMITTEE

The Board's Audit Committee met three times during the year to carry

out its duties in accordance with its terms of reference, which are:-

- to review the Board's internal and external financial statements and reports to ensure that they are appropriate and reflect best practice;
- to recommend to the Board the appointment of external auditors;
- to approve arrangements for audits;
- to advise the Board on its annual and long term audit programs and to approve the response to the auditor's Management Letter;
- to review the effectiveness of the Board's internal control systems;
- to report once a year to the Board on the discharge of the above duties;
- to review the Board's risk controls and compliance with the Treasury's recommended Code of Practice;
- to review Members' and Executives' register of interests and advise on any conflicts;
- to review the Board's banking and investment arrangements;
- to appoint the Board's internal audit and risk advisors and review their findings;
- to consider any other matters when requested to do so by the Board.

My review of the effectiveness of the system of internal control is informed by the Audit Committee, and the executive managers within the Board, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in any management letters and other reports.

SIR TRISTRAM RICKETTS BT

Chief Executive and Accounting Officer

FREEDOM OF INFORMATION

The Board has continued to meet the requirements of the Freedom of Information Act 2000. The Board's website, www.hblb.org.uk, contains full details of information published by the Board and how to make a request under the Act.

RACE RELATIONS

The Board continues to operate, in all areas of its activity, in line with the Race Relations (Amendment) Act 2000 and its own Equal Opportunity Policy, and continues to monitor recruitment and employment. The racial composition of employees is consistent with that of the population of England and Wales, and there continues to be full equality of access to promotion, training and other features of employment, regardless of race, within the Board.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE HORSERACE BETTING LEVY BOARD

We have audited the group and parent company financial statements ('the financial statements') of Horserace Betting Levy Board for the year ended 31st March 2006 which comprise the group revenue account, the statement of total recognised gains and losses, the group and Board balance sheets, the group cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Board's members, as a body, in accordance with the terms of our appointment under section 31 (1) of the Betting Gaming and Lotteries Act 1963 (as amended). Our audit work has been undertaken so that we might state to the Board's members those matters we are required to state to them in an auditors' 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 Board and the Board's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE MEMBERS AND AUDITORS

The members' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the Statement of Responsibilities of the members of the Horserace Betting Levy Board.

Our responsibility is to audit

the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the HM Treasury's guidance on the Statement on Internal Control and we report if it does not. We are not required to consider whether the Board's Statements on Internal Control cover all risks and controls, or form an opinion on the effectiveness of the group's Corporate Governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review of the Year, Improvements of Horseracing, Breeds, Veterinary and Other Services to Racing and Associated Bodies, 44th and 45th Levy Schemes and the Policy Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend

to any other information.

We report to you whether in our opinion the information given in the Chairman's Statement and the Chief Executive's Review of the Year is consistent with the financial statements.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Board's affairs as at 31st March 2006 and of the Group's deficit for the year then ended;
- the information given in

the Chairman's Statement and the Chief Executive's Review of the Year is consistent with the financial statements.

EMPHASIS OF MATTER – BOARD CLOSURE

In forming our opinion, which is not qualified, we have considered the disclosures made in note 1 of the financial statements concerning the current uncertainty as to the timing and manner in which the Board's assets and certain of its activities are to be transferred to another body. The ultimate outcome of this matter cannot be determined and the financial statements do not include all the adjustments that may arise on the transfer of the Board's assets and certain of its activities to another body.

PKF (UK) LLP

Registered Auditors
London, UK
14th June 2006

GROUP REVENUE ACCOUNT FOR THE YEAR TO 31st MARCH 2006

	Notes	2006 £'000	2005 £'000 As restated
Revenue			
Levy income receivable for:			
44th Levy Scheme	2a	89,500	–
43rd Levy and previous years' schemes	2a	(583)	100,163
		88,917	100,163
Levy income receivable from Horserace Totalisator Board	2a	8,196	8,309
		97,113	108,472
Other income		3	–
Laboratory third-party services		4,713	4,238
Interest receivable		1,735	1,636
Total revenue		103,564	114,346
Expenditure			
Expenditure costs:			
Improvement of horseracing	4a	92,721	88,186
Other expenditure	4b	15,337	12,397
Pension finance costs		162	106
Total expenditure		108,220	100,689
Operating (deficit)/surplus	5	(4,656)	13,657
Exceptional items	6	(96)	(230)
Profit on disposal of fixed assets		1,001	10
Taxation	9	(62)	(111)
(Deficit)/surplus for the year transferred to reserves	17	(3,813)	13,326

The deficit for the year arose from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR TO 31st MARCH 2006

	Notes	2006 £'000	2005 £'000 As restated
(Deficit)/surplus for the financial year		(3,813)	13,326
Actuarial (loss) on the defined benefit pension scheme	20	(9,774)	(2,988)
Total recognised gains and losses for the year		(13,587)	10,338
Prior year adjustments arising on the adoption of FRS 17	17	(1,862)	
Total recognised gains and losses since the last report and accounts		(15,449)	

BALANCE SHEETS AS AT 31st MARCH 2006

	Notes	Group		Board	
		2006 £'000	2005 £'000 As restated	2006 £'000	2005 £'000 As restated
Fixed assets					
Tangible fixed assets	10	12,196	12,244	135	167
Investment in HFL Ltd	11	–	–	10,000	10,000
Loan to HFL Ltd	11	–	–	2,704	2,740
Loans	13	35,609	36,729	35,609	36,729
Total fixed assets		47,805	48,973	48,448	49,636
Current assets					
Stocks		122	80	–	–
Debtors	14	4,660	13,438	2,470	12,008
Loans due within one year	13	12,570	10,677	12,570	10,677
Current asset investments		28,500	35,000	28,500	35,000
Bank deposits and cash in hand		3,256	2,572	2,677	2,227
Total current assets		49,108	61,767	46,217	59,912
Creditors: amounts falling due within one year	15	(19,324)	(23,003)	(17,992)	(22,589)
Net current assets		29,784	38,764	28,225	37,323
Total assets less current liabilities		77,589	87,737	76,673	86,959
Provision for liabilities and charges	16	(1,107)	(1,095)	(1,107)	(1,095)
Net assets excluding pension liability		76,482	86,642	75,566	85,864
Pension liability	20	(5,012)	(1,585)	(5,012)	(1,585)
Net assets including pension liability		71,470	85,057	70,554	84,279
Reserves	17	71,470	85,057	70,554	84,279

These financial statements were approved and authorised for issue by the Board on 14th June 2006 and were signed on its behalf by:

R V Hughes CBE Chairman

Sir Tristram Ricketts Bt Chief Executive

GROUP CASH FLOW STATEMENT FOR THE YEAR TO 31st MARCH 2006

	Notes	2006		2005	
		£'000	£'000	£'000	£'000
Operating activities					
Cash received from bookmakers		101,340		108,024	
Cash received from Horserace Totalisator Board		7,793		7,003	
Cash received from third parties		4,713		4,238	
Expenditure		(120,375)		(96,080)	
Net cash (outflow)/inflow from operating activities	18		(6,529)		23,185
Returns on investments and servicing of finance	19		1,799		1,491
Taxation			(111)		–
Capital expenditure and financial investment	19		(975)		(10,895)
Cash (outflow)/inflow before use of liquid resources and financing			(5,816)		13,781
Management of liquid resources	19		6,500		(13,000)
Increase in cash in the year			684		781
Reconciliation of net cash flow to movement in net funds					
Increase in cash in the year			684		781
Cash (outflow)/inflow from movement in liquid resources			(6,500)		13,000
Movement in net funds in the year			(5,816)		13,781
Net funds at the start of the year			37,572		23,791
Net funds at the end of the year			31,756		37,572

	At 1st April 2005	Cashflow	At 31st March 2006
	£'000	£'000	£'000
Changes in net funds			
Bank deposits and cash in hand	2,572	684	3,256
Current asset investments	35,000	(6,500)	28,500
Total	37,572	(5,816)	31,756

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR TO 31st MARCH 2006

1. BASIS OF PREPARATION

The Secretary of State announced in March 2005 that the Board will cease operations in 2009 following the passing of the Horserace Betting and Olympic Lottery Act 2004. However the closure of the Board is currently under review by the Secretary of State. Pending the outcome of this review the Chief Executive considers it appropriate to continue to prepare the financial statements on the going concern basis. Accordingly, the financial

statements do not include any adjustments that might result from the closure of the Board or to the transfer of its assets and certain of its activities to another body, other than the exceptional items disclosed in note 6.

The Group financial statements incorporate the financial statements of the Board and its subsidiary undertaking HFL Limited. The Board has responsibility for the National Stud under severe long-term restrictions imposed at the time of its transfer from the then Ministry of Agriculture,

Fisheries and Food, as described in note 12. The financial statements of the National Stud which are not included in the financial statements of the Board and the Group, are set out on pages 48-56.

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

2. PRINCIPAL ACCOUNTING POLICIES

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

a. (i) Levy income

Levy income receivable from bookmakers represents the total amount which it is estimated will be collected in respect of the Levy Scheme for the year (the 44th Levy Scheme for the year ended 31st March 2006) and an amount in respect of adjustments to estimates made in previous years.

Levy income from the Horserace Totalisator Board represents the contribution receivable in respect of the year.

a. (ii) Laboratory third party services

Laboratory third party services comprise income mainly from the testing of samples for drugs and is recognised when the goods and services are supplied (excluding VAT and trade discounts).

b. Stocks

Stocks are stated at the lower of cost and net realisable value.

c. Depreciation

Depreciation is calculated to write off the cost, less residual value, of tangible fixed assets by equal monthly instalments over their estimated useful lives. Estimated useful lives are as follows:

Freehold buildings	10 to 35 years
Short leasehold premises	Over the period of the lease
Plant and machinery	24 to 120 months
Motor vehicles	36 to 48 months

Assets in the course of construction are not depreciated.

Freehold land is not depreciated.

d. Deferred taxation

Deferred tax is provided in respect of all timing differences on a full provision basis, at the average rates of tax expected to apply when the timing differences reverse. This is in accordance with the requirements of FRS 19 "Deferred tax".

e. Pension schemes

The group operates a defined contribution and a defined benefit pension scheme.

The cost of the defined contribution scheme is charged to the group revenue account in the year to which it relates.

For the defined benefit scheme any increase in the present value of the liabilities of the scheme expected to arise from the current service of employees in the year is charged to the group revenue account. The expected return on the scheme's assets and the expected increase during the year in the present value of the scheme's liabilities are included as pension finance income or costs as appropriate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme assets, to the extent they are considered recoverable, and pension scheme liabilities, are recognised in the balance

sheet and represent the difference between the market value of scheme assets and the present value of scheme liabilities. Pension scheme liabilities are determined on an actuarial basis using the projected unit method and are discounted at a rate using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

As required by Financial Reporting Standards, on 1st April 2005 the Group fully adopted FRS 17 'Retirement Benefits'. As a result comparative figures have been restated. The impact on the group revenue account for the year to 31st March 2006 was a reduction in the deficit of £6,347,000. (2005: increase in surplus of £5,905,000) and the impact on the Group's reserves at 31st March 2006 was a reduction of £2,372,000.

f. Leases

Where the Board enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the group revenue account, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease rentals are charged in the group revenue account on a straight line basis over the lease term.

g. Liquid resources

Liquid resources comprise current asset investments which are readily convertible into known amounts of cash.

h. Improvement of Horseracing & Veterinary Grants

Grants payable in respect of the improvement of horseracing and advancements of veterinary science and education can cover a period of more than one year. These are charged to the group revenue account in the year in which the unconditional commitment to make payment falls, except where they are performance related, in which case they are charged over the period covered by the grant.

3. BETTING, GAMING AND LOTTERIES ACT 1963

The income and expenditure of the Board is in accordance with the provisions of the above Act (as amended). Specific applications of revenue relate to the following sections of Part 1 of the Act:

Section

24 (1) (a) and 25 (2) (d)	Improvement of breeds of horses
24 (1) (b) and 25 (2) (d)	Advancement or encouragement of veterinary science or veterinary education
24 (1) (c) and 25 (2) (d)	Improvement of horseracing
24 (2) (a) and 24 (6)	Administration
25 (2) (c)	Charitable payments
25 (2) (d)	Loans granted and investments made

The Levy income receivable from bookmakers and the contributions from the Horserace Totalisator Board are governed by Sections 27 and 30 of the above Act, as amended, respectively.

4. EXPENDITURE COSTS

4a. Improvement of Horseracing

	2006 £'000	2005 £'000
Owners		
Prize money	59,721	57,716
Prize money for divided races	1,001	1,693
Appearance money scheme	2,846	3,111
Owners' premium scheme	451	40
	64,019	62,560
Racecourses		
Abandoned fixtures	660	430
Fixture incentive scheme	7,219	6,528
	7,879	6,958
Integrity services		
Fixture fees	9,342	8,746
Integrity fees	4,950	4,872
Security grant	–	38
Horserace Scientific Advisory Panel and related bodies	11	10
	14,303	13,666
HFL Ltd		
HFL Ltd – Jockey Club services	3,621	3,456
New Threats Research Project	290	–
	3,911	3,456
Training		
Industry training	874	798
	874	798
Other		
Point-to-point meetings	318	289
Research and development	58	–
IBAS	71	59
Training gallops	220	250
Enquiry room	–	140
Weighing room scales	225	–
TRICL IV	240	–
Future Funding Review Group	318	–
Channel 4 Racing	267	–
Sundry	18	10
	1,735	748
	92,721	88,186

During the year various racecourses waived their right to prize money, appearance money, fixture incentive and fixture fees and integrity fees to a total of £32,127,000 (2005: £28,945,000). When the Board approves a scheme for a racecourse improvement, the racecourse proprietor is eligible to claim capital grants in respect of its scheme up to a total of the amount waived, insofar as this has not been utilised previously. However, any grants made are at the Board's discretion. The waived amount is therefore included in the above figures for prize money, fixture incentive, fixture fees, integrity fees and appearance money while the unutilised amount of the Board's commitment to provide capital grants is accounted for as a liability (see note 15).

4. EXPENDITURE COSTS *continued*

4b. Other Expenditure

	2006 £'000	2005 £'000 As restated
Racecourse capital grants	–	120
National Stud endowment grant	1,000	1,000
Wavertree Charitable Trust endowment grant – Charities Aid Foundation	1,019	–
Improvement of breeds:		
Breeders' prizes scheme	1,773	2,225
Breed societies	160	145
Advancement of veterinary science and education	3,178	1,393
Administration costs	3,606	3,629
Laboratory operating expenses	4,312	3,630
Bookmakers' Committee costs	211	180
Charitable payments	78	75
	15,337	12,397

5. OPERATING (DEFICIT)/SURPLUS OF REVENUE OVER EXPENDITURE BEFORE TAXATION

	2006 £'000	2005 £'000
The Group operating surplus/(deficit) is stated after charging the following:		
Remuneration of Board Members, including pension contributions	131	128
Depreciation	1,194	1,132
Operating lease rentals	326	370
Auditors' remuneration: – audit fees	38	36
– other fees	41	22

6. EXCEPTIONAL ITEMS

	2006 £'000	2005 £'000 As restated
Exceptional items are made up as follows:		
Closure costs – redundancy & other (see note 16)	96	230
	96	230

7. REMUNERATION OF BOARD MEMBERS

Board members are appointed by the Secretary of State and the Jockey Club, or represent the Bookmakers' Committee or the Horserace Totalisator Board.

Board Members	2005/06				2004/05			
	Board Salaries	Benefits	Pension Benefit	Total	Board Salaries	Benefits	Pension Benefit	Total
	£	£	£	£	£	£	£	£
Robert Hughes CBE – Chairman	55,765	9,994	7,774	73,533	53,683	11,382	7,483	72,548
Sir John Robb – Deputy Chairman	22,900	–	–	22,900	22,040	–	–	22,040
Keith Elliott	17,230	–	–	17,230	16,585	–	–	16,585
Warwick Bartlett	17,230	–	–	17,230	16,585	–	–	16,585

The Secretary of State determines the terms and conditions of his appointees and approves their Board salaries.

None of the other Board members receive any remuneration.

8. STAFF NUMBERS AND COSTS

The average number of persons (excluding Board Members) employed by the Group in the year was as follows:

	2006	2005
Board	23	24
HFL Ltd	126	120
	149	144

The aggregate payroll costs of these persons were:

	2006	2005
	£'000	£'000
		As restated
Wages and salaries	4,309	3,997
Social security	465	446
Pension costs		
Defined benefit scheme current service cost	783	757
Group personal pension plan	159	42
Other staff costs	465	478
	6,181	5,720

9. TAXATION

	2006	2005
	£'000	£'000
a) Analysis of charge in year		
Corporation tax at 30% (2005: 30%)	62	111

The charge for corporation tax represents tax charged in the financial statements of the Board in respect of interest received less certain deductions. This has resulted in a tax charge of £62,000 payable for the year.

Other revenue and expenditure of the Board is not taxable or tax deductible.

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than would be expected by multiplying the (deficit)/surplus before taxation by the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2006	2005
	£'000	£'000
		As restated
(Deficit)/surplus for the year before tax	(3,751)	13,437
(Deficit)/surplus for the year multiplied by the standard rate of corporation tax of 30% (2005: 30%)	(1,125)	4,031
Effects of:		
Amounts not subject to taxation	966	(4,336)
Capital allowances in excess of depreciation	(69)	(136)
Capital Gain	285	–
Other timing differences	7	552
Expenses not deductible for tax purposes	11	–
Marginal relief	(13)	–
Current tax charge for the year	62	111

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Short leasehold premises £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Group					
Cost:					
At 1st April 2005	13,089	320	8,885	280	22,574
Additions	18	–	1,160	20	1,198
Disposals	(1,390)	–	(351)	(34)	(1,775)
At 31st March 2006	11,717	320	9,694	266	21,997
Depreciation:					
At 1st April 2005	3,976	319	5,944	93	10,332
Charge for the year	334	1	801	58	1,194
Disposals	(1,380)	–	(332)	(13)	(1,725)
At 31st March 2006	2,930	320	6,413	138	9,801
Net book value:					
At 31st March 2006	8,787	–	3,281	128	12,196
At 31st March 2005	9,114	1	2,942	187	12,244
Board					
Cost:					
At 1st April 2005	1,380	320	1,496	153	3,349
Additions	–	–	40	20	60
Disposals	(1,380)	–	(30)	(34)	(1,444)
At 31st March 2006	–	320	1,506	139	1,965
Depreciation:					
At 1st April 2005	1,380	319	1,455	28	3,182
Charge for the year	–	1	37	33	71
Disposals	(1,380)	–	(30)	(13)	(1,423)
At 31st March 2006	–	320	1,462	48	1,830
Net book value:					
At 31st March 2006	–	–	44	91	135
At 31st March 2005	–	1	41	125	167

11. INVESTMENTS

a) HFL Ltd

	Shares in subsidiary undertaking £'000
Cost	
At 1st April 2005 and at 31st March 2006	10,000

At 31st March 2006 the Board owned the whole of the £10,000,000 (2005: £10,000,000) issued ordinary share capital of HFL Limited, a company registered in England, which operates a forensic laboratory for the benefit of the integrity of racing primarily in Great Britain.

Loan to HFL Ltd	Board	
	2006 £'000	2005 £'000
Repayable within 5 years	2,704	2,740

b) National Joint Pitch Council Limited

At 31st March 2005 and 2006, the Board held 3 guarantees of £1 each in the National Joint Pitch Council, a company which administers the on-course betting rings.

12. THE NATIONAL STUD

The National Stud is an undertaking, responsibility for which was transferred to the Board from the then Ministry of Agriculture, Fisheries and Food on 1st April 1963. The National Stud stands high class and commercial stallions and makes nominations to such stallions available to the owners of mares with the purpose of maintaining the high standard of the English thoroughbred horse.

The terms under which the National Stud is held by the Board include the following:

- a) The National Stud must be held as an identifiable asset.
- b) The Board may not appropriate profits made by the National Stud.
- c) The Board will regard the making good of working losses in any year of the National Stud as a purpose of the Levy.

13. LOANS

	Group and Board	
	2006 £'000	2005 £'000
Secured:		
Repayable within five years	43,880	41,954
Repayable after more than five years	-	-
Unsecured:		
Repayable within five years	4,299	5,452
Total Loans	48,179	47,406
Loans included above due within one year	(12,570)	(10,677)
Loans due in more than one year	35,609	36,729

Loans are interest free.

14. DEBTORS

	Group		Board	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts due from bookmakers and Tote in respect of levy income	1,981	11,062	1,981	11,062
Amounts due from the National Stud	2	271	2	271
Trade and other debtors	2,131	1,638	360	449
Prepayments and accrued income	546	467	127	226
	4,660	13,438	2,470	12,008

All the above amounts are due within one year.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Board	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Capital grants (see note 4)	7,020	14,387	7,020	14,387
Accruals	4,619	2,675	4,151	2,527
Amount due to subsidiary undertaking	–	–	–	218
Trade and other creditors	1,069	721	443	444
Amounts due to bookmakers and Tote in respect of levy income	6,263	4,861	6,263	4,861
Corporation tax	62	111	62	111
VAT	–	–	–	–
Social security	291	248	53	41
	19,324	23,003	17,992	22,589

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Pension Provision £'000	Redundancy Provision £'000	Total £'000
At 1st April 2005 as previously reported	2,640	1,095	3,735
Prior year adjustment (note 17)	(2,640)	–	(2,640)
At 1st April 2005 as restated	–	1,095	1,095
Utilised in the year	–	(83)	(83)
Provided in the year	–	95	95
At 31st March 2006	–	1,107	1,107

Following the announcement by the Government of its intention to bring forward legislation to end the levy system, the Board agreed a staff redundancy package. A provision of £95,000 has been made in the accounts, as the fourth annual instalment, to reflect the Board's estimated contractual obligation to meet redundancy costs up to the closure date of September 2009.

Deferred Taxation

At 31st March 2006, the Board's subsidiary, HFL Limited, had timing differences in respect of accelerated capital allowances and short term timing differences (subject to agreement with HM Revenue and Customs) that would give rise to a potential deferred tax asset amounting to £280,000. No deferred tax asset has been recognised in the financial statements as there is insufficient evidence that they will be utilised in the foreseeable future.

17. RECONCILIATION OF MOVEMENTS IN RESERVES

	Group 2006 £'000	Group 2005 £'000 As restated	Board 2006 £'000
Reserves at 1st April 2005			
As previously reported	84,002	76,581	83,224
Prior year adjustment	1,055	(1,862)	1,055
Actuarial loss on the defined benefit pension scheme	(9,774)	(2,988)	(9,774)
(Deficit)/surplus for the year	(3,813)	13,326	(3,951)
Reserves at 31st March 2006	71,470	85,057	70,554

Group
and Board
2006
£000

The prior year adjustment arises on the full implementation of FRS17 and comprises:

Reversal of pension provision made in earlier years	2,640
Pension deficit at 1st April 2005	(1,585)
	1,055

The Board's policy is to maintain a Capital Fund for the improvement of horseracing by way of loans. Reserves at 31st March 2006 included £51,000,000 attributable to the Capital Fund.

18. RECONCILIATION OF OPERATING (DEFICIT)/SURPLUS TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000 As restated
Operating (deficit)/surplus	(4,656)	13,657
Exceptional items	(96)	(230)
Interest receivable	(1,735)	(1,630)
Net pension finance charge	162	106
Depreciation	1,195	1,132
Current service charge	783	757
Pension contributions paid	(7,275)	(4,839)
Increase in stocks	(42)	11
Decrease in debtors	8,777	6,078
(Decrease)/increase in creditors	(3,630)	8,014
Increase/(decrease) in provision	(12)	129
Net cash (outflow)/inflow from operating activities	(6,529)	23,185

19. ANALYSIS OF CASHFLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2006 £'000	2005 £'000
Returns on investments and servicing of finance		
Interest received	1,799	1,491
Net cash inflow	1,799	1,491
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,198)	(794)
Sales of tangible fixed assets	1,006	84
Loans advanced to racecourses	(11,450)	(19,636)
Repayment of loans by racecourses	10,667	9,451
Net cash (outflow)	(975)	(10,895)
Management of liquid resources		
Amounts transferred to/from short term deposits	6,500	(13,000)
Net cash inflow/(outflow)	6,500	(13,000)

20. DEFINED BENEFITS RETIREMENT SCHEME

The Group operates a pension scheme providing benefits based on final pensionable salary. The scheme is a multi-employer to which HFL Limited, The National Stud and The Joint National Pitch Council also contribute. The Scheme was closed to new members on 31st March 2003 and a group personal pension plan was set up on 1st April 2003.

During the year the Trustees purchased a buyout policy with an insurance company which insures estimated benefits for active and deferred members assuming a termination date of September 2009. In addition to an upfront payment of approximately £24m paid by the Trustees in December 2005, the policy requires three further instalments of approximately £3m (net of employees 4%, and employers 14.2%, contributions) which the Board has agreed to pay in principle in September 2006, 2007 and 2008.

The Trustees purchased the buyout policy with the objective of eliminating risks arising from investment returns and longevity and obtaining greater certainty over contributions required for the pension scheme up to September 2009 (the assumed closure date of the Board). The method used to value the assets and liabilities of the scheme for the purpose of these accounts produces a lower amount than the premium paid; however, the value of the assets is consistent with the value of the liabilities shown and with accounting standard FRS 17.

This method creates a step change in the value of the scheme's assets, which is shown as "Change in the present value of the scheme's assets resulting from assumptions used to value a large insurance contract purchased during the year; and actual return less expected return on other pension scheme assets" in the accounts. The three future premiums of approximately £3m (net of employees 4%, and employers 14.2%, contributions) will cover the deficit of about £5m and the cost of benefits continuing to be earned plus pension-related other finance income in the profit and loss account up to September 2009. As a result, the deficit will reduce to zero by September 2009 and future variations in balance sheet items will be minimal.

The latest actuarial valuation of the Defined Benefits Retirement Scheme for the purposes of the Group accounts took place on 31st March 2006. For the purposes of the FRS 17 valuation, it has been assumed that active members will continue service beyond September 2009, as an 'unequivocal commitment to close' the Defined Benefits Retirement Scheme is not currently in place.

The main financial assumptions used by the actuary were as follows:

	2006	2005	2004
Rate of increase in pensionable salaries	4.0%	4.4%	4.4%
Rate of increase in pensions in payment			
– Pre 1st April 1990 service	5.0%	5.0%	5.0%
– Post 1st April 1990 service	2.9%	2.9%	2.9%
Inflation rate	3.0%	2.9%	2.9%
Discount rate	4.9%	5.4%	5.5%
Rate of return on assets	4.9%	5.3%	5.3%

20. DEFINED BENEFITS RETIREMENT SCHEME *continued*

The assets in the scheme and the expected rate of return (net of investment expenses) were:

	2006 £'000	2006 Expected rate of return	2005 £'000	2005 Expected rate of return	2004 £'000	2004 Expected rate of return
Structured buy-out policy	15,596	4.90%	–	–	–	–
Bonds	–	–	20,727	5.20%	18,927	5.20%
Pensioner annuities	18,837	4.90%	15,258	5.40%	9,578	5.50%
Other	2,204	3.80%	–	–	–	–
	36,637		35,985		28,505	

The net pension liability comprises:

	2006 £'000	2005 £'000	2004 £'000
Market value of assets	36,637	35,985	28,505
Actuarial value of liabilities	(41,649)	(37,570)	(31,167)
Deficit	(5,012)	(1,585)	(2,662)

	2006 £'000	2005 £'000
Analysis of the amount charged to expenditure		
Current service cost	(783)	(757)
Settlements / curtailments	–	–
	(783)	(757)

	2006 £'000	2005 £'000
Analysis of amount charged to finance costs:		
Expected return on pension scheme assets	1,842	1,611
Interest on pension scheme liabilities	(2,004)	(1,717)
Net finance (charge) / gain	(162)	(106)

Net charge to group revenue account	(945)	(863)
--	--------------	--------------

Actuarial loss recognised in the statement of total recognised gains and losses:

Change in the present value of the scheme assets resulting from assumptions used to value a large insurance contract purchased during the year; and actual return less expected return on other pension scheme assets	(6,654)	57
Experience gains and losses arising on the scheme liabilities	3,834	464
Changes in assumptions underlying the present value of the scheme liabilities	(6,954)	(3,509)
Actuarial (loss) / gain recognised in the statement of total recognised gains and losses	(9,774)	(2,988)

20. DEFINED BENEFITS RETIREMENT SCHEME *continued*

The FRS17 pension deficit had been included in the balance sheet, the effect on reserves is as follows:

	2006 £'000	2005 £'000 As restated
Reserves at 31st March excluding pension liability	76,482	86,642
Pension deficit	(5,012)	(1,585)
Reserves at 31st March including pension liability	71,470	85,057

Movement in deficit during the year:

Deficit in the scheme at beginning of year	(1,585)	(2,662)
Movement in year:		
Current service cost	(783)	(757)
Settlements/curtailments	-	-
Contributions (including third party contributions)	7,292	4,928
Net finance (charge)/gain	(162)	(106)
Actuarial (loss)	(9,774)	(2,988)
Deficit in the scheme at end of year	(5,012)	(1,585)

History of experience gains and losses:

Difference between the change in the present value of the scheme assets resulting from assumptions used to value a large insurance contract purchased during the year; and actual return

less expected return on other pension scheme assets	(6,654)	57
Percentage of scheme assets	18.2%	0%
Experience gains and losses on scheme liabilities	3,834	464
Percentage of scheme liabilities	9.2%	1%
Total amount recognised in statement of total recognised gains and losses	(9,774)	(2,988)
Percentage of scheme liabilities	23.5%	8%

21. COMMITMENTS

a) At 31st March 2006 the Group and Board had approved loans totalling £13,628,000 (2005: £21,137,000) in respect of capital improvement projects, of which £4,543,000 (2005: £3,655,000) was still to be drawn at 31st March 2006.

At 31st March 2006 the Board had annual commitments under operating leases as follows:

Expiry date	Land and buildings	
	2006	2005
	£'000	£'000
Between one and five years	330	330

22. RELATED PARTY TRANSACTIONS

The Horserace Betting Levy Board is a Non-Departmental Public Body operating in accordance with the provisions of the Betting, Gaming and Lotteries Act 1963 (as amended). The Department for Culture Media and Sport (DCMS) is the Board's controlling government department and is therefore a related party.

During the year none of the Board Members, members of key management staff, or other related parties, has undertaken any material transactions with the Horserace Betting Levy Board.



NATIONAL STUD BOARD



Chairman Andrew Parrish



Christopher Spence



Brian Chandler



Jim Furlong



Lesley Graham



Mick Channon



Fiona Birt-Llewellyn



Sir Eric Parker

NATIONAL STUD MANAGEMENT COMMITTEE



Andrew Parrish
Chairman



Brian Chandler
Finance Director



Tina Dawson
Commercial General
Manager



Reid Coulter
Stud General
Manager



Nigel Wright
Stud Operations
Manager



Michael Mason
Learning & HR
Manager



Lynn Clarke
Accounts Manager

OTHER MEMBERS OF NATIONAL STUD TEAM



Siân Phillips
Stud Secretary



Stewart Bevan
Senior Assistant Stud
Manager



Andrew Rawlin
Assistant Stud
Manager



Alex Hall
Breeders' Club
Co-ordinator



Xavier Lam
Assistant Education
and Training Manager

PATRON AND TRUSTEES OF THE WAVERTREE CHARITABLE TRUST

Patron: Sir Peter O'Sullivan

Trustees: **Andrew Parrish (Interim Chairman)** Chairman of The National Stud; **Professor Twink Allen** Director, Equine Fertility Unit; **The Lady Burnham** Director and Trustee, British Horseracing Education and Standards Trust; **Brian Chandler** Finance Director, The National Stud; **Philip Freedman** Chairman, Thoroughbred Breeders' Association; **Richard Fuller** Director of Fuller, Smith and Turner plc; **Jim Furlong** Non-executive Director of The National Stud and former Chairman, Racehorse Owners' Association; **Martin Goymour** Director, Banham Zoo and Chairman, Suffolk Horse Society; **David Oldrey** President, Thoroughbred Breeders' Association; **Lord Soulsby of Swaffham Prior** Chairman, British Veterinary Association Ethics Committee; **Christopher Spence** Non-executive Director of The National Stud and former Senior Steward, The Jockey Club; **Sir Neil Westbrook** Racehorse owner-breeder, former Lord Mayor of Manchester

THE CHAIRMAN'S STATEMENT

INTRODUCTION

This report covers my second full year as Chairman of The National Stud. I believe we can demonstrate further significant progress, building substantially on the first signs of recovery evident in our 2004 results. I should again like to pay tribute to all of the Stud's employees for their hard work through the year and their major contribution to our improved performance. I am grateful, also, for the continued support and advice of my directors and the newly-appointed trustees.

FINANCIAL SUMMARY

Our Business Plan of December 2003, constructed shortly after my appointment, set clear and widely-publicised financial (and strategic) objectives. Key amongst the former was our target of eliminating the recurring financial deficit by 2005 and moving into sustainable surplus in 2006. I am pleased to report that the Stud is ahead of this timetable and that, in 2005, we produced an operating surplus of £412,000, the first such surplus for nine years, and a dramatic improvement on last year's overall deficit of £680,000. We also succeeded in generating a substantial improvement in our cash performance and balance sheet. We produced a significant positive operating cash flow and, by the year-end, had raised our cash resources to £1.4m (2004: £250,000). These figures exclude the charitable donation of £1m, referred to later in this report, towards our new Accommodation and Training Block. They also exclude the endowment grant of £1m from the Levy Board, due on the Stud's establishment as a charitable trust, to be used as a reserve against the capital cost of future charitable projects. Our net assets rose to £5.6m (2004: £3.3m) principally as a result of the revaluation of Bahamian Bounty and Pastoral Pursuits (up by £1.7m) in 2005.

These are, undoubtedly, very encouraging figures but they are no cause for complacency, still less euphoria. Financial demands and pressures on the Stud are considerable and we have only now achieved the bare minimum level of financial solidity required to develop the business and our activities as we move forward.

Our progress in 2005 was due to a number of major factors. First, our nomination sales increased substantially, due in part to our standing an increased number of stallions and, as importantly, to the increased number of nominations sold per stallion. Bahamian Bounty again underpinned the stallion performance. Limited (as is the Stud's established policy) to 100 mares, he had sold out before the year commenced at an average fee 50% above the 2004 level. The Stud's mare boarding, yearling preparation and bloodstock trading activities all showed significant increases on the previous year's performance.

Significant, too, was the contribution arising from the decision (agreed in the 2003 plan) to syndicate a minority share in two stallions. We sold 40 shares in Bahamian Bounty (each representing 1% of the stallion) and 10 shares (also each representing 1%) of the newly-acquired Pastoral Pursuits. The Stud has, as planned, sold a further 22 shares in Pastoral Pursuits in 2006 (at the same price).

The year's accounts have, I believe, been prudently compiled, with adequate provision against known contingencies.

THE WAVERTREE CHARITABLE TRUST

The key event of the year (rivalled only by Pastoral Pursuits winning the July Cup) was the granting to the Stud of charitable status by the Charities Commission in October 2005 and the consequent

establishment of the Wavertree Charitable Trust. Establishment of the Stud as a charity based on our core educational remit was a key element of the 2003 Business Plan (and, I have to say, a recommendation of the Sparrow Report to the Government on the Stud's future in 1985). This was a long and arduous process, ably led and coordinated by our Finance Director, Brian Chandler. The granting of charitable status did not bring this process to a conclusion and the final formalities of asset transfer, from the Crown via the Government and the Levy Board, will not be completed until later this year. Nonetheless, the hardest work has now been done. The creation of the Trust marks the beginning of a new chapter in the long history of The National Stud. The charity is founded on the principle of the Stud's continuing and central commitment to our education and training programmes, which we continue to provide without cost to UK students or their employers. We also continue, in parallel, to pursue our brief to educate and inform the racing and wider general public on the history, current practice and future of Thoroughbred breeding. The equine operations of the Stud remain wholly commercial, as they should be, but all the profits they generate are used to fund the work of the charitable trust. Later this year, The National Stud Limited will formally become a wholly-owned subsidiary of The Wavertree Charitable Trust.

The structure of the Trust will allow us to access potential funds from a variety of sources not previously available to us and, together with the improving profitability of our stud operation, will help us carry out our ambitious development plans for education and training without having to seek additional funds from the industry.

MANAGEMENT STRUCTURE

A new Board of Trustees has been established to oversee the operations of the charitable trust and it held its inaugural meeting at the end of 2005. Sir Peter O'Sullivan has kindly agreed to be our Patron. The trustees appointed, representing a wide range of senior experience in the equine industry, are as listed at the front of this section of the report. I shall continue to act as Interim Chairman until the formal process of asset transfer has been completed. At this point, to avoid any future potential conflict of interest, I shall hand over to a new independent chairman who will be appointed by the Board of Trustees, on the recommendation of their Remuneration and Nominations Committee. I myself will remain a trustee.

I was pleased in October to announce the appointment of Sir Eric Parker to the Board of the Stud. Sir Eric has long experience as a breeder, as Chairman of the ROA and as a director of the BHB, HBLB and the Tote.

Within The Stud's operating management, Tina Dawson took up her appointment as Commercial General Manager in mid-year, having formerly held the post of Managing Director of Huntingdon Racecourse. She is already making a valuable and effective contribution to the Stud's commercial development.

EQUINE OPERATIONS

(i) Stallions

As reported last year, three new stallions were secured in 2004 to stand at the Stud in 2005. Desert Sun, a proven Group 1 producing sire by Green Desert, was leased from his Australian owners to stand at Newmarket for two northern hemisphere seasons in 2005/6. Already having produced a huge total of winners world-wide, his colours at the

time of writing are being most effectively carried in the UK by Kingsgate Prince. The Stud owns 100% of Deportivo (Night Shift) and 75% of Passing Glance (Polar Falcon), the remainder of the latter having been retained by the Balding family, continuing a link with the Stud dating back to Mill Reef. The quality of Deportivo's first foals, born in early 2006, has been widely acknowledged as outstanding.

As also reported last year, the Stud acquired a 40% interest in Pastoral Pursuits (Bahamian Bounty) in 2004 and acquired the remainder in 2005 after his outstanding victory in the Group 1 July Cup at Newmarket. He has successfully commenced his stallion duties in 2006. Pastoral Pursuits' July Cup triumph was followed in the autumn by the victory of his full brother Goodricke in the Group 1 William Hill Sprint Trophy at Haydock, providing their sire with a unique big-race double. Bahamian Bounty had an outstanding season and his popularity (and his nomination fee) have continued to rise. It should be remembered that Bahamian Bounty's success so far has come from relatively small books of mares previously covered. His first full book of 2-year-olds, sired in 2004, will not hit the racetrack until 2007. It is a mouthwatering prospect.

The Stud has continued its policy of locating some of our stallions, particularly those geared to the NH or dual-purpose market, outside Newmarket. In 2006, Bollin Eric continues to stand successfully at Wood Farm Stud, Shropshire. First Trump, who had his first Cheltenham winner (Reveille) this March, has been relocated to Walton Fields, Leicestershire and Passing Glance is standing at Pitchall Farm Stud, Warwickshire. Silver Patriarch, however, remains at Newmarket where his popularity with both breeders and visitors is undiminished. He continues to sire winners under both codes. His recent hat-trick achieving 12 furlong 3-year-old, Bollin Derek, was bred and is owned by one of our trustees, Sir Neil Westbrook.

The Stud had arranged to stand Golden Snake (Danzig) at Greentree Stud, Ireland in 2006. Unfortunately, in late 2005, he suffered a leg injury in Australia shortly before being due to return from another successful season in Australia. He has therefore had to remain in Australia where he will resume covering duties at the start of their season later this year. The loss of a northern hemisphere season is unfortunate, especially as his limited crop of horses in Europe have run well, earning his first Group race success on the continent this spring. His first 2-year-old runners in Australia have also produced winners. It is hoped and intended to resurrect his Irish stud career in 2007.

(ii) Mares

The Stud has strengthened its band of quality broodmares and had 23 under its ownership at the year-end. The most significant acquisition in 2005 was South of Saturn, a beautifully-bred mare by Seattle Slew, in foal to top American sire Woodman. Bought on the Stud's behalf at Keeneland, she has produced a first-class colt foal, who will probably be sent to the sales this winter. Approximately half of the Stud's mares have been covered by our own stallions in 2006 and half sent to established commercial stallions in Britain and Ireland. Sale of the resulting progeny generates an important part of the Stud's income and helps fund our charitable activities.

EDUCATION AND TRAINING

This is the Stud's key area of activity and the unique contribution we make to the Thoroughbred breeding industry. It is the cornerstone

of our charitable status. In 2005, 19 students enrolled on the Stud's internationally-reputed Diploma course and a further 20 on our Modern Apprenticeship course. We have worked closely with Caroline Turnbull, our former Learning Manager and now Training and Recruitment Manager at the TBA, to ensure that our developing menu of training programmes responds appropriately to changing industry needs. The Donoghue Report of 2004 and subsequent encouragement from the BHB and the TBA has rightly raised the profile of training within our industry and increased the focus on the need to ensure that future generations of stud employees are professionally trained. The National Stud intends to increase the range of courses later in 2006 by offering our first Stud Secretaries' course. We are also planning to mount our first off-site training courses at other studs. Assuming that we succeed in generating the necessary funding, we plan to introduce one new course annually over the next three years. We intend to secure our recognised position as a centre of excellence in stud staff training.

The Board decided that the physical construction of the planned new Accommodation and Training Block, a £3m project, will commence only when the Stud's application for charitable status had been confirmed and at least two thirds of the necessary capital raised from charitable sources. A first and most generous donation of £1m was received in late 2005 and detailed discussions are in hand with specific charitable organisations to seek to raise the remainder. We remain hopeful that construction can commence later this year and that the new building (full planning permission for which has been obtained) will be available for use by the end of 2007.

Our 'Playing for Success' partnership with Ipswich Town Football Club has developed gratifyingly. This scheme, Government-sponsored and run under the Stud's 'Winning Post' brand, offers computer literacy training within a sporting environment to young people (9 to 14 years old) from the surrounding region. A total of 410 students passed through this course in 2005.

The Stud again gratefully acknowledges the invaluable financial contribution made to these programmes by the Levy Board. We express our appreciation also to the external lecturers and assessors who make the courses possible.

NATIONAL STUD VISITOR CENTRE

I reported last year on the Stud's plans to build a £7m Visitor Centre to enhance the educational and entertainment value of a visit to the Stud as part of our public access role, a key aim of the new charity. This scheme sits within the major and ambitious programme of the Home of Horseracing Trust (HHT), a wider scheme involving the relocation and enlargement of the National Horseracing Museum, the restoration of Palace House and the conversion of the Palace House stables. It has, unsurprisingly, taken longer than the HHT trustees (who include myself) planned to both fund and launch the various steps of the overall project and the Visitor Centre, in scheduling terms, sits last in this queue. Nonetheless, with excellent and substantial support, especially from the Jockey Club and Forest Heath District Council, real progress is now being made, although construction of the Visitor Centre is unlikely to commence before 2008, after the new Accommodation and Training Block is completed.

OWNER BREEDERS' CLUBS

The Never Say Die Club had recruited its required membership by the

autumn of 2005 and is now fully launched. It will run until 2010. Its members have enthusiastically supported Club functions during the year, with attendance at various Open Days often running at up to two thirds of total membership, a remarkable degree of commitment. The Club now owns a total of 7 horses, including three broodmares. The Club's 3-year-old, Never Say Deya (Dansili), is in training with Mick Channon. The Club's 2-year-old, Precious Mettle (Golden Snake), is in training with Henry Cecil, who won a vote of the members to this effect. The Club's very impressive Montjeu yearling colt, out of the Club's mare Marciala (Machiavellian), has matured attractively and will be sold this autumn.

Six member directors have been appointed to serve as non-executives in rotation for two-year periods until 2010. In 2006, I am delighted to welcome Brian Payne and Charles Villers to the Board.

The Stud makes no profit from the Owner Breeders' Clubs. All the horses are 100% owned by the members and any profits which arise will be distributed to Club members when the Club's operating period ends. The Stud Board believes the Clubs form an important (and enjoyable) part of our important public access role. We plan to launch at least one new Club over the next 18 months.

PUBLIC RELATIONS FOR THE THOROUGHBRED INDUSTRY

The Stud continued to enjoy a raised profile in 2005, with most major racing newspapers and journals in the United Kingdom (and Ireland) carrying features on our operation. These were not always unchallenging or in any way sycophantic, which is as we would wish it. I do believe, however, that there is now a far greater and wider awareness of what we are seeking to achieve and of the overall strategy that underlines our activities. The granting of charitable status is a hugely important part of this political process.

Guest speakers at our quarterly lunches, attended by leading industry figures, included Sir Tristram Ricketts, David Elsworth, Mick Channon and Russell Phillips. Speakers for 2006 include Rodney Brack, Chris Deuters, Henry Cecil and John Holmes. These occasions provide an interesting and informal forum to discuss some of the key issues affecting our industry.

We continued to welcome large numbers of the general public to the Stud site for tours. The Stud is now open all day on Sunday and new, more modern, transport has been acquired. The coffee shop has been extended and improved. Visitors this year will have the additional pleasure of seeing and meeting Amberleigh House, 2004 Grand National winner, and (on selected days) the legendary Desert Orchid, both by kind permission of their owners.

PROSPECTS FOR 2006

The year has started well. Stallion nominations continue to improve, led by Bahamian Bounty and Pastoral Pursuits, and in value terms are now four times their level of 2003, in the season before I took office, despite the partial syndication of our two highest earners. I believe our reputation for good horsemanship is also on a sustained upwards curve. We are looking after horses better and we are looking after better horses. This is obviously reflected in our trading numbers for mare boarding, yearling preparation, foaling and so on. I am optimistic, therefore, that we shall again produce a profitable performance in 2006.

We are not complacent about the future and we fully recognise

the inherent fragility of any commercial success in this industry. I do believe, however, that we have put the business on a substantially sounder footing for future years, confident of our role, our value to the industry we seek to serve and our ability to do so on a financially self-sufficient basis.

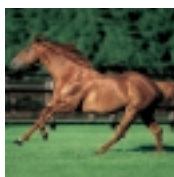
Once the process formalities of establishing the Wavertree Charitable Trust as a fully independent charity are completed later this year, as I am reasonably sure they will be, The National Stud will cease to be the responsibility of the Levy Board, under whose wing we have nestled (at some times more comfortably than others) since 1963. Neither shall we any longer be ultimately responsible to the Department for Culture, Media and Sport. The Stud will, instead, be wholly the responsibility of the new Board of Trustees of the Charitable Trust. This report and the attached accounts will no longer, therefore, appear in the Levy Board's Annual Report and will, in any event, take on a different character with the Stud as a subsidiary of the Charitable Trust.

I should like to express my deep personal appreciation of the strong support I, and the Stud, have enjoyed from the Chairman and members of the Levy Board since my appointment, which has contributed greatly to any success we have enjoyed. I am also appreciative of the very practical and constructive support received from DCMS, from the Minister for Sport and his senior civil servants. On a personal level, I express the hope that these formal links will be replaced with an ongoing relationship between the various organisations that continues to be a source of the wise and constructive counsel from which we have previously benefited.

ANDREW R PARRISH

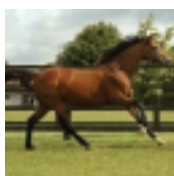
June 2006

STALLIONS IN 2005



BAHAMIAN BOUNTY 100 PER CENT OWNED
Chestnut 1994 by Cadeaux Geneveux out of Clarentia.
Winner at 2 years of the Gr.1 Prix Morny Piaget, Deauville and Gr.2 Middle Park Stakes, Newmarket. Retired to stud in 1998.

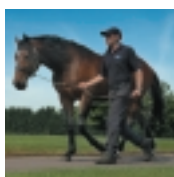
In 2005 Bahamian Bounty was again fully booked (limited to 100 mares). A leading British and European sire since the outset of his stud career, Bahamian Bounty enjoyed his most impressive season to date, siring two Group 1 winners and subsequent European Champions. Pastoral Pursuits (already a Group 2 and Group 3 winner and multiple record breaker) captured Europe's premier sprint race, the Gr.1 July Cup at Newmarket and was crowned 2005 Joint-European Champion Sprinter. A year junior, full-brother Goodricke, became a dual Group 1 performer when finishing a close second in the Gr.1 Prix Maurice de Gheest followed by an exceptional win in the Gr.1 Sprint Cup at Haydock, earning the title of 2005 European Champion 3-year-old Sprinter.



GOLDEN SNAKE 100 PER CENT OWNED
Bay 1996 by Danzig out of Dubian.
Golden Snake remained the only four-times Group 1 winning son of Danzig to stand in Europe. Winner of the Gr.1 Prix Jean Prat, Chantilly at 3 years, the Gr.1 Deutsche Post Euro Express von Europa, Cologne and the Group 1 Gran Premio del Jockey Club Italiano, Milan at 4 years. At 5 he won the Gr.1 Prix Ganay at Longchamp and produced a top-class performance when finishing a neck second to Fantastic Light in the Gr.1 Tattersalls Gold Cup at the Curragh.

Golden Snake retired to stud in 2002 and has stood in both hemispheres where his progeny have been met with universal approval. His first European 2-year-old runners in 2005 got off to tremendous start, with 86% winning/placed and in 2006 have already produced winning black-type form.

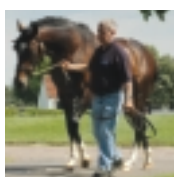
First yearlings in the Southern Hemisphere made a significant impact in the sales ring. Golden Snake was ranked 2nd Leading First-Crop Sire at the Melbourne Premier Sales. His top-priced yearling sold for \$90,000 and he had a yearling median of \$70,000.



HELISSIO PROPERTY OF SHADAI FARMS, JAPAN (LEASED)
Bay 1993 by Fairy King out of Helice.

Five-times Group 1 winner, dual Group 2 winner and three-times Group 1 placed, Helissio's winnings amounted to £1,358,145.

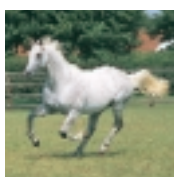
Helissio retired to stud in 1998 in Japan and shuttled to the Southern Hemisphere. He stood for his first season in Europe in 2004 at the National Stud on a two-year lease agreement with Shadai Farms. In the 2005 season alone he was the sire of 64 individual winners.



BOLLIN ERIC
PROPERTY OF SIR NEIL WESTBROOK
Bay, 1999 by Shaamit out of Bollin Zola.

In the frame on every one of his 17 UK starts, Bollin Eric won two races at two years. The following year he won the Gr.1 St Leger and was second in the Gr.2 Dante Stakes and third in the Gr.2 Great Voltigeur Stakes, earning the title of Champion 3-year-old Stayer in Europe. As a 4-year-old he won the Gr.3 Lonsdale Stakes, was placed second in the Gr.2 Hardwicke Stakes and third in the Gr.2 Yorkshire Cup. He was also placed fourth in the Gr.1 King George VI and Queen Elizabeth Diamond Stakes, Gr.1 Irish St Leger, Gr.2 Dubai Irish Village Stakes and Gr.3 Princess of Wales's Stakes and was crowned Champion Older Stayer in Europe.

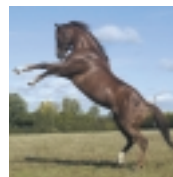
In 2004, he returned to the National Stud where he was conceived and also foaled, to stand as a first-season sire. In 2005, he stood at Wood Farm Stud, Shropshire, where he served a full book of mares. His first crop of foals was impressive, strong and athletic with plenty of bone.



SILVER PATRIARCH 50 PER CENT OWNED
Grey 1994 by Saddlers' Hall out of Early Rising.
Silver Patriarch won eight races at 2, 3, 4 and 5 years including three Group 1's (Gr.1 Coronation Cup, Gr.1 St Leger and Gr.1 Gran Premio del Jockey Club), the Gr. 2 Geoffrey Freer Stakes and the Gr.2 Jockey Club Stakes. He was also second in the Derby, beaten a short head.

In the frame in 17 of his 24 starts (11 times at Group level), Silver Patriarch won almost £900,000 in prize money for his owner breeder, Peter Winfield, who generously gave a 50% share of the horse to the National Stud.

Ever popular with breeders and visitors since retiring to stud in 2000, Silver Patriarch has continued to be well patronised throughout his stud career, covering 99 mares in 2005. His progeny have enjoyed success under both codes and in 2005 his son, Party Boss, tallied 6 consecutive wins on the flat from 7-12 furlongs (of which 2 were Listed races), including the International Trial Stakes.



FIRST TRUMP 100 PER CENT OWNED
Chestnut 1991 by Primo Dominie out of Valika.
A triple Group winner as a 2-year-old (Gr.1 Middle Park Stakes, Gr. 2 Richmond Stakes and Gr.3 July Stakes) and four-times Group placed at 3 years. First Trump stood at Throckmorton Court Stud in Worcestershire in 2005 and has relocated to Walton Fields Stud, Leicestershire, for 2006.

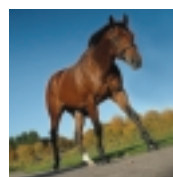
Retired to stud in 1995, First Trump became Champion UK First-Season Sire and Champion UK Second-Season Sire and has been a consistent producer of winners and placed horses throughout his stud career. From his first seven crops 81% of his progeny have reached the racecourse and of those 77% have won or been placed, with 51% winning. His progeny winnings have exceeded £2.5m and he continues to feature regularly in the leading sires' tables. First Trump is the broodmare sire of top-class 2-year-old of 2005, Red Clubs (out of multiple Stakes winner Two Clubs), winner of the Gr.2 Coventry Stakes, three-times Group 1 placed (including second in the Gr.1 Middle Park Stakes) and Group 2 placed.



DESERT SUN PROPERTY OF LEE FLEMING, AUSTRALIA (LEASED)

Bay 1988 by Green Desert out of Solar.
Winner of three races and Group placed on five occasions (including second in the Gr.2 Craven Stakes), he was in the frame in 19 of his 23 starts.

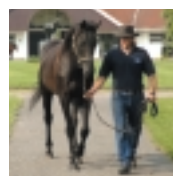
Retiring to stud in the Southern Hemisphere in 1994, Desert Sun shuttled to Ireland from 2000-2003 and took up stallion duties for the first time in the UK at the National Stud for the 2005 season. A Champion sire in Australia, he is most notably the sire of the record-breaking racemare Sunline, Champion International Turf Mare. Australasian Horse of the Year (for three consecutive years), she won an incredible 32 races including 13 Group 1 races. In 2005 alone, Desert Sun sired 104 individual winners and 14 black type performers and in total sired 310 individual winners and 46 individual black type performers producing 57% lifetime winners to runners.



DEPORTIVO 100 PER CENT OWNED
Bay 2000 by Night Shift out of Valencia.

Bred by and raced in the colours of Prince Khalid Abdullah's Juddmonte Farms Inc., Deportivo won 6 of his 10 starts from 2-3 years. He won the first 3 of his 4 starts as a 2-year-old in 2002, including the Rose Bowl Stakes at Newbury. At 3 years, his wins included the Balmoral Handicap at Royal Ascot under top weight and the Gr. 2 Flying Five at the Curragh, where he finished within one tenth of a second of the track record.

Purchased by The National Stud, Deportivo retired to stand at the National Stud in 2005. Correct in conformation and possessing an excellent temperament, Deportivo proved highly fertile in his first season at stud and his foals have been widely admired. He makes an exciting stallion prospect for the future.



PASSING GLANCE 75 PER CENT OWNED
Brown 1999 by Polar Falcon out of Spurred.

Bred by Ian Balding, trained by Andrew Balding and 25% owned by Mr & Mrs Ian Balding, Passing Glance won 7 times from 2 to 5 years, including at Group 2 and Group 3 level and was placed on 12 occasions, earning £224,594. He won the Gr.2 Oettingen-Rennen and the 2004 Gr.3 Diomed Stakes at Epsom and was second in the Gr.2 Celebration Mile at Goodwood.

The National stud purchased a 75% share in Passing Glance at the end of the 2004 racing season and he retired to stand at the National Stud in 2005. Bar Pivotal, Passing Glance was the only son of Polar Falcon standing at stud in the UK last season and demonstrated excellent fertility. He too relocated to Pitchall Farm Stud, Warwickshire, for 2006.

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF THE NATIONAL STUD AND INDEPENDENT AUDITORS' REPORT

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF THE NATIONAL STUD

The Board are required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of The National Stud and of the excess of expenditure over revenue or its excess of revenue over expenditure of The National Stud for that period. The Board are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that The National Stud will continue in business.

The Board confirm that suitable accounting policies have been used and applied consistently with the exception of the change in accounting estimate in respect of stallion depreciation. They also confirm that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31st December 2005 and that that applicable accounting standards have been followed.

The Board are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of The National Stud. They are responsible for safeguarding the assets of The National Stud and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF THE NATIONAL STUD

We have audited the financial statements of The National Stud for the year ended 31st December 2005 which comprise the Revenue and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the statement of historical cost and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF THE BOARD OF THE NATIONAL STUD AND AUDITORS

The Board's responsibilities for preparing the Annual Report and the financial statements are set out in the Statement of Responsibilities of the Board of The National Stud.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion has been prepared for and only for the Board of The National Stud and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, The National Stud has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Board's remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement. We consider the implications for our report if we become aware of any

apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of The National Stud's affairs at 31st December 2005 and of its excess of revenue over expenditure and cash flows for the year then ended.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants
Cambridge
June 2006

REVENUE AND EXPENDITURE ACCOUNT FOR THE YEAR TO 31st DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Revenue			
Revenue	2	1,834	1,741
Interest receivable		17	27
Total revenue		1,851	1,768
Expenditure			
Staff costs	4 & 5	895	755
Other operating costs		1,011	958
Research and development costs		13	13
Premises costs		116	103
Administration costs		383	326
Total expenditure		2,418	2,155
Excess of expenditure over revenue		(567)	(387)
Gains/(losses) on disposal of fixed assets		74	1
Gains/(losses) on disposal of bloodstock		905	(29)
Cost of fundamental reorganisation		–	(265)
Excess of revenue over expenditure/(expenditure over revenue) being operating result before taxation	3	412	(680)
Taxation	6	(19)	–
Excess of revenue over expenditure/(expenditure over revenue) for the financial year	13	393	(680)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31st DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Excess of expenditure over revenue for the financial year	13	393	(680)
Gains on asset revaluations	13	1,835	830
Total recognised gains and losses relating to the year		2,228	150

All activities are continuing.

Note of historical cost	2005 £'000	2004 £'000
Reported excess of revenue over expenditure/(expenditure over revenue) before taxation	412	(680)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	86	–
Historical cost excess of revenue over expenditure/(expenditure over revenue) for the financial year	498	(680)
Historical cost excess of revenue over expenditure/(expenditure over revenue) after taxation	479	(680)

BALANCE SHEET AS AT 31st DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Tangible fixed assets	7	685	618
Bloodstock	8	5,002	2,403
Total fixed assets		5,687	3,021
Current assets			
Stocks	9	452	443
Debtors	10	683	956
Money market deposits	14	502	–
Bank deposits and cash in hand	14	888	250
Total current assets		2,525	1,649
Creditors: amounts falling due within one year (See note on page 54)	11	(2,638)	(1,324)
Net current (liabilities)/assets		(113)	325
Net assets		5,574	3,346
Representing:			
Value attributable to the undertaking of The National Stud transferred from the Ministry of Agriculture, Fisheries and Food to the Horserace Betting Levy Board on 1st April 1963 and gift of paintings		729	729
Revenue reserve	13	2,263	1,784
Revaluation reserve	13	2,582	833
		5,574	3,346

The financial statements were approved by the Board on 8th June 2006 and were signed on its behalf by:

A. R. Parrish Chairman

CASH FLOW STATEMENT FOR THE YEAR TO 31st DECEMBER 2005

	Notes	2005 £'000	2004 £'000
Net cash inflow/(outflow) from operating activities		1,321	(8)
Returns on investments and servicing of finance			
Interest received		17	27
Taxation			
Income tax received		-	-
Capital expenditure			
Purchase of bloodstock		(1,270)	(1,020)
Purchase of tangible fixed assets		(52)	(205)
Proceeds on disposal of tangible fixed assets		76	11
Proceeds on disposal of bloodstock		1,048	62
Management of liquid resources			
Net cash (outflow)/inflow from money market deposits		(502)	1,200
Increase/(decrease) in cash	14	638	67
Reconciliation of excess of revenue over expenditure/(expenditure over revenue) to net cash inflow/(outflow) from operating activities			
Excess of revenue over expenditure/(expenditure over revenue)		412	(680)
Interest receivable		(17)	(27)
Depreciation – Bloodstock		257	113
Depreciation – Fixed assets		96	93
(Profit)/loss on disposal of tangible fixed assets		(74)	(1)
(Profit)/loss on disposal of bloodstock		(912)	16
(Increase)/decrease in stocks		(9)	(168)
(Increase)/decrease in debtors		273	(138)
Increase/(decrease) in creditors		1,295	784
Net cash inflow/(outflow) from operating activities		1,321	(8)
Reconciliation of net cash flow to movements in net funds			
Increase in cash in the year		638	67
Increase/(decrease) in money market deposits		502	(1,200)
Movement in net funds in the year		1,140	(1,133)
Net funds at 1st January		250	1,383
Net funds at 31st December	14	1,390	250

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been reviewed by the Board of The National Stud and have, except as noted below, been applied consistently in dealing with items which are considered material in relation to The National Stud's financial statements:

A. Basis of Preparation

The financial statements are prepared under the historical cost convention, modified to include revaluation of certain bloodstock and paintings.

B. Revenue

Revenue represents either amounts invoiced by the National Stud exclusive of VAT (principally relating to the Stud's bloodstock activities) or specific contributions provided to the Stud by way of grant (in respect of education and training).

C. Stocks

Farm and gift shop stocks are stated at the lower of cost and net realisable value.

D. Bloodstock

(i) Unborn foals and foals are included as current assets and are valued at cost. Cost of unborn foals is determined as the aggregate of the nomination fee plus the cost of keep of the broodmares up to the balance sheet date. Stock of foals is left unchanged from the cost attributed when the foal was unborn.

(ii) Broodmares are included as fixed assets and are depreciated to their estimated residual value on a straight line basis up to the age of fifteen. Mare valuations are routinely reviewed by the Board and where significant differences are noted from market value, the cost of the mare is either increased with a revaluation surplus booked to the Statement of Total Recognised Gains and Losses or where an impairment is identified the cost of the mare is reduced and the impairment booked to the Revenue and Expenditure account.

(iii) Stallions are included as fixed assets and are stated at either cost or valuation. Depreciation (see note iv) commences in the first covering season. Stallion valuations are routinely reviewed by the Board and where significant differences are noted from market value, the cost of the stallion is either increased with a revaluation surplus booked in the Statement of Total Recognised Gains and Losses. Where an impairment is identified the cost of the stallion is reduced and the impairment booked in the Revenue and Expenditure account.

(iv) The Stud has refined its estimates of useful economic life (UEL) used in relation to stallion depreciation with effect from 2005. In future, and including the year ended 31st December 2005, stallions will be depreciated on a straight line basis by reference to their current value and their UEL. For this purpose the UEL has been determined as the period between the date on which the stallion first covers at the Stud and their 20th year. Previously stallions had been depreciated at a rate of 25% per annum on a reducing balance basis. The rationale for the change is the expectation that the stallions will be able to deliver revenue to the Stud consistently over the stated UEL, and also has regard to the sustained performance of other stallions over the time period selected. The policy is consistent with the requirements of FRS 15. This change in accounting estimate has resulted in a reduction in stallion depreciation in the year of £183,000.

E. Tangible Fixed Assets and Depreciation

Depreciation of tangible fixed assets is calculated to write off the cost by equal annual instalments over their estimated useful lives. A full year's charge is made in the year of acquisition and none in the year of

disposal. Estimated useful lives are as follows:

Long leasehold buildings 20 or 40 years

Plant and machinery 4 or 10 years

Fixtures and fittings 5 or 10 years

Long leasehold land and paintings are not depreciated.

F. Deferred Taxation

Provision is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as the incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

G. Retirement Benefits Scheme

The company contributes to a group defined benefit pension scheme, which is operated by the Horserace Betting Levy Board. The funds are valued at least every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Contributions and pension costs are based on pension costs across all the operations controlled by the Board's scheme as a whole. Pension costs are accounted for on the basis of charging the expected costs of providing pensions over the period during which the group benefits from the employees' services. Variations from regular costs are spread over the expected average remaining service lives of members of the scheme after making suitable allowances for future withdrawals. The National Stud is unable to identify its share of the underlying assets and liabilities of the Horserace Betting Levy Board scheme, see note 15 for details. Contributions are charged to the revenue and expenditure account during the period.

H. Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the Revenue and Expenditure Account in the year in which they arise.

I. Operating Leases

Operating lease rentals are charged to the Revenue Account as incurred.

J. Related Party Transactions

The National Stud has disclosed related party transactions in note 17 of the financial statements.

K. Grants Received

Revenue grants received are credited to the profit and loss account (as revenue) on a case-by-case basis, assessed by the level of expenditure incurred on the specific grant project, when receipt of the grant is reasonably certain.

Capital grants received in respect of additions to fixed assets and bloodstock are treated as deferred income and credited to the profit and loss account over the expected useful economic lives of the related assets on a basis consistent with the depreciation policy for those assets.

L. Money Market Deposits

Bank deposits which are not repayable on demand without penalty are treated as short term investments in accordance with FRS 1 (Revised) "Cash flow statements".

2. REVENUE

	2005	2004
	£'000	£'000
Stud fees	827	476
Boarding stallions and visiting mares	370	353
Other income	637	912
	1,834	1,741

3. EXCESS OF REVENUE OVER EXPENDITURE/(EXPENDITURE OVER REVENUE) BEFORE TAXATION

The excess of revenue over expenditure/(expenditure over revenue) before taxation is stated after (crediting):

	2005	2004
	£'000	£'000
Grant from HBLB		
Revenue		(262)
Capital element	(115)	(24)
Profit on disposal of bloodstock	(905)	–
Profit on disposal of tangible fixed assets	(74)	(1)
And after charging:		
Loss on disposal of bloodstock	–	16
Depreciation – owned assets		
Bloodstock	257	113
Fixed assets	96	93
Auditors' remuneration		
Audit fees	10	10
Other fees	8	7
Operating lease charges	13	13

4. REMUNERATION OF BOARD DIRECTORS

	2005	2004
	£'000	£'000
Aggregate Board members' emoluments	99	87

Expenses of £36k (2004: £27k) were reimbursed to the Board members during the year.

5. STAFF NUMBERS AND COSTS

The average number of persons (excluding Board members) employed by The National Stud during the year was as follows:

	2005	2004
Administration (Including public visits and estate management)	10	10
Horse-related activities	16	15
Education/Charity	6	4
	£'000	£'000
The aggregate payroll costs of these persons were:		
Wages and salaries	638	519
Social security costs	65	56
Other pension costs (see note 15)	20	42
Other staff costs	37	24
	760	641

6. TAXATION

	2005 £'000	2004 £'000
United Kingdom income tax charge at 19% (2004: 20%)		
Current	19	–
		–

The tax assessed for the period is different from the standard rate of income tax in the UK. The differences are explained below:

Excess of revenue over expenditure/(expenditure over revenue)	412	(680)
Excess of expenditure over revenue multiplied by standard rate in the UK of 19% (2004: 20%)	78	(136)
Effects of:		
Expenses not deductible for tax purposes	162	21
Accelerated capital allowances and other timing differences	(224)	115
At marginal rates	3	–
	19	–

7. TANGIBLE FIXED ASSETS

	Long leasehold land and buildings £'000	Plant and machinery £'000	Paintings £'000	Total £'000
Cost or valuation				
At 1st January 2005	1,465	621	13	2,099
Additions	10	42	–	52
Disposals	–	(14)	(2)	(16)
Revaluations	–	–	113	113
At 31st December 2005	1,475	649	124	2,248
Depreciation				
At 1st January 2005	975	506	–	1,481
Charge for the year	43	53	–	96
Disposals	–	(14)	–	(14)
At 31st December 2005	1,018	545	–	1,563
Net book value				
At 31st December 2005	457	104	124	685
At 31st December 2004	490	115	13	618

The National Stud's paintings were valued in 2004 by Sothebys, an independent art valuer. The Board has decided to reflect this valuation in this year's financial statements to ensure the balance sheet more accurately reflects the value of Stud's assets.

8. BLOODSTOCK

	Stallions £'000	Mares £'000	Total £'000
Cost or valuation			
At 1st January 2005	5,272	1,343	6,615
Additions	1,050	220	1,270
Revaluation	1,722	–	1,722
Disposals	(279)	(33)	(312)
At 31st December 2005	7,765	1,530	9,295
Depreciation and amounts written off			
At 1st January 2005	4,072	140	4,212
Charge for the year	104	153	257
Disposals	(172)	(4)	(176)
At 31st December 2005	4,004	289	4,293
Net book value			
At 31st December 2005	3,761	1,241	5,002
At 31st December 2004	1,200	1,203	2,403

During the year the Board revalued the stallions resulting in an increase in valuation of £1,722k. In the opinion of the Board and its advisers, the aggregate of the balance sheet values of the stallions and mares remains at or below current market value.

9. STOCKS

	2005 £'000	2004 £'000
Farm and gift shop stock	19	20
Foals/yearlings	263	205
Stock of unborn foals	170	218
	452	443

10. DEBTORS

	2005 £'000	2004 £'000
Trade and other debtors	410	707
Prepayments and accrued income	273	249
	683	956

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	2004 £'000
Trade and other creditors	1,045	639
Loan from HBLB	1,000	–
Taxation and social security	23	24
Income tax	19	–
Deferred income	551	661
	2,638	1,324

The loan from HBLB is interest free which (on the basis of correspondence from the HBLB dated 16th November 2005) will convert to a grant at the date on which the Stud transfers into the Wavertree Charitable Trust.

12. DEFERRED TAXATION

Deferred taxation provided in the financial statements and the amounts unprovided of the total potential (asset)/liability are as follows:

	Amount provided		Amount unprovided	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Excess of tax written down value over net book value:				
Tangible fixed assets	-	-	18	20
Bloodstock	-	-	110	(117)
Short term timing differences	-	-	-	-
Rollover relief	-	-	42	42
	-	-	170	(55)
Losses				
	-	-	(862)	(816)
	-	-	(692)	(871)

No deferred tax assets have been recognised in these financial statements due to the uncertainty of the recoverability of such assets going forward.

13. RECONCILIATION OF MOVEMENT IN RESERVES

	Revenue reserve £'000	Revaluation reserve £'000	Total reserves £'000
Reserves at 1st January 2005	1,784	833	2,617
Excess of revenue over expenditure for the year	393	-	393
Transfer from revaluation reserve	86	(86)	-
Revaluation of bloodstock and paintings	-	1,835	1,835
Reserves at 31st December 2005	2,263	2,582	4,845

14. RECONCILIATION OF MOVEMENT IN NET CASH

	At 1st Jan 2005 £'000	Cashflow £'000	At 31st Dec 2005 £'000
Bank deposits and cash in hand	250	638	888
Money market deposits	-	502	502
	250	1,140	1,390

15. RETIREMENT BENEFITS SCHEME

The National Stud participates in a defined benefit pension scheme operated by the Horserace Betting Levy Board for its employees. The assets of the scheme are held separately from those of the Group, being invested with one fund manager.

The actuarial valuation at 30th June 2004, which assumed that all liabilities would be bought out in full, showed that the market value of the Scheme's assets amounted to £36.7m which represented 76% of the scheme liabilities, giving rise to a deficiency of £12m. The main assumptions used in the valuation were that rates of interest would be 6.9% per annum pre retirement and 4.9% post retirement, that pensionable salaries would increase by 3.5% per annum and that pension increases would be 5% for benefits accrued up to 28th February 1990, and 3% for benefits accrued from 1st March 1990.

15. RETIREMENT BENEFITS SCHEME *continued*

Following the announcement that the closure of the HBLB was to be deferred from September 2006, to 30th September 2009, HBLB have considered the effect the revised closure date will have on the funding of the Scheme deficit, in particular the risk of investment returns not matching the Scheme liabilities and the effect of changes in mortality rates.

To avoid the necessity to make continued additional payments to eliminate the funding deficit, during 2005, the HBLB entered into a Structured Buy-Out contract with Prudential Retirement Income Ltd which will underwrite the purchase of pension annuities at the date of closure of the HBLB.

The HBLB defined benefit scheme closed to new members on 1st April 2003 and a group personal pension scheme was established from that date.

The pension cost for The National Stud for the year ended 31st December 2005 amounted to £20,078 (2004: £42,228).

16. COMMITMENTS

At 31st December 2005 The National Stud has annual commitments under non-cancellable operating leases for land and buildings as set out below:

	2005	2004
	£'000	£'000
Leases which expire after more than five years	13	13
	13	13

17. RELATED PARTY DISCLOSURES

The National Stud Owner Breeders' Club Limited is deemed to be a related party.

During the year The National Stud charged The National Stud Owner Breeders' Club Limited £nil (2004: £33,050) for the keep of its mares and yearlings, £nil (2004: £4,500) for stud fees and £nil (2004: £16,000) for administration of the club. The total amount owed by The National Stud Owner Breeders' Club Limited as at 31st December 2005 was £nil (2004: £1,228).

The National Stud Never Say Die Club Limited is deemed to be a related party.

During the year The National Stud charged The National Stud Never Say Die Club Limited £13,413 for the keep of its mares and yearlings. Keep was charged at The National Stud's standard rates. The total amount owed by the The National Stud Never Say Die Club Limited as at 31st December 2005 was £2,082.

During the course of 2005 the Stud established syndicates for the purpose of disposing of part of its interests in Bahamian Bounty and Pastoral Pursuits. The Stud has as part of that process, and with the full approval of the Board, entered into an agreement with one of its directors (Jim Furlong) for him to acquire shares in the Bahamian Bounty Syndicate for £325,000. Because of the scale of the transaction, in terms of the number of shares purchased, the Board offered a guaranteed return on the investment for the first two years of the agreement being £9,500 per stallion share, together with the payment of insurance premiums for those first two years. The approach reflected the need for the Stud to raise cash through the medium of syndication to support its Business Plan.

18. CONTROLLING PARTY

The National Stud is controlled on a day-to-day basis by the Board, who are of the opinion that while the Horserace Betting Levy Board is not the beneficial owner of The National Stud it is currently, however, the ultimate controlling party.

