

NETELLER®

ANNUAL REPORT 2004

For the year ended 31 December 2004 NETELLER PLC is pleased to announce that:

All figures in US\$ unless otherwise stated

> Average daily sign ups	1,821
> Total year end members	1.25 million
> Revenue	\$82.6 million
> EBITDA*	\$48.5 million
> Profit before tax	\$45.8 million
> Net profit	\$33.0 million
> EPS	\$0.28 based on total shares outstanding; \$0.37 under IFRS using weighted average shares outstanding for the year

"Our first year results in the public market have achieved or exceeded what we had anticipated. The growth in revenue, customers and earnings are all in line with our expectations. Implementation of our strategy for geographic expansion and increased market penetration is proceeding successfully. Our current momentum and outlook for 2005 are very positive. " *

– Gord Herman, President and CEO



*Please see inside back cover for disclaimer and definitions.

NETELLER at a Glance >	01
Understanding NETELLER >	02
Chairman's Statement >	04
Message to Shareholders from the President and CEO >	05
Financial Review >	09
Corporate Governance >	12
Remuneration Committee Report >	14
Audit Committee Report >	15
Directors' Report >	16
Independent Auditors' Report >	21
Consolidated Financial Statements >	22
Notes to Consolidated Financial Statements >	26
Company Financial Statements >	40
Notes to Company Financial Statements >	43
Additional Information >	46
NETELLER Directors and Senior Management >	47
Notice of Annual General Meeting >	48
Form of Proxy >	49
Officers and Professional Advisers >	IBC

NETELLER AT A GLANCE

NETELLER is a global online money transfer company based in the Isle of Man. The Company specialises in online money transfers and the sale of electronic money to facilitate efficient global fund transfers.

As a global leader in this environment, we continue to lead the competitive field by focusing on our three core competencies:

- > **IDENTITY VERIFICATION:** NETELLER can authenticate customers with information provided to one trusted site
- > **INDEMNIFICATION OF MERCHANTS:** We offer merchants indemnification, providing them with 100% non-refutable funds
- > **INSTANT FUND TRANSFER:** NETELLER customers can access funds in their e-wallets in real time. Our instaCASH and Direct Accept products enable customers to make instant transfers to any of hundreds of NETELLER merchants. Our ATM and debit card gives customers near instant access to their money from hundreds of locations worldwide

- > **BUSINESS FOUNDED:** 1999
- > **TRANSACTIONS PROCESSED IN 2004:** US \$3,400,000,000+
- > **CUSTOMER BASE:** 1,500,000+
- > **ONLINE MERCHANTS ACCEPTING PAYMENT THROUGH NETELLER SYSTEM:** 1600+
- > **CORPORATE HEADQUARTERS:**
Douglas, Isle of Man
- > **REGIONAL OFFICES:**
Calgary, Canada
London, England
Hong Kong, China
San Jose, Costa Rica
- > **CURRENT NUMBER OF EMPLOYEES:** 400+
- > **STOCK EXCHANGE:** AIM
- > **TICKER SYMBOL:** NLR

UNDERSTANDING NETELLER

What Is NETELLER?

Founded in 1999, the NETELLER business is the creation of Canadian entrepreneur Stephen Lawrence. Lawrence conceived the idea of an "e-wallet" that could be used to fund Internet-based transfers to and from merchants without the security risk of processing transactions at multiple merchant websites. Today Lawrence remains a major shareholder, and NETELLER has evolved, in five years, from a start-up to one of the leading service providers in the online payment industry.

The NETELLER "e-wallet" enables customers (individuals who have opened a NETELLER account) to securely and conveniently fund, withdraw and transfer funds to any merchant (an Internet company selling a service) that supports the NETELLER money transfer platform. NETELLER spurred online money transfers by utilising and extending the existing international banking structure.

NETELLER presently serves a rapidly expanding base of approximately 1600 merchants and over 1,500,000 customers in more than 150 countries. To date, the most receptive market segment to NETELLER's "e-wallet" concept has been the online gaming market.

How Does It Work?

After a customer has completed the sign-up process and his or her bank account has been certified, he or she may transfer funds to any NETELLER merchant. To do so, a customer simply enters his or her NETELLER Account ID, Secure ID, the amount to be transferred from the NETELLER account and the merchant ID, and the funds transfer instantly.

Why Choose NETELLER?

Simply, NETELLER serves individuals who want to make Internet-based payments and money transfers and who are frustrated with the shortcomings of traditional payment methods.

A NETELLER account saves a customer from having to enter his or her credit card (or banking) information at every web site he or she wishes to transact with and provides an accessible, secure and convenient method of transferring funds online. A customer only has to enter these details once – at www.neteller.com – to make transactions at hundreds of web sites. This means that online merchants never have access to our customers' credit card or bank details, so our customers can be assured that no unauthorised transactions will occur and their personal information remains protected.

We provide customers many convenient ways to fund and withdraw money from their NETELLER accounts, including standard electronic bank withdrawals (called electronic fund transfers or EFTs), credit card funds, instaCASH funds, Internet banking transfers and transfers using the NETELLER ATM Card.

What Is Our Competitive Advantage?

We offer our customers instant access to funds for online purchases, facilities for rapid withdrawals of funds, access to over 80 percent of the online gaming merchants in the world and security of personal information. Our merchants benefit from fully indemnified funds from customer accounts, our large global customer base and our customers' instant access to funds for online purchases.

Our most successful products to date have been instaCASH and Direct Accept, both of which solve a major problem in making online purchases. While standard EFTs require four to five business days for funds to clear, customers may access their funds instantly using instaCASH or Direct Accept. During the period between initiating the transfer and receipt of funds, NETELLER provides qualified customers with access to funds through either instaCASH or Direct Accept products. In return, we collect a fee and wait the four to five business days that it takes for a standard (no-fee) EFT to clear. A fee is charged to compensate for the potential risk NETELLER assumes if the funds are not available in a customer's bank account.

On the merchant side, NETELLER competes by offering fully indemnified funds with a competitive fee structure. Indemnification of funds ensures that all amounts transferred to a merchant are final and that the merchant is not responsible for credit card chargebacks and non-sufficient-fund transactions. Further, our merchants also benefit from the instant access that our customers have to their funds to make online purchases using instaCASH or Direct Accept.

Regulatory Environment

NETELLER is subject to a variety of regulations in jurisdictions in which it operates. NETELLER monitors international legislation that may have an impact on its business.

In October 2004, NETELLER's subsidiary, NETELLER (UK) Limited, received authorisation from the United Kingdom's Financial Services Authority to operate as an electronic money issuer. The implications of this regulatory status are discussed in more detail on page six.

NETELLER's storage, use and processing of customer data is regulated by data protection legislation and NETELLER has a fully implemented privacy policy in accordance with standards set by Canadian and UK legislation.

NETELLER has implemented an internal anti-money laundering and anti-terrorist financing program in order to comply with legislation in the countries in which it operates.

NETELLER also follows international legislative developments concerning online gambling, an industry that utilises NETELLER's services. For instance, the US and some Asian and European jurisdictions have legislation that restricts entities from providing online gambling services. As well US legislation was recently proposed that would, if enacted, prohibit financial institutions from funding online gambling activities of US residents. The outcome of this particular bill is uncertain at this early stage but NETELLER is monitoring its progress closely.

Corporate Strategy

Our strategy is to become the global leader in providing online money transfer products and the provision of e-money. Our priorities in the short and medium term involve growth in the following three key areas. We will meet this strategic target by leveraging the high adoption of our services within the online gaming industry, thus strengthening our leadership position in providing safe and secure online payments.

1) Build Global Money Transfer Platform

We will expand our money transfer platform globally, with a focus on North America, Europe and Asia where we anticipate strong demand for our service from both customers and merchants. In addition to growing revenue and profit, geographic expansion will mitigate risks associated with political or economical changes that may affect the online gaming industry at a regional level.

We will enhance our money transfer platform through incorporation of new secure, accessible and convenient transfer solutions and technologies that will benefit our customers and merchants.

2) Whole Product Service

We will partner with select financial institutions and cross-sell a suite of financial services to our global customer base. This will expand the benefits of a NETELLER account to our customers, increase retention and improve profitability. This will provide additional, diverse and low-risk sources of revenue.

3) Identification, Fraud Services and KYC Passporting

One of NETELLER's core competencies is providing positive proof of identity of online individuals thereby eliminating identity theft and fraud. This identification system allows NETELLER to identify its online customer base accurately, allowing the customer to transact in a secure environment. We believe that this system is transferable to other online and offline companies that have Know Your Customer ("KYC") compliance rules.

CHAIRMAN'S STATEMENT

This Annual Report covers the year ended 31 December 2004 and includes the audited financial statements for that period.

In accordance with Isle of Man Company Law, the Company must hold an Annual General Meeting within 15 months of its previous AGM. In order to synchronise future dates in relation to the production of financial statements and AGMs going forward, the Company's second AGM is being held on 22 June 2005. This Annual Report and related documents comprise the materials required to be sent to shareholders for the AGM of a public listed company.

Enclosed is a brief background on the Company that outlines our service offering and corporate strategy. As well, this Annual Report highlights the Company's operational and financial performance, its approach to corporate governance, the role of the audit and remuneration committees, the Directors' Report and the audited financial statements of the Company as prepared by management. Finally, the Notice of Annual General Meeting and Form of Proxy follow.

A new era in the evolution of NETELLER was ushered in during 2004 and early 2005 as the Company experienced tremendous change and growth. These changes included the Company's successful initial public offering on the Alternative Investment Market of the London Stock Exchange, rapid growth in our customer and employee base, FSA authorisation of our UK subsidiary and expansion into Asia with a key strategic acquisition. Most importantly, the Company managed these changes effectively and grew revenue 130% to \$82.6 million.

I thank all shareholders for their support, and all staff for their hard work on behalf of the Company, and the Board looks forward to further growth and development in the future.

[signed]

Stephen Lawrence
Chairman of the Board of Directors
14 May 2005

MESSAGE TO SHAREHOLDERS FROM THE PRESIDENT AND CEO

It gives me great pleasure to announce our first annual results for NETELLER PLC ("The Company"). We believe we have exceeded all our main targets. Further, we continued to deliver on our vision of becoming the world's leading money transfer platform with the expansion of our European Union and Asian operations. Fiscal 2004 was a year of transition which set the solid foundation for our continued growth, and I am excited about the opportunities and fulfilment in this coming year.

The ability of this Company to adapt positively to a rapidly changing environment, and to thrive in it, has been the result of an enormous amount of work and is a tribute to the entire NETELLER team.

Our achievements in 2004 and early 2005 include the following:

Corporate Location

We established our corporate head office on the Isle of Man (the "IOM") during 2004.

There were several motivating factors for this choice of location. Firstly, global expansion (the number one strategy of the Company) requires us to better understand the markets we are entering and the IOM's central location provides us with good access to our three primary geographic locations (North America, Europe and Asia). This location also provides us with convenient access to our investors and a large portion of our merchant base. Secondly, we were attracted to the IOM's commitment to developing a centre of excellence for business and e-commerce. Thirdly, the tax-friendly jurisdiction of the IOM is an attractive attribute for Internet-based companies such as NETELLER. While the corporate tax rate for 2004 does not reflect the benefits of the lower tax regime in the IOM, we are poised to reap the rewards of this move in the 2005 fiscal period.

Initial Public Offering ("IPO")

During the year, NETELLER moved into the public domain with the successful launch of the Company on the Alternative Investment Market of the London Stock Exchange ("AIM") on 14 April 2004.

We have grown the Company from an initial market capitalisation of £239,600,000 to a year-end value of approximately £409,716,000. This represents a significant return to our initial investors who purchased shares during the IPO.

The IPO raised £30 million before costs for the Company. The principal purposes of the IPO were to create liquidity for the Company's shares, to increase corporate visibility within the business and investor community, to attract highly skilled employees through the granting of stock options, and to provide access to capital. The capital raised in the IPO will be used to finance acquisitions and growth in operations and will enable us to accelerate the development of future generations of our world-class money transfer platform and services.

The process of going public also brought two independent directors onto the board of the Company, and we welcomed John Webster and Don Lindsay into these roles. Both John and Don bring extensive management and board experience to our team and we continue to benefit from their contributions to the Company.

Expansion of Product Offering

Fiscal 2004 saw several significant changes to the way we moved money via the Internet. In February 2004, we successfully launched the first phase of our global currency money transfer platform. This initiative enabled our customers and merchants to easily and conveniently hold funds in three additional currencies to the US Dollar, namely the British Pound, the Euro and the Canadian Dollar. Although the US Dollar remains the predominant currency for transactions, we are pleased to see significant growth in the use of other currencies. This also enables customers to change currencies at minimal cost as NETELLER charges bank

OUR CUSTOMER BASE INCREASED 113% IN THE 12 MONTH PERIOD.

wholesale rates plus 1.9%, a lower rate than charged by most other institutions.

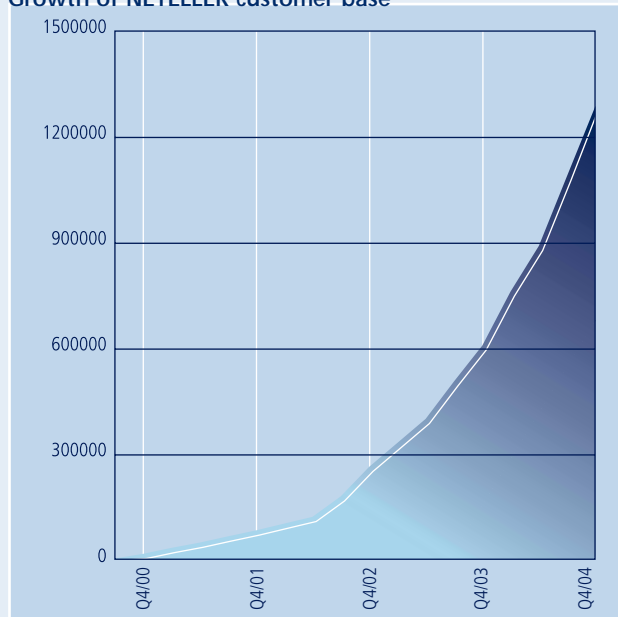
During the year we also introduced the Direct Accept product for our customers and merchants. This allows our customers to deposit funds instantly into the system while the receiving merchant pays the related transaction fees. This product has proved to be very popular and has resulted in shifting some customers from no-fee EFTs to fee generating transactions.

Online payments have forever changed the way that money moves between individuals and businesses. Our global currency money transfer platform, coupled with our continued development of innovative payment options, will ensure that transferring money online will be made easier and more cost effective for individuals and businesses alike.

FSA Authorisation

In October 2004 we received authorisation from the United Kingdom's Financial Services Authority ("FSA") for our subsidiary, NETELLER (UK) Limited, to operate as a regulated e-money issuer.

Growth of NETELLER customer base



The FSA was one of the first regulators in Europe to implement the e-Money Directive and to develop a clear interpretation of the rules and regulations that apply to e-money issuers. The e-Money Directive was conceived in order to allow a level playing field for on-line payment providers to compete with the banks and to maintain the appropriate levels of protection for consumers. The strong regulatory environment administered by the FSA was a key reason for NETELLER's decision to base its operations in Europe and to list on the AIM.

Becoming a regulated e-money issuer qualifies NETELLER as one of only a very small number of bodies able to issue e-money legally in the European Union. We are passporting this regulated status into all 25 European Union member states, opening previously untapped markets for the Company. This will enhance our competitive advantage in our pursuit of full-scale penetration of the European market, as unregulated companies that operate in the European Union in this sector are likely to come under increased scrutiny by regulators.

Distributed Architecture

We successfully initiated the launch of new processing and data management systems in the Isle of Man in the fourth quarter of 2004, dubbed Distributed Architecture. This was a major achievement by our IT team and the culmination of 12 months of careful planning and scheduling.

The implementation of Distributed Architecture was the final requirement to change to a reduced effective Group corporate tax rate from an historical level of 33% to an anticipated rate of 10% in 2005, resulting in improved profitability and cash flow. The Company's principal subsidiary companies, NT Services Ltd. in Canada and FSA-regulated NETELLER (UK) Limited in London, England, will continue to be subject to local tax rates.

Growth

NETELLER enjoyed spectacular growth during 2004. Our customer base increased 113%, from 586,477 to 1,251,031 in the year ended 31 December 2004, the greatest year-over-year customer growth NETELLER has experienced. As a result, our average daily receipts from customers grew 109%, from \$1.1 million in Q4 2003 to \$2.3 million in Q4 2004.

Average daily sign-ups for 2004 were 1,821, commencing at 1,634 per day in Q1 and growing to 2,072 in Q4. This rapid growth saw the Company add its 1,000,000th customer on 6 September 2004, just five years after operations commenced. Our outstanding ability to add new customers with minimal cost continues to drive growth in our revenue whilst our margins stay constant.

Growth in our customer base was driven by three key factors. Firstly, our continued development and implementation of products and services offers our customers and merchants clear and compelling value propositions. Secondly, the Company's key served market is expanding quickly. Thirdly, we have leveraged strong relationships with our global merchant base to attract new customers.

Asian Expansion

We were pleased to announce the strategic acquisition of Quick Access International Company Limited, a Macau-based debit card payment processor, on 3 March 2005. The acquisition is the first of several initiatives in the Company's planned launch into Asia. While the acquisition was completed in early 2005, it is the result of almost one year of extensive due diligence on the region and the target. Quick Access' established customer base, business relationships, money transfer platform and positive bottom line were key factors in evaluating the opportunity. This acquisition expands our geographical footprint, builds global brand presence and enables us to continue as a preferred service provider to those of our merchants who are developing services in China. Quick Access will provide our merchants with robust access to the Chinese money transfer network, a service currently unmatched by our competitors.

Employee Growth

Fuelled by explosive market demand and a commitment to offering our customers and merchants exceptional service, our employee base doubled to over 320 at 31 December 2004. Through this growth we added a diverse range of new departments including Customer Help, Quality Assurance, Investigations, Marketing and Human Resources, and we have added significantly to our existing Customer Service, Security and IT departments.

With NETELLER's emergence as the leading platform for online money transfer serving the gaming industry, we remain committed to providing exceptional products and services as a competitive advantage. For this reason, we continue to invest heavily in the development of our next generation money transfer platform, products, employee hiring and training. Additionally, we continue to focus on forging long-term relationships with our merchants and customers.

NETELLER has attracted a high-quality team with in-depth industry and technical experience. This team will build upon the value propositions we offer our merchants and customers through

OUR AVERAGE DAILY RECEIPTS FROM CUSTOMERS GREW 109% FROM \$1.1 MILLION IN Q4 2003 TO \$2.3 MILLION IN Q4 2004.

improved market analysis, customer help, quality assurance in IT and customer service, fraud prevention, identity verification, and anti-money laundering processes. In an ever-increasing knowledge and creativity-based global economy, the skills and experience of our team is crucial to our continued success.

Awards

We were delighted in October 2004 when our call centre in Calgary won the CAM-X Call Centre Award of Distinction in recognition of achieving consistently high standards in customer service. The call centre is staffed 24/7 with multilingual staff to handle questions and give quality care to our customers around the world. This award is determined by an extensive evaluation process of anonymous evaluators calling into our system to test our staff's knowledge, attitude and response time. Maintaining a high level of customer service is a key strategic competitive advantage.

[signed]

Gord Herman
President and Chief Executive Officer
14 May 2005

Finally, NETELLER was nominated for the IPO of the year by the Listed Companies of the AIM on the London Stock Exchange. The size of the offering and success of the stock price subsequent to issue were key factors in the nomination.

* * *

The past year has proven our ability to execute on our goals, objectives, commitments and business plan successfully. We are steadily assembling a solid foundation in support of our vision of becoming the world's leading money transfer system.

We are energised by the momentum of our business and encouraged by the array of new opportunities that we see before us. We are confident that the combination of our team, knowledge, partnerships, customers and strategic plan will enable us to execute successfully on our vision.

FINANCIAL REVIEW

The following comparisons between 2004 and 2003 are between NETELLER PLC and its wholly-owned subsidiaries ("the Group") and NETeller Inc., the predecessor company. The operations of NETeller Inc. were acquired by the Group on 31 December 2003. Refer to Additional Information on page 46.

The completion of 2004 has brought to conclusion a very successful year for NETELLER. The Company has continued to grow operations and profitability in all significant areas of the income statement.

Sales for 2004 are \$82.6 million which are up 130% from 2003. Fee revenue from transactions for the year totalled \$81 million. These fees reflect an increasing customer base, resulting in more funds coming into the Company on a daily basis.

The fee revenue per customer dollar receipted into the Company has improved from \$0.123 to \$0.125 from 2003 to 2004.

The fees earned per dollar coming into the system have improved

due to several factors. NETELLER introduced Direct Accept during the year whereby merchants pay a reduced instaCASH rate in place of payment by the customers. This has resulted in customers switching from free but delayed forms of funding accounts to fee-generating instant methods. As well, the introduction of multiple currencies has improved our revenue position as we earn fees each time a customer converts to a different currency.

Included in the \$82.6 million for the year is \$1.9 million of interest revenue from funds invested. The funds are from the IPO, the profits from operations and invested trust funds. The invested trust funds pertain to amounts owing to customers and merchants.

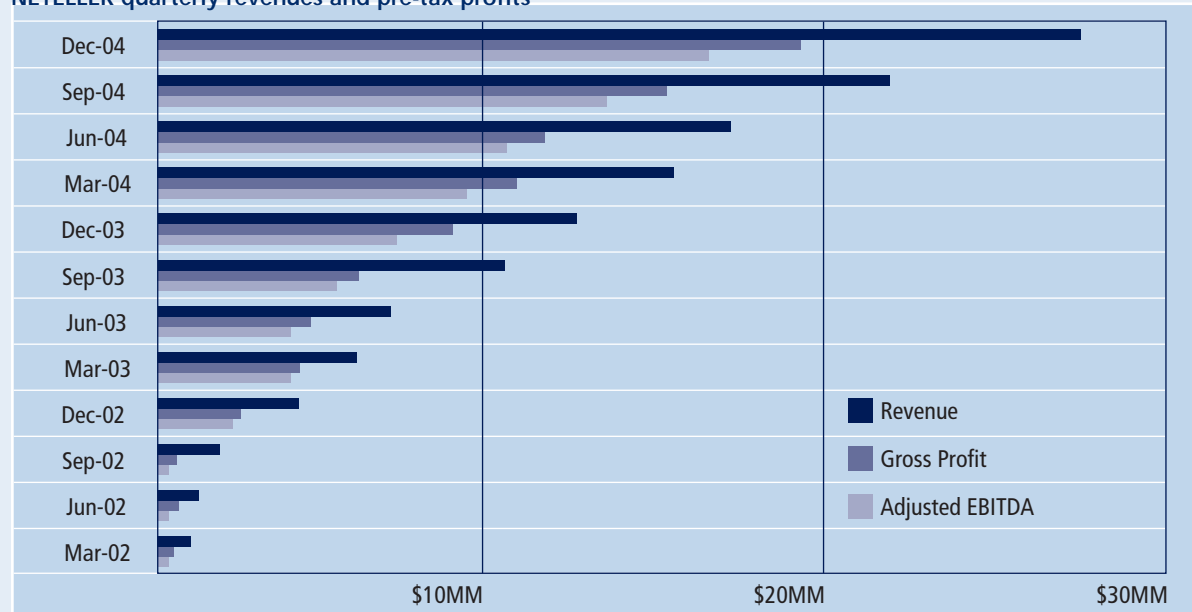
Direct Costs

The Company kept direct costs in line with sales through the year at approximately 31% of sales.

The main components of direct costs are customer services and bad debts.

Customer service is predominantly composed of the call centre and support staff in the Canadian subsidiary. Staff levels at the call centre have risen in line with revenue from 55 staff at the beginning of the year to 187 at year end. The services provided

NETELLER quarterly revenues and pre-tax profits



Figures for 2002 and 2003 are from Neteller Inc., the predecessor company.

SALES FOR 2004 ARE \$82.6 MILLION, UP 130% FROM 2003.

by the call centre include customer support, fraud and security, account retention and investigations. The Account Retention and Investigations Departments are new in 2004 and have resulted in improved retention rates and a slight improvement in bad debts.

Bad debts remain the largest direct cost of the Company. The costs are primarily caused by insufficient funds in bank accounts when customers use instaCASH to fund their accounts. The increase in the percentage of funds coming into the system using instaCASH could have resulted in an increased level of bad debts. The Company has, however, increased preventative controls on customer accounts to keep this expense at similar levels to the previous year.

General and administrative (G & A)

General and administrative expenses were up significantly in 2004 due to several factors.

During 2004, we added in-house legal, human resources, quality and assurance testing, facilities management, internal audit and in-house training departments. In addition, the system support, accounting and reporting, and processing areas all required significant staff additions to keep pace with the growth of the Group.

The Company commenced recording share option expenses in Q4 of 2004 for \$0.4 million. The share option expenses are a factor of the number of options granted, the share volatility, the risk free interest rate and other factors. In future years the share option expenses are likely to increase as the number of options issued will increase.

Foreign exchange gain

NETELLER has expanded beyond a single currency Company in 2004 which has given rise to foreign currency exposure. The Company initially raised £30 million during the IPO which was converted into US Dollars for a \$1 million gain on foreign exchange. During the remainder of 2004, and especially in Q4, the US Dollar exchange rate fell against other currencies resulting in further gains as the Company holds currencies other than the US Dollar.

Also in Q4 of 2004, the Company entered into several forward contracts for the purchase of Canadian Dollars in 2005. These contracts are to ensure that the actual exchange rate experienced by the Company has some protection against further US Dollar devaluation. As required under International Financial Reporting Standards, the Company is required to revalue these contracts at 31 December 2004 which resulted in a further \$0.1 million gain.

Depreciation and amortisation

Depreciation and amortisation of \$2.7 million includes the amortisation of the initial intangible assets of \$2.2 million plus an additional \$0.5 million primarily from assets added during the year.

Taxes

The effective tax rate experienced by the Group fell from 33% to 17% in Q4 as the Company continued to move operations to the Isle of Man. The completion of the move to the Isle of Man will ensure that the expected blended Group tax rate reduces to approximately 10% for 2005.

Balance sheet

Cash and cash equivalents balances at 31 December 2004 are the unrestricted cash of the Company at that date. Prior to 31 December 2004, the Company had included in cash all amounts including that which pertained to customer and merchant balances. In Q3 of 2004, the Company opened trust accounts with its principal bankers in the Isle of Man and gave legal right of offset between these trust accounts and the Company's customer and merchant balances. The effect of this is to net the cash and customer and merchant liabilities presented on the balance sheet and disclose these amounts in the notes to the financial statements.

Restricted cash is the surplus amount of cash held in the trust accounts in excess of the customer and merchant balances. The Company, as a matter of policy, holds small amounts of excess cash in the accounts to ensure intraday balance movements do not result in a shortfall in the cash position. The net excess is disclosed as a corporate asset.

Prepaid expenses primarily include deposits made on foreign exchange contracts in place at year end.

Balances due from customers increased to \$1.7 million of estimated recoverable balances. This is in line with the increased level of business.

Capital assets increased from an opening balance of \$1 million to \$5.7 million. The assets purchased include land and a building in Canada, building improvements and furniture to accommodate the increased staffing levels. As the Company customer base has increased, the hardware, software and database requirements also increased, requiring a significant upgrade of the asset base. The Company has an efficient rate of employment of capital assets as the after tax net profits are 5.8 times total capital assets employed in the Company.

Intellectual property has been amortised over its useful life of three years during 2004 as planned.

Balances due to customers and merchants have been removed from the face of the balance sheet and disclosed in the notes to the financial statements due to the legal right of offset as discussed under restricted cash.

Share capital has increased from the nominal \$1 at 1 January 2004 primarily due to the IPO share proceeds of £30 million (\$46 million net of share issue costs). The Company has also set up an equity reserve of \$0.4 million for the total amount of share based compensation expenses.

Earnings per share (EPS)

The EPS based on the issued and outstanding ordinary shares of 119,800,000 for the year ended 31 December 2004 is \$0.28. The EPS based on weighted average shares outstanding of 89,636,165 is \$0.37. The weighted average shares outstanding of 90 million is significantly impacted by the 120 million shares issued in April 2004.

[signed]

Eric Hughes
Chief Financial Officer
14 May 2005

CORPORATE GOVERNANCE

Compliance with the Combined Code

The rules of the Alternative Investment Market ("AIM") do not compel the Company to comply with the Combined Code (the "Code"). Nevertheless the Company fully endorses the spirit and principles of the Code and seeks to comply where possible, whilst taking account of its own size, nature and stage of development. Precisely how the Company has applied these principles is set out in the following statement.

Board of Directors

During 2004, the Company was controlled by a Non-Executive Chairman, three independent Non-Executive Directors, and the Chief Executive Officer. A further Executive Director, namely Dale Johnson, Executive Vice President Corporate Development, was appointed on 23 February 2005.

All Non-Executive Directors are members of either the Audit or Remuneration Committees or both. Their biographies on page 47 illustrate their relevant corporate and industry experience.

At this stage in the Company's development the Board does not consider it appropriate to form a Nomination Committee. However, the Board's policy in relation to appointments to the Board is that these will be considered and if appropriate, approved by the full Board. The Remuneration Committee will also review any incoming Director's remuneration package.

The Chairman is responsible for the conduct of the Board, and he, together with the Chief Executive Officer, is responsible for ensuring that all Directors receive sufficient and relevant information of a financial, business and corporate nature prior to meetings.

The Board meets at regular intervals, and at these meetings the Directors are responsible for approval of the overall strategy and major developments of the Group. The Chief Executive Officer and the Executive Management Team are responsible for co-ordinating and implementing this approved business strategy throughout the Group.

The Board approves the annual budget and monitors the performance of the Company and the Executive Management Team against the approved budget and a range of key performance indicators, as well as considering employee issues and key appointments. All the members of the Board are able to take professional advice, at the Company's expense, should they wish to do so. The Company Secretary and Legal Counsel, to whom all directors have access, attends Board and Committee meetings.

The Directors will submit themselves for re-election, in accordance with the Company's Articles and the Code, at least once every three years.

A summary of the performance and financial position of the Company for the year ended 31 December 2004 is set out in the Chairman's Statement, the Message to Shareholders from the President, and the Financial Review. The Board considers this information to provide a balanced assessment of the Company's financial position and future prospects. The responsibilities of the Directors are set out in the Directors' Report.

Internal Control and Risk Management

The Board attaches considerable importance to the Group's system of internal control and risk management by establishing a continuous process for identifying, evaluating and managing the significant risks the Company faces.

The exposure to risk and changing environments within the industry is also closely monitored by specialist teams, including an in-house legal team, that have been created in order to assess and react to such changes. The Board monitors the work of these specialist teams and works closely with the auditors to ensure that sufficient controls

THE EXPOSURE TO RISK AND CHANGING ENVIRONMENTS WITHIN THE INDUSTRY IS ALSO CLOSELY MONITORED BY SPECIALIST TEAMS.

for managing risks are in place in line with the Code. Risk management covers operations, security, compliance, finance and strategy. The Audit Committee acting on behalf of the Board monitors these areas closely, and applicable matters are reviewed at meetings of the Audit Committee. However, internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Board recognises that any system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group also operates a comprehensive accounting and budgeting system, which is reported and analysed on a monthly basis. Variances between forecast and actual results are analysed thoroughly to ensure that should there be any material differences they are investigated immediately.

In addition, the Company has adopted a model code for dealings in securities of the Company by "relevant employees" of the Group and Directors of the Company or Group companies. This code is appropriate for an AIM listed company. Further, the Directors will also continue to comply

with Rule 19 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group, and the Group's applicable employees.

Going Concern

The financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Group has adequate resources to continue its operations for the foreseeable future.

Communication with Shareholders

The Company is strongly committed to the maintenance of good investor relations and seeks, wherever possible, to build a relationship of mutual understanding with both its institutional and private investors. Additionally, the Board seeks to use the Annual General Meeting and the Company's web site (www.neteller.com) to communicate with all shareholders. Further queries are welcome and can be directed to Gordon Herman, President & Chief Executive Officer (gord@neteller.com) or Dale Johnson, Executive Vice President Corporate Development (dale@neteller.com).

REMUNERATION COMMITTEE REPORT

The Remuneration Committee, comprises three Non-Executive Directors, namely John Webster (Chairman), Donald Lindsay and Stephen Lawrence. The Terms of Reference of the Remuneration Committee clarify that its remit is to determine the terms and conditions of service of the Group's senior staff and Executive Board members taking into account market conditions, the need to attract and retain appropriate staff and the interests of the Company's shareholders. This will include the determination of appropriate salaries, bonuses, share options, pension, long-term incentive arrangements and all other relevant terms of service, as well as termination arrangements.

The Remuneration Committee sets and reviews the scale and structure of the Executive Directors' remuneration packages including share options and the terms of their service contracts, which are recommended to the Board. The terms and conditions of the Non-Executive Directors' remuneration packages are

[signed]

John Webster
Chairman of Remuneration Committee
14 May 2005

determined by the Directors with due regard to the interests of shareholders and the performance of the Group. No Director plays any part in the discussion of his own remuneration.

The Remuneration Committee also makes recommendations to the Board concerning allocation of share options to "Eligible Executives" in accordance with the Rules of NETELLER Plc Share Option Plan ("Plan Rules"), AIM Rules and London Stock Exchange Rules.

The Chief Executive Officer and other executives of the Group may be invited to attend meetings of the Remuneration Committee so as to advise the Remuneration Committee, to discuss the performance of the other Executive Directors and to make proposals as necessary. Professional advisers and other persons with relevant experience, including Executive Directors, may also be invited to attend except for deliberations relating to that person's remuneration. The Remuneration Committee is scheduled to meet at least twice a year, and in the calendar year of 2004, it actually met once.

Refer to pages 16 to 18 for details of Directors' options and emoluments for the year ended 31 December 2004.

AUDIT COMMITTEE REPORT

The Audit Committee of the Company is comprised of three Non-Executive Directors, namely Donald Lindsay (Chairman), John Webster and John Lefebvre. The Audit Committee is scheduled to meet at least three times a year, and in the calendar year of 2004, it actually met three times.

The Board of Directors has approved written terms of reference for the Audit Committee, and a copy of the terms of reference can be obtained upon request from the Company Secretary.

The Audit Committee is advisory in nature to the Board, and its terms of reference require it to be independent in relation to controls, procedures, policies and accounting.

[signed]

Donald Lindsay
Chairman of Audit Committee
14 May 2005

The Audit Committee is responsible for ensuring that the Group's financial performance is properly monitored, controlled and reported upon. The Committee also reviews the Group's systems of internal controls including risk management processes and receives reports direct from the Head of Internal Audit. It also meets with the auditors at least once a year, and reviews reports from the auditors relating to accounts and internal control systems. In 2004 the Audit Committee met with the auditors twice. The Audit Committee advises the Board on the appointment of external auditors, their fees and their independence.

In the latter part of 2004, the Audit Committee approved and recommended to the Board a number of internal policies which were adopted by the Board and have been, or are in the process of being, implemented throughout the Group.

The Directors reviewed the need for an internal audit capability and this was implemented during 2004. The Head of Internal Audit reports directly to the Audit Committee Chairman.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Activities

The Group provides services to businesses and individuals to allow the processing of direct debit, electronic cheque and credit card payments. The Group processes direct debit, electronic cheques and credit card payments for retail point-of-sale and internet merchants.

Results and Dividends

The Group made a profit after tax of US\$33,021,259 (2003:US \$Nil). The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: US\$Nil).

Directors and Their Interests

The directors of the company who served during the above year and to date (except as noted) are:

	Appointed	Resigned	Number of Shares at 31 December 2004	% of issued share capital at date of reporting
John David Lefebvre	23/01/2004		16,106,549	13.44
Stephen Eric Lawrence	23/01/2004		26,282,545	21.94
Donald Clague Lindsay	23/01/2004		-	-
John Hamilton Webster	23/01/2004		-	-
Gordon Wayne Herman	23/01/2004		4,448,100	3.71
Dale Patrick Johnson	23/02/2005		19,000	-
Nicholas David Williamson		23/01/2004	-	-
Christopher James Tushingham		23/01/2004	-	-

No director held an interest in the share capital of the Company at 1 January 2004. No changes took place in the interests of directors between 31 December 2004 and 14 May 2005. Refer to Note 20 to the financial statements for additional disclosure.

Directors' Remuneration Report

The Company, prior to the formation of the Remuneration Committee, entered into service agreements between the Directors and the Company.

The contract for the Chief Executive Officer was entered into on 7 April 2004. He is paid a base salary of £142,500 for the year ended 31 December 2004 and is eligible for a performance bonus up to four times his annual salary. He is also compensated for a company vehicle and other benefits commensurate with the position. During the year ended 31 December 2004, the Chief Executive Officer was paid a bonus of US\$1,058,000.

Steve Lawrence, the Chairman of the Board, receives an annual salary of £75,000.

Each of the three other Non-Executive Directors receive an annual fee of £20,000 and £3,000 for each board committee served.

The Company's share option scheme was adopted pursuant to a resolution passed on 7 April 2004. Under this Scheme, the Board of Directors of the Company may grant share options to "Eligible Executives," which term includes employees and directors of Group companies, to acquire ordinary shares in the Company.

The exercise price per share comprised in an option granted under the scheme is equal to the average market value of a share over the three trading days prior to the grant date of the option, except for the first share options which were granted at the time of the Initial Public Offering when the exercise price was £2.00.

Details of the options for directors who served during 2004 are as follows:

	Options at the beginning of the year	Number of Options granted during the year	Options exercised in the year	Options at the end of the year	Exercise price £
Executive Director					
Gordon Herman	-	250,000	-	250,000	2.00
Non-Executive Directors					
Stephen Lawrence	-	25,000	-	25,000	2.00
John Lefebvre	-	25,000	-	25,000	2.00
John Webster	-	25,000	-	25,000	2.00
Donald Lindsay	-	25,000	-	25,000	2.00
	-	350,000	-	350,000	

No share options were eligible for exercise during the year ended 31 December 2004. One third of an individual's share options vest on each of the first, second and third anniversaries of the date of grant.

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2004 £
Emoluments	911,223
Compensation for loss of office	-
Amounts receivable under long-term incentive schemes	-
Money purchase pension contributions	-
	911,223

Total Directors' emoluments

In Pounds Sterling	Fees/ Basic Salary £	Consulting Fees £	Benefits in Kind £	Annual Bonus £	Total 2004 £
Executive Director					
Gordon Herman	142,500	-	19,200	575,023	736,723
Non-Executive Directors					
Stephen Lawrence	75,000	-	-	-	75,000
John Lefebvre	23,000	-	-	-	23,000
John Webster	26,000	10,000	-	-	36,000
Donald Lindsay	28,000	12,500	-	-	40,500
Total	294,500	22,500	19,200	575,023	911,223

In US Dollars	Fees/ Basic Salary US\$	Consulting Fees US\$	Benefits in Kind US\$	Annual Bonus US\$	Total 2004 US\$
Executive Director					
Gordon Herman	261,132	-	35,184	1,058,000	1,354,316
Non-Executive Directors					
Stephen Lawrence	130,848	-	-	-	130,848
John Lefebvre	40,442	-	-	-	40,442
John Webster	47,645	17,976	-	-	65,621
Donald Lindsay	51,310	22,470	-	-	73,780
	531,377	40,446	35,184	1,058,000	1,665,007

As at 31 December 2004, there were no pension arrangements in place for any Director of the Company.

Future Prospects

The volume of members transacting with the Company continues to grow. In addition, we plan to expand the geographic scope of operations to increase activities in both Europe and Asia.

As a Company operating within a relatively new industry, the legislative environment in different parts of our operational area is subject to possible change. The Company monitors the legislative environment in all significant countries to manage the risks and rewards posed to operations by changes to legislation.

Charitable and Political Contributions

During the year, the Group made charitable donations of US\$15,308 (2003: US\$Nil), principally to local charities serving the communities in which the Group operates.

No political donations were made during the year.

Auditors

Deloitte & Touche has expressed its willingness to continue in office as auditors in accordance with Section 12(2) of the Companies Act 1982.

Approved by the Board of Directors
and signed on behalf of the Board

[signed]

Gordon Herman
Director
14 May 2005

4th Floor
Standard Bank Building
1 Circular Road
Douglas, Isle of Man

Statement of Directors' Responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They are also responsible for the system of internal controls, for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE COMPLETION OF 2004 HAS BROUGHT TO CONCLUSION A VERY SUCCESSFUL YEAR FOR NETELLER. THE COMPANY HAS CONTINUED TO GROW OPERATIONS AND PROFITABILITY IN ALL SIGNIFICANT AREAS OF THE INCOME STATEMENT.

Independent

Auditors' Report > **21**

Consolidated

Balance Sheet > **22**

Consolidated

Income Statement > **23**

Consolidated Statement

of Changes in Equity > **24**

Consolidated Statement

of Cash Flows > **25**

Notes to Consolidated

Financial Statements > **26**

Company

Balance Sheet > **40**

Company Income

Statement > **41**

Company Statement

of Changes in Equity > **41**

Company Statement

of Cash Flows > **42**

Notes to Company

Financial Statements > **43**



INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of NETELLER PLC as of 31 December 2004, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements, which are prepared in accordance with International Financial Reporting Standards, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

This report is made solely to the Company's members, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2004, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Companies Acts 1931 to 2004.

[signed]

DELOITTE & TOUCHE
Chartered Accountants
Douglas, Isle of Man
14 May 2005

CONSOLIDATED BALANCE SHEET

As at 31 December 2004.

	31 December 2004 US\$	31 December 2003 US\$
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	76,969,314	31,030,455
Restricted cash (Note 5)	1,783,787	-
Receivable from members (Note 6)	1,655,000	565,000
Trade and other receivables	32,499	54,045
Prepaid expenses and deposits	837,810	85,705
Receivable from NETELLER Inc. (Note 12)	-	17,081,598
Funds held in trust (Note 12)	-	6,500,000
	81,278,410	55,316,803
Non-current assets:		
Capital assets (Note 7)	5,714,265	1,000,000
Intangible assets (Note 8)	4,850,810	6,500,000
Portfolio investment, at cost	75,000	25,000
	91,918,485	62,841,803
Liabilities		
Current liabilities:		
Trade and other payables (Note 9)	2,616,196	-
Payable to members and merchants (Note 5)	-	48,868,070
Income taxes payable (Note 15)	9,209,356	-
Notes payable to NETELLER Inc. (Note 12)	-	7,473,633
Due to shareholders (Note 12)	-	6,500,099
	11,825,552	62,841,802
Shareholders' Equity		
Share capital (Note 10)	39,708	1
Share premium (Note 11)	46,651,224	-
Equity reserve on share option issuance (Note 19)	380,742	-
Accumulated profits	33,021,259	-
	80,092,933	1
	91,918,485	62,841,803

The notes on pages 26 to 39 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 May 2005 and were signed on its behalf by:

[signed]

Director
Donald Lindsay

[signed]

Director
John Webster

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004.

	US\$
Revenue (Note 13)	82,580,750
Cost of sales	
Customer support	7,011,251
Website maintenance	2,618,791
Deposit and withdrawal fees	3,894,126
Bad debts	11,744,368
Gross profit	57,312,214
Operating expenses/(income)	
General and administrative	9,272,925
Management bonus (Note 20)	1,058,000
Foreign exchange gain	(1,555,014)
Depreciation and amortisation	2,717,725
Profit before tax	45,818,578
Income tax expense (Note 15)	12,797,319
Net profit for the year	33,021,259
Basic and diluted earnings per share (Note 16)	\$0.37

The notes on pages 26 to 39 form part of these financial statements.

Comparative figures for the Consolidated Income Statement are not presented as the Company was incorporated on 31 October 2003 and had no income or expenses and had no income or expenses and made neither profit nor a loss in the two month period from the date of incorporation until 31 December 2003; accordingly no income statement is presented for this period.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004.

	Share capital – ordinary shares	Share capital – deferred shares	Total share capital	Share premium	Equity reserve on share option issuance	Accumulated profits	Total
Balance as at 1 January 2004	1	-	1	-	-	-	1
Issue of ordinary shares during the year	21,707	-	21,707	53,169,341	-	-	53,191,048
Issue of deferred shares during the year	-	18,000	18,000	-	-	-	18,000
Share issuance costs on ordinary shares issued during the year	-	-	-	(6,518,117)	-	-	(6,518,117)
Equity reserve on option issuance	-	-	-	-	380,742	-	380,742
Net profit for year	-	-	-	-	-	33,021,259	33,021,259
Balance as at 31 December 2004	21,708	18,000	39,708	46,651,224	380,742	33,021,259	80,092,933

The notes on pages 26 to 39 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2004.

	Year ended 31 December 2004 US\$	Two month period ended 31 December 2003 US\$
Operating Activities		
Profit before tax	45,818,578	-
Adjustments for:		
Depreciation and amortisation	2,717,725	-
Unrealised foreign exchange loss	34,650	-
Loss on sale of capital assets	3,755	-
Share option expense	380,742	-
Operating cash flows before movements in working capital	48,955,450	-
Increase in receivable from members	(1,174,242)	-
Decrease in trade and other receivables	21,546	-
Increase in prepaid expenses and deposits	(618,767)	-
Increase in trade and other payables	2,250,257	-
Cash generated by operations	49,434,244	-
Income tax paid	(3,587,963)	-
Net cash from operating activities	45,846,281	-
Investing Activities		
Decrease in payable to members and merchants due to legal offset from investment in Trust accounts (Note 5)	(48,868,070)	-
Purchase of capital and intangible assets	(5,830,709)	-
Proceeds on sale of capital assets	44,154	-
Purchase of portfolio investment	(50,000)	-
Restricted cash accounts	(1,783,787)	-
Net cash used in the investing activities	(56,488,412)	-
Financing Activities		
Proceeds on issuance of shares, net of share issuance costs	46,690,931	1
Receipt of receivable from NETELLER Inc.	17,081,598	-
Receipt of funds held in trust	6,500,000	-
Repayment of amounts due to shareholders	(6,500,099)	-
Repayment of notes payable to NETELLER Inc.	(7,473,633)	-
Net cash generated from financing activities	56,298,797	1
Increase in cash and cash equivalents during the period	45,656,666	1
Cash and cash equivalents acquired on purchase of business	-	31,030,454
Net effect of foreign exchange on cash and cash equivalents	282,193	-
Cash and cash equivalents, beginning of period	31,030,455	-
Cash and cash equivalents, end of period	76,969,314	31,030,455

The notes on pages 26 to 39 form part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2004.

1. GENERAL

NETELLER PLC (the "Company") was a private company incorporated under the laws of the Isle of Man on 31 October 2003 and registered as a public company on 1 April 2004. The principal activities of the Company and its subsidiaries (the "Group") are described in Note 2.

The notes to the financial statements refer to the Group unless otherwise stated.

These financial statements are presented in US Dollars ("US\$" or "\$") since that is the currency in which the majority of the Group's transactions are denominated.

At 31 December 2004, the Group had 326 employees (2003: 130 employees).

2. NATURE OF OPERATIONS

The Group provides services to businesses and individuals to allow the processing of direct debit, electronic cheque and credit card payments. The Group through its wholly-owned subsidiary, NT Services Limited, processes direct debit, electronic cheques and credit card payments for internet merchants.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Isle of Man law and International Financial Reporting Standards ("IFRS"). The following principal accounting policies have been applied.

International Accounting Standards

The Group reports under International Financial Reporting Standards and therefore applies International Accounting Standards for these financial statements. The Group chose to early adopt the following International Accounting Standards: IAS1 (presentation of financial statements), IAS8 (accounting policies, changes in accounting estimates and errors), IAS10 (events after the balance sheet date), IAS16 (property, plant and equipment), IAS17 (leases), IAS24 (related party disclosures), IAS27 (consolidated and separate financial statements), IAS28 (investments in associates), IAS32 (financial instruments: disclosure and presentation), IAS33 (earnings per share) and IAS39 (financial instruments: recognition and measurement).

The Group has not early adopted IAS 21 (the effects of changes in foreign exchange rates). This standard will be applicable for years beginning on 1 January 2005 and will be applied in the next fiscal period. The impact of this change in accounting standard is not known or reasonably estimable. The standard will primarily impact the way in which the Group accounts for foreign exchange on the consolidation of foreign operations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting convention

The financial statements have been prepared on the historical cost basis, except for the revaluation of the derivative financial instruments.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) as at year-end. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, NT Services Limited, NETELLER (UK) Limited, NETELLER Express Limited, eShop Limited, NETELLER Limited (Gibraltar) and Cardload Inc. All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and term deposits, which have maturities of less than three months at the date of acquisition.

Intangible assets

Intellectual property is recorded at cost and is amortised on a straight-line basis over its estimated useful life which is assessed to be three years.

Website development costs are recorded at cost and amortised over its estimated useful life using the declining-balance method at 30%.

Capital assets

Land is not depreciated. Capital assets are recorded at cost and, commencing on 1 January 2004, were amortised, over their estimated useful lives, using the declining-balance method, on the following bases:

Communication equipment	20%
Furniture and equipment	20%
Computer equipment	30%

Commencing on 1 January 2004, the following were depreciated over their estimated useful lives, using the straight-line method, on the following bases:

Computer software	2 years
Building	20 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Investment

The Group's investment in an equity investment does not have a quoted market price in an active market and the fair value cannot be reliably measured. Accordingly, the portfolio investment is stated at cost. Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs.

Receivable from members

Amounts receivable from members are stated at their nominal value as reduced by appropriate provision for doubtful accounts.

Deferred tax

The Group uses the balance sheet liability method of accounting for income taxes. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate deferred tax assets or liabilities. Deferred tax assets or liabilities are calculated using tax rates anticipated to exist in the periods that the temporary differences are expected to reverse.

Segment Information

No analysis related to segmented information is disclosed, as the Directors of the Company are of the opinion that all of the Group's activities arise from on-line transactions.

Revenue recognition

The Group is involved in transaction processing services. Revenues from transaction processing services are recognised at the time services are rendered. Member revenue is recognised either as a fee calculated as a percentage of funds processed or as a charge per transaction, pursuant to the respective member agreements. Merchant revenue is recognised as a fee calculated as a percentage of funds processed on behalf of the merchants.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Repairs and renewals

These costs are charged against income as and when they are incurred. No provision for future repairs is made in the financial statements.

Leases

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign exchange

Assets, liabilities, revenues and expenses arising from foreign currency transactions are translated into United States Dollars using the exchange rate in effect at the date of the transaction. At period-end, monetary items denominated in foreign currency are adjusted to reflect the exchange rate in effect at the period-end and any gain or loss is included in income for that period.

Integrated foreign subsidiaries are accounted for under the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at average rates for the period and foreign exchange gains and losses are included in income in the period in which they arise.

Related party transactions

Monetary related party transactions in the normal course of operations are recorded at fair value, and transactions between related parties, not in the normal course of operations, are recorded at the carrying value as recorded by the transferor.

Use of estimates

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the Group's financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates in the Group's financial statements include the amount recorded for provision for doubtful accounts, commitments and contingencies. By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the Group's financial statements of changes in estimates in future periods could be significant.

Derivative financial instruments

The Group is exposed to foreign exchange to the extent that operating expenses are incurred in currencies other than the United States Dollar. To mitigate the risk of this exposure, the Group enters into forward contracts to purchase Canadian Dollars at fixed rates into the next several months. At inception, the fair values of the contracts are taken to income. The amount of these contracts is less than the expected operating expenses in Canadian Dollars and the contracts are entered into when rates are considered advantageous for the Group.

At the end of the year, the Group has valued the contracts it has entered into based on the actual forward rate at 31 December 2004. The increase or decrease in the fair value of the contracts has been taken to income.

Research and development

Research expenditure is written off to the income statement in the period in which it is incurred.

Development expenditure is written off in the same way unless management is satisfied as to the technical, commercial and financial viability of the individual projects. In this situation, the expenditure is capitalised, at cost less a provision for any impairment in value, and is amortised on the commencement of use over the period in which benefits are expected to be received by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

During the year ended 31 December 2004, the Company adopted the requirements of International Financial Reporting Standard 2 "Share-based Payments" early, as encouraged by the standard.

The Company issues share options to certain employees including directors. Share options are measured at fair value at the date of grant. The fair value determined at the grant date of the share option is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured using the Black-Scholes pricing model. When necessary, the expected life used in the model is adjusted, based on management's best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	As at 31 December 2004 US\$	As at 31 December 2003 US\$
Barclays Global Investors Liquidity Fund	17,499,361	19,033,888
Cash balances	50,913,460	11,996,567
Cash balances held by related parties	8,556,493	-
	76,969,314	31,030,455

Cash held by related parties represents amounts held by companies controlled by a Non-Executive Director. The cash is held for the exclusive and irrefutable benefit of the Group (refer to Note 20.)

5. RESTRICTED CASH

The Company holds trust accounts with its principal banker which are segregated from operating funds. Balances in the trust accounts are maintained at a sufficient level to fully offset amounts owing to NETELLER merchants and members. There exists a legal right of offset between the balances owing to the members and merchants and the cash balances segregated in the trust accounts. As such only the net balance of surplus cash is disclosed on the balance sheet as Restricted Cash.

The trust account arrangement had not been implemented at 31 December 2003 and hence no legal right of offset existed at that date. The consolidated statement of cash flows reflects the effect of the implementation of the trust arrangements during the year ended 31 December 2004.

At 31 December 2004, the Group has the following balances:

	Trust Account Funds US\$	Balance Owing US\$	Restricted Cash US\$
Members	56,309,576	55,831,314	478,262
Merchants	53,137,533	51,832,008	1,305,525
	109,447,109	107,663,322	1,783,787

6. RECEIVABLE FROM MEMBERS

	As at 31 December 2004 US\$	As at 31 December 2003 US\$
Receivable from members	9,655,942	2,149,642
Provision for doubtful accounts	(8,000,942)	(1,584,642)
	1,655,000	565,000

Receivable from members consist of member accounts that are due from members and are in the process of collection. The net receivable from members represents the accounts which are expected to be collected through the normal course of business.

7. CAPITAL ASSETS

	Communication Equipment US\$	Furniture and Equipment US\$	Computer Equipment US\$	Computer Software US\$	Building and Improvements US\$	Land US\$	Total US\$
Cost							
As at							
31 December 2003	352,500	54,200	125,000	23,000	445,300	-	1,000,000
Additions	86,500	250,754	1,723,494	733,864	1,525,939	936,396	5,256,947
Disposals	-	(47,909)	-	(49,099)	-	-	(97,008)
As at							
31 December 2004	439,000	257,045	1,848,494	707,765	1,971,239	936,396	6,159,939
Accumulated amortisation							
As at							
31 December 2003	-	-	-	-	-	-	-
Charge for the Year	101,032	25,045	137,025	158,793	72,878	-	494,773
Disposals	-	-	-	(49,099)	-	-	(49,099)
As at							
31 December 2004	101,032	25,045	137,025	109,694	72,878	-	445,674
Net book value							
As at							
31 December 2004	337,968	232,000	1,711,469	598,071	1,898,361	936,396	5,714,265
Net book value							
As at							
31 December 2003	352,500	54,200	125,000	23,000	445,300	-	1,000,000

8. INTANGIBLE ASSETS

	Intellectual Property US\$	Website Development US\$	Total US\$
Cost			
As at 31 December 2003	6,500,000	-	6,500,000
Additions	-	573,762	573,762
As at 31 December 2004	6,500,000	573,762	7,073,762
Accumulated amortisation			
As at 31 December 2003	-	-	-
Charge for the year	2,166,667	56,285	2,222,952
As at 31 December 2004	2,166,667	56,285	2,222,952
Net book value			
As at 31 December 2004	4,333,333	517,477	4,850,810
Net book value			
As at 31 December 2003	6,500,000	-	6,500,000

9. TRADE AND OTHER PAYABLES

	As at 31 December 2004 US\$	As at 31 December 2003 US\$
Accounts payable	1,326,326	-
Accrued accounts payable	570,199	-
Payroll liabilities	719,671	-
	2,616,196	-

10. SHARE CAPITAL

	As at 31 December 2004 £	As at 31 December 2003 £
Authorised:		
200,000,000 ordinary shares of £0.0001 per share (At 31 December 2003: 1,000,000 ordinary shares of £0.01 per share)	20,000	10,000
1,000,000 deferred shares of £0.01 per share (At 31 December 2003: Nil)	10,000	-
Issued and fully paid:	US\$	US\$
119,800,000 ordinary shares of £0.0001 per share (At 31 December 2003: 1 ordinary share of £0.01 per share)	21,708	1
1,000,000 deferred shares of £0.01 per share (At 31 December 2003: Nil)	18,000	-
Total share capital	39,708	1

Holders of the ordinary shares are entitled to receive dividends and other distributions, to attend and vote at any general meeting, and to participate in all returns of capital on winding up or otherwise.

Holders of the deferred shares are not entitled to vote at any annual general meeting of the Company and are only entitled to receive the amount paid up on the shares after the holders of the ordinary shares have received the sum of £1,000,000 for each ordinary share held by them and shall have no other right to participate in assets of the Company.

During the year ended 31 December 2004, the following changes occurred to the share capital of the Company:

On 5 January 2004 the Company issued, at par value, an additional 999,999 ordinary shares of £0.01 each for aggregate proceeds of £10,000 (US\$17,999). These shares were fully subscribed to by the shareholders, thereby increasing share capital by the value of the increased shares of US\$17,999 and a corresponding decrease in the amount due to shareholders' balances. These shares were issued to Walbrook (IOM) Nominees (No. 2) Ltd. as trustee on behalf of the beneficial shareholders on 5 January 2004.

On 1 April 2004, the authorised share capital of the Company was increased to £30,000 by the creation of 200,000,000 ordinary shares of £0.0001 each.

10. SHARE CAPITAL (Continued)

On 1 April 2004, the 1,000,000 issued ordinary shares of £0.01 each in the Company were converted into 1,000,000 deferred shares of £0.01 each.

On 1 April 2004, the Company allotted and issued 100,000,000 ordinary shares of £0.0001 each for an aggregate subscription price of £10,000 (US\$18,164) plus an additional amount calculated by reference to any Reassessment from Taxation authorities on the purchase of the intellectual property and related assets. On 1 April 2004, the Company, NETeller Inc., 1098853 Alberta Ltd. ("Alberta") and Corvina International Ltd. ("Corvina") agreed to exchange the Company's right to receive additional amounts calculated by reference to the Reassessment Amount from Alberta and Corvina, forming part of the consideration for the issue of the shares on 1 April 2004, for the Reassessment Amount due to NETeller Inc., thereby releasing the Company from its obligation to pay the Reassessment Amount.

On 1 April 2004, the Company allotted and issued a further 4,800,000 ordinary shares of £0.0001 each for cash of £480 (US\$885).

On 14 April 2004, the Company allotted and issued a further 15,000,000 shares of £0.0001 each at £2.00 each, realizing £30,000,000 (US\$53,171,199). Net proceeds were US\$46,653,883 after deducting issue costs of US\$6,518,117.

11. SHARE PREMIUM

	Year Ended 31 December 2004 US\$
Balance at 1 January 2004	-
Premium on issue of ordinary shares	53,169,341
Expenses of issue of ordinary shares	(6,518,117)
Balance at 31 December 2004	46,651,224

12. RECEIVABLE FROM NETELLER INC., FUNDS HELD IN TRUST, NOTES PAYABLE TO NETELLER INC., DUE TO SHAREHOLDERS

At 31 December 2003, the balance sheet contained balances in the above noted accounts which pertained to the purchase of the Intellectual Property and related assets from NETELLER Inc. The completion of the purchase resulted in all the assets being realized in full and all the liabilities being fully extinguished during the current year. As the amounts solely pertained to the purchase of the Intellectual Property and related assets for the commencement of business operations, there are no current balances in these accounts.

13. REVENUE

An analysis of the Group's revenue is as follows:

	Year Ended 31 December 2004 US\$
Transaction fees	80,714,613
Investment Income	1,866,137
Total revenue	82,580,750

14. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging (crediting):

	Year Ended 31 December 2004 US\$
Amortisation of capital assets	494,773
Amortisation of intangible assets	2,222,952
	2,717,725

	Year Ended 31 December 2004 US\$
Directors' emoluments in the year	1,665,007
Directors' emoluments include directors' fees of US\$270,245	

Remuneration of the auditors for audit, listing and other services has been recorded as follows:

	Year Ended 31 December 2004 US\$
Audit Services	
Statutory audit	192,538
Non – Audit Services	
Services in connection with the AIM listing	1,267,892
Tax and other advisory services	471,625
	1,739,517
Total	1,932,055

15. TAX

The Company is incorporated in the Isle of Man and has received an exemption under the provisions of Income Tax (Exempt Companies) Act 1984 and accordingly pays no company income tax in the Isle of Man.

	Year Ended 31 December 2004 US\$
Current Tax	
IOM income tax	-
Foreign Tax	
Foreign tax on profits	8,051,940
Foreign withholding taxes on royalties	4,745,379
Income tax expense	12,797,319

Income Tax is calculated at 0 per cent (2003: 0 per cent) of the estimated assessable profit in the Isle of Man for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year Ended 31 December 2004 US\$
Profit before tax	45,818,578
Tax at the IOM income tax rate of 0%	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	12,797,319
Income tax expense for the year	12,797,319

At 31 December 2004, foreign taxes of US\$9,209,356 (2003: US\$Nil) are outstanding.

16. EARNING PER SHARE

From continuing operations

The calculation of the basic and diluted earnings per share is based on the following data:

	Year Ended 31 December 2004 US\$
Earnings	
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders of the parent	33,021,259
Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	89,636,165
Effect of dilutive potential ordinary shares due to employee share options	228,849
Weighted average number of ordinary shares for the purpose of diluted earnings per share	89,865,014
Basic earnings per share	\$0.37
Fully diluted earnings per share	\$0.37

17. DERIVATIVE FINANCIAL INSTRUMENTS

Forward Contracts

The Group incurs operating expenses in currencies other than US\$. To mitigate the effects of changing foreign exchange rates, the Group has entered into contracts to buy currencies during the first six months of 2005. These contracts fix the exchange rates to reduce the exposure to unexpected currency fluctuations.

The Group has valued the foreign currency contracts at 31 December 2004 and has booked a current asset of \$133,338 with a corresponding unrealized foreign exchange gain. This reflects the increase in value of the contracts from the time they were entered into up until the year end.

18. OPERATING LEASE ARRANGEMENTS

	2004 US\$
At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:	
Within one year	748,390
In the second to fifth years inclusive	162,684
After five years	-
Total	911,074

Operating lease payments represent rentals payable to the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. The lease payments recognised in expense for the year are US\$265,035 (2003: US\$ Nil).

19. SHARED-BASED PAYMENTS

The Group's share option scheme was adopted pursuant to a resolution passed on 7 April 2004. Under this scheme, the Board of Directors of the Group may grant share options to eligible employees including directors to subscribe for ordinary shares of the Group.

No consideration is payable on the grant of an option. Options may generally be exercised to the extent that it has vested. Options vest equally over a three year term following date of grant. The exercise price is determined by the Board of Directors of the Group, and shall not be less than the market value at the date of grant. The Group plan provides for a grant price to equal the average quoted market price of the Company shares on the three days prior to the date of grant. Share options are forfeited if the employee leaves the Group before the options vest. A participant of the share option scheme has 170 days following the date of grant to surrender the option and if surrendered, the option will not be deemed granted.

On 14 April 2004, the Company proposed the granting of 2,272,000 share options to eligible employees including directors to acquire ordinary shares at an exercise price of £2.00 per share, expiring on 13 October 2007. On 15 October 2004 the Company proposed the granting of a further 527,500 share options to eligible employees at an exercise price of £2.48, expiring on 15 April 2008.

19. SHARED-BASED PAYMENTS (Continued)

Equity-settled share option plan

	2004 Weighted average exercise price options	2004 Number of options
Outstanding at the beginning of year	-	-
Granted during the year	£2.09	2,795,500
Forfeited during the year	£2.36	(83,500)
Outstanding at the end of the year	£2.09	2,712,000
Exercisable at the end of the year	-	-

The options outstanding at 31 December 2004 had an exercise period of three years and a weighted average remaining contractual life of 2.4 years.

The inputs into the Black-Scholes model are as follows:

Average share price	£2.59
Weighted average exercise price	£2.09
Expected volatility	47%
Expected life	3 years
Risk-free interest rate	4.75%
Expected dividends	-
Employee exit rate	12.12%

Expected volatility was determined by calculating the historical volatility of the Group's share price from the time of issue to 31 December 2004. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of US\$380,742 (2003: US\$ Nil) related to the equity-settled share-based payments transactions in 2004.

20. RELATED PARTY TRANSACTIONS

For the year ended 31 December 2004, a bonus of US\$1,058,000 (2003:US\$Nil) was paid to a director of the Group in his capacity as an officer of the Group.

On 30 June 2004, the Group acquired land and a building at a cost of US\$1,790,110 from a company in which a director of the Group has a significant equity interest. An independent valuation was obtained to support the purchase price of the building acquired.

Trading Transactions

During the year, the Group entered into the following transactions with related parties who are not members of the Group:

	Purchase of goods and services in 2004 US\$	Amounts owed to related parties US\$
Arizona Bay LLC	1,010,512	103,866

20. RELATED PARTY TRANSACTIONS (Continued)

Arizona Bay LLC is a related party of the Group as a principal of Arizona Bay is an officer of the Company.

JSL Systems Corp. and FCash Inc. are companies, owned by a Director, that process transactions for the Group. Each company is paid a nominal fee for this activity.

21. FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, restricted cash, receivable from members, funds held in trust, accounts receivable, payable to members and merchants, notes payable to a company under common control, due to shareholders and accounts payable.

i) Fair values

The fair values of cash and cash equivalents, restricted cash, receivable from members, funds held in trust, accounts receivable, payable to members and merchants, notes payable to a company under common control, due to shareholders and accounts payable approximate the carrying values due to the short-term nature of these instruments.

ii) Credit risk and concentrations

The Group is exposed to credit risk to the extent that its customers may experience financial difficulty and would be unable to meet their obligations. The Group manages the exposure to credit risk by employing various on-line identification verification techniques, enacted transaction limits and having a significant number of members. As these members are widespread geographically and the merchants are active in various industries, the exposure to credit risk and concentration is mitigated.

iii) Interest rate risk

The Group is not exposed to significant interest rate risk.

iv) Currency risk

The Group is not significantly exposed to foreign currency exchange risk, as the majority of the transactions are denominated in US Dollars. The Group manages the exposure to currency risk by commercially transacting in US Dollars and by limiting the use of other currencies for operating expenses, thereby minimising the realised and unrealised foreign exchange gain (loss). Refer to Note 17.

22. EVENTS SUBSEQUENT TO 31 DECEMBER 2004

On 3 March 2005, the Company entered into an agreement to purchase Quick Access International Company Limited, a debit card payment processing company beneficially owned by CTM, a Macau-based telecom service provider. The purchase price is approximately US\$12.5 million of which 60% was paid on closing and the remaining 40% is payable in equal installments on 3 March 2006 and 2007, subject to Quick Access maintaining contractual relations with key business partners.

COMPANY BALANCE SHEET

As at 31 December 2004.

	31 December 2004 US\$	31 December 2003 US\$
ASSETS		
Current		
Cash and cash equivalents (Note 24)	24,406,402	-
Restricted cash (Note 5)	1,783,787	-
Receivable from NETeller (UK) Limited (Note 25)	12,905,408	31,030,289
Receivable from NT Services Limited (Note 25)	16,550,646	-
Receivable from NETELLER Inc. (Note 12)	-	17,081,598
Receivable from members (Note 6)	1,655,000	565,000
Funds held in trust (Note 12)	-	6,500,000
Trade and other receivables	16,821	54,045
Prepaid expenses and deposits	441,058	85,705
	57,759,122	55,316,637
Non-Current Assets		
Capital assets (Note 26)	122,578	-
Intangible assets (Note 27)	4,850,810	6,500,000
Portfolio investment, at cost	75,000	25,000
Investment in NT Services Limited (Note 31)	100	100
Investment in NETeller (UK) Limited (Note 31)	2,702,399	166
	65,510,009	61,841,903
LIABILITIES		
Current		
Trade and other payables (Note 28)	742,284	-
Payable to members and merchants (Note 5)	-	48,868,070
Notes payable to NETeller Inc. (Note 12)	-	6,473,633
Due to shareholders (Note 12)	200	6,500,199
	742,484	61,841,902
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	39,708	1
Share premium (Note 11)	46,651,224	-
Equity reserve on share option issuance (Note 19)	380,742	-
Accumulated profits	17,695,851	-
	64,767,525	1
	65,510,009	61,841,903

The notes on pages 26 to 39 and 43 to 45 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 May 2005 and were signed on its behalf by:

[signed]

Director
Donald Lindsay

[signed]

Director
John Webster

COMPANY INCOME STATEMENT

For the year ended 31 December 2004.

	US\$
Revenue	
Royalties (Note 23)	25,673,865
Interest	1,544,814
	<u>27,218,679</u>
Operating expenses/(income)	
General and administrative	3,738,566
Management bonus (Note 20)	1,058,000
Foreign exchange gain	(2,221,822)
Depreciation and amortisation (Note 29)	2,202,705
	<u>22,441,230</u>
Profit before tax	22,441,230
Income tax expense (Note 30)	4,745,379
Net profit for the year	<u>17,695,851</u>

Comparative figures for the Company Income Statement are not presented as the Company was incorporated on 31 October 2003 and had no income or expenses and had no income or expenses and made neither profit nor a loss in the two month period from the date of incorporation until 31 December 2003; accordingly no income statement is presented for this period.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004.

	Share capital – ordinary shares	Share capital – deferred shares	Total Share Capital	Share Premium	Equity reserve on share option issuance	Accumulated profits	Total
Balance as at 1 January 2004	1	-	1	-	-	-	1
Issue of ordinary shares during the year	21,707	-	21,707	53,169,341	-	-	53,191,048
Issue of deferred shares during the year	-	18,000	18,000	-	-	-	18,000
Share issuance costs on ordinary shares issued during the year	-	-	-	(6,518,117)	-	-	(6,518,117)
Equity reserve on option issuance	-	-	-	-	380,742	-	380,742
Net profit for year	-	-	-	-	-	17,695,851	17,695,851
Balance as at 31 December 2004	21,708	18,000	39,708	46,651,224	380,742	17,695,851	<u>64,767,525</u>

The notes on pages 26 to 39 and 43 to 45 form part of these financial statements

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2004.

	Year ended 31 December 2004	Two month period ended 31 December 2003
Operating Activities		
Profit before tax	22,441,230	-
Adjustments for:		
Depreciation and amortisation	2,202,705	-
Unrealised foreign exchange (gain)	(558,538)	-
Share option expense	380,742	-
Taxes paid by NT Services Limited on behalf of Company	(4,745,379)	-
Operating cash flows before movements in working capital	19,720,760	-
Increase in receivable from members	(1,090,000)	-
Decrease in trade and other receivables	37,224	-
Increase in prepaid expenses and deposits	(222,015)	-
Increase in trade and other payables	742,284	-
Cash generated by operations	19,188,253	-
Investing Activities		
Decrease in payable to members and merchants due to legal offset from investment in Trust accounts (Note 5)	(48,868,070)	-
Investment in NETeller (UK) Limited	(2,702,233)	-
Purchase of capital and intangible assets	(676,093)	(6,500,000)
Adjustment on transfer of balances on acquisition	-	26,167
Purchase of portfolio investment	(50,000)	-
Restricted cash accounts	(1,783,787)	-
Net cash used in the investing activities	(54,080,183)	(6,473,833)
Financing Activities		
Proceeds on issuance of shares, net of share issuance costs	46,690,931	1
Payment to NT Services Limited	(16,550,646)	-
Receipts from NETeller (UK) Limited	18,124,881	-
Receipt of receivable from NETELLER Inc.	17,081,598	-
Receipts of funds held in trust	6,500,000	(6,500,000)
(Repayment of) proceeds from amounts due to shareholders	(6,499,999)	6,500,199
(Repayment of) proceeds from notes payable to NETELLER Inc.	(6,473,633)	6,473,633
Net cash from financing activities	58,873,132	6,473,833
Increase in cash and cash equivalents during the period	23,981,202	-
Net effect of foreign exchange on cash and cash equivalents	425,200	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	24,406,402	-

The notes on pages 26 to 39 and 43 to 45 form part of these financial statements

NOTES TO COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2004.

23. SIGNIFICANT ACCOUNTING POLICIES

Separate Company financial statements have been prepared in accordance with the International Financial Reporting Standards.

The financial statements have been prepared on historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements except as noted below.

Investments

Investment in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Royalty Revenue

The Company has licensed the use of the intellectual property to NT Services Limited for a royalty fee, calculated as a percentage of income. Royalties are recognized as income as earned by the Company.

24. CASH AND CASH EQUIVALENTS

	As at 31 December 2004 US\$	As at 31 December 2003 US\$
Cash and cash equivalents include:		
Barclays Global Investors Liquidity Fund	10,163,495	-
Cash balances	14,242,907	-
	24,406,402	-

25. RECEIVABLE FROM NETELLER (UK) LIMITED AND NT SERVICES LIMITED

Amounts due from NETELLER (UK) Limited and NT Services Limited are unsecured, interest free and repayable on demand.

26. CAPITAL ASSETS

	Communication Equipment US\$	Furniture and Equipment US\$	Computer Equipment US\$	Computer Software US\$	Total US\$
Cost					
As at 31 December 2003	-	-	-	-	-
Additions	43,541	47,208	27,027	33,654	151,430
As at 31 December 2004	43,541	47,208	27,027	33,654	151,430
Accumulated amortisation					
As at 31 December 2003	-	-	-	-	-
Charge for the Year	3,509	5,563	3,029	16,751	28,852
As at 31 December 2004	3,509	5,653	3,029	16,751	28,852
Net book value					
As at 31 December 2004	40,032	41,645	23,998	16,903	122,578
Net book value					
As at 31 December 2003	-	-	-	-	-

27. INTANGIBLE ASSETS

	Intellectual Property US\$	Web site Development US\$	Total US\$
Cost			
As at 31 December 2003	6,500,000	-	6,500,000
Additions	-	524,663	524,663
As at 31 December 2004	6,500,000	524,663	7,024,663
Accumulated amortisation			
As at 31 December 2003	-	-	-
Charge for the year	2,166,667	7,186	2,173,853
As at 31 December 2004	2,166,667	7,186	2,173,853
Net book value			
As at 31 December 2004	4,333,333	517,477	4,850,810
Net book value			
As at 31 December 2003	6,500,000	-	6,500,000

28. TRADE AND OTHER PAYABLES

	As at 31 December 2004 US\$	As at 31 December 2003 US\$
Accounts payable	33,603	-
Accrued accounts payable	665,473	-
Payroll liabilities	43,208	-
	742,284	-

29. DEPRECIATION AND AMORTISATION

	Year Ended December 31 2004 US\$
Capital assets	28,852
Intangible assets	2,173,853
	2,202,705

30. TAX

The Company is incorporated in the Isle of Man and has received an exemption under the provisions of Income Tax (Exempt Companies) Act 1984 and accordingly pays no company income tax in the Isle of Man.

	Year Ended 31 December 2004 US\$
Current Tax	
IOM income tax	-
Foreign Tax	
Foreign withholding taxes on royalties	4,745,379
Income tax expense	<u>4,745,379</u>

Income Tax is calculated at 0 per cent (2003: 0 per cent) of the estimated assessable profit in the Isle Of Man for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year Ended 31 December 2004 US\$
Profit before tax	22,441,230
Tax at the IOM income tax rate of 0%	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,745,379
Income tax expense for the year	<u>4,745,379</u>

31. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
NETeller (UK) Limited	United Kingdom	100%	100%	Marketing
NT Services Limited	Canada	100%	100%	Process payments on behalf of the Company
NETeller Express Limited	Isle of Man	100%	100%	Dormant
Eshop Limited	Gibraltar	100%	100%	Dormant
NETELLER Limited	Gibraltar	100%	100%	Dormant
Cardload Inc.	Canada	100%	100%	Dormant

ADDITIONAL INFORMATION

For the twelve month period ended 31 December 2003.

Additional Information has been prepared from the accounting records of NETELLER Inc. for the year ended 31 December 2003. While it does not form part of the financial statements for the year ended 31 December 2004 it should be read in conjunction with them as it provides a basis of comparison between the operational activity of the enterprise from year to year. The Additional Information has not been subject to an independent audit.

INCOME STATEMENT

For the twelve month period ended 31 December 2003

	US\$
Revenue	35,941,217
Cost of sales	11,746,420
Gross profit	24,194,797
Operating expenses	
General and administrative	3,831,963
Management bonus	24,494,474
Foreign exchange	118,618
Depreciation and amortisation	102,620
Gain on sale of assets	(6,566,761)
Profit before tax	2,213,883
Recovery of Income tax	(24,134)
Net profit for the period	2,238,017

NETELLER DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Stephen Lawrence, MBA – Chairman and Co-Founder

Mr Lawrence served as Chief Executive Officer of the NETELLER Group until December 2002. Prior to this, Mr Lawrence was a principal at Cavendish Investing Limited, a Calgary-based private venture capital firm. While working in the Alberta property development industry, Mr Lawrence realized the potential of the emerging online E-commerce sector and identified the concept of the NETELLER System in 1999. Mr Lawrence received his MBA from the University of Western Ontario's Ivey School of Business.

Gordon Herman, MBA – President and Chief Executive Officer

Mr Herman was appointed Chief Operating Officer of the NETELLER Group in September 2002. Prior to this, Mr Herman served as President of General Electric Capital Leasing Inc. Canada (a division of General Electric), as Chairman of Madison Companies, a Canadian based public company and as Managing Director of Chell.com, a Calgary-based application services provider. Mr Herman received his Bachelor of Business Administration from Brigham Young University in 1980 and his Master of Business Administration from the University of Notre Dame in 1984.

Dale Johnson, P.Eng, M.Eng – Executive Vice President Corporate Development

Mr Johnson was appointed Executive Vice President Corporate Development of the NETELLER Group in March 2004. Prior to joining NETELLER, Mr Johnson was one of the founding shareholders and a Principal of Tri Ocean Engineering Ltd., a highly successful oilfield engineering firm. He also founded and served as President of Alpeco

Limited, a specialized oilfield equipment packager. In recent years, Mr. Johnson has engaged in interim leadership roles to assist companies seeking financial turnaround. Mr Johnson received Bachelor and Masters degrees in Engineering at the University of British Columbia and a Management Diploma from the University of Calgary.

John Lefebvre, LL.B. – Co-Founder and Non-Executive Director

Mr Lefebvre joined the NETELLER Group in 1999 and served as President from 2000 to 2002. Prior to this, Mr Lefebvre practised law in the Province of Alberta, Canada. He received his Bachelor of Laws degree from the University of Calgary Faculty of Law in 1982.

Donald Lindsay – Non-Executive Director

Mr Lindsay is a former General Manager of Isle of Man Bank Limited (part of the Royal Bank of Scotland Group). He has also held senior positions with the National Westminster Bank plc. Mr Lindsay holds several Non-Executive Directorships of international companies. He is a past President of the Isle of Man Chamber of Commerce and has been a member of various Isle of Man Government Consultative Committees.

John Webster, BSc (Econ), FCIM – Non-Executive Director

Mr Webster lectured in economics and management studies from 1970 to 1976, following which he was employed by the Isle of Man Government as its Chief Economic Adviser. In 1988 he established an economic and accounting company and acquired a company with interests in software development for banking and insurance companies. This company was developed and then sold to Marlborough Stirling plc in 2000, and Mr Webster continues as Chairman of its Isle of Man subsidiary. He is a Commissioner on the Board of the Isle of Man Government Financial Supervision Commission and is a Non-Executive Director of the Isle of Man subsidiaries of various international companies. Mr Webster is a past President of the Isle of Man Chamber of Commerce and past Chairman of Island Games Association of Man.

SENIOR MANAGEMENT

Gordon Herman, MBA – President and Chief Executive Officer

Dale Johnson, P.Eng, M.Eng – Executive Vice President,
Corporate Development

Bruce Elliott, B.Comm. – Vice President, Marketing and Sales

Gordon Forbes – Vice President, North American Operations

Eric Hughes, CA – Chief Financial Officer

Jeff Natland – Chief Information Officer

Andy Scott – Chief Security Officer

Paul Templeman – Vice President, European Operations

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Second Annual General Meeting of NETELLER PLC will be held at The Claremont Hotel, Loch Promenade, Douglas, Isle of Man on 22 June 2005 at 10.00am for the purpose of transacting the following ordinary business:

- a) to receive and adopt the Report of the Directors and Financial Statements for the period ending 31 December 2004;
- b) to re-appoint Mr Donald Lindsay, who retires as a Director by rotation in accordance with the Articles of Association, and being eligible offers himself for re-appointment;
- c) to re-appoint Mr Gord Herman, who retires as a Director by rotation in accordance with the Articles of Association, and being eligible offers himself for re-appointment;
- d) to re-appoint Deloitte & Touche as auditors of the Company and to authorise the directors to determine their remuneration;
- e) to amend the Rules of the Share Option Plan in accordance with clause 10.3.1 by amending rule 4.1 by adding the following wording to the end of that rule after the word "...Date of Grant":

"However, where the total number of Options issued in one calendar year is less than the total number of Options which may have been issued in that calendar year, the number of Options representing the difference between the maximum number of Options available for issue in that calendar year and the actual number of Options issued in that calendar year, may be carried forward for issue during the next calendar year only "Carried Options". Any Carried Options shall lapse at the end of the calendar year into which they are carried forward. Carried Options shall not affect the calculation of the maximum number of options available for any given calendar year."

By order of the Board

[signed]

Samantha Jayne Leahy

Company Secretary

14 May 2005

Registered Office:

NETELLER PLC, Fourth Floor, Standard Bank Building, One Circular Road, Douglas Isle of Man, IM1 1AF.

Notes:

- (i) To be eligible to attend or vote at the Meeting, a person or entity must be entered on the register of members not more than 48 hours prior to the Meeting.
- (ii) A member of the Company who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy or proxies to attend, speak or vote on his, her or its behalf.
- (iii) To be valid, proxy forms must be deposited with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 10.00am 20 June 2005.
- (iv) A copy of the contracts of service between each of the current directors of the Company will be available for inspection 15 minutes prior to the Meeting until the close of the Meeting.

FORM OF PROXY

Proxy for the Second Annual General Meeting of the Company to be held at The Claremont Hotel, 18/19 Loch Promenade, Douglas, Isle of Man, on 22 June 2005 at 10.00 am.

I/We _____

of _____

(Please insert full name(s) and address(es) using block capitals)

being (a) member/member(s) of NETELLER PLC, hereby appoint the Chairman of the Meeting or

(See note 2)

As my/our proxy to vote for me/us on my/our behalf as indicated below (or at his/her discretion in respect of any other resolution proposed at the Meeting) at the Annual General Meeting of the Company and at any adjournment thereof.

If you wish to indicate how you desire your proxy to vote please insert X in the appropriate space below. Unless otherwise instructed, the proxy will vote to abstain as he/she thinks fit.

Ordinary Business Ordinary Resolutions	For	Against
1. to receive and approve the Report of the Directors and the Financial Statements for the year ended 31 December 2004		
2. to re-appoint Mr Donald Lindsay, who retires as a Director by rotation in accordance with the Articles of Association, and being eligible offers himself for re-appointment		
3. to re-appoint Mr Gord Herman, who retires as a Director by rotation in accordance with the Articles of Association, and being eligible offers himself for re-appointment		
4. to reappoint Deloitte & Touche and authorise the directors to determine their remuneration		
5. to amend the Rules of the Share Option Plan in accordance with clause 10.3.1 by amending rule 4.1 by adding the following wording to the end of that rule after the word "...Date of Grant": "However, where the total number of Options issued in one calendar year is less than the total number of Options which may have been issued in that calendar year, the number of Options representing the difference between the maximum number of Options available for issue in that calendar year and the actual number of Options issued in that calendar year, may be carried forward for issue during the next calendar year only "Carried Options". Any Carried Options shall lapse at the end of the calendar year into which they are carried forward. Carried Options shall not affect the calculation of the maximum number of options available for any given calendar year."		

Dated this _____ day of _____ 2005

Signed _____

(See notes 4 & 5)

Notes:

- 1) A proxy may vote on a show of hands or on a poll and also has the right to demand or join in demanding a poll. A proxy has no right to speak at the Meeting except with the permission of the Chairman of the Meeting.
- 2) If it is desired to appoint as proxy any person other than the Chairman of the Meeting, delete all reference to the Chairman and insert the name and address of your proxy; the alteration should be initialed. A proxy need not be a member of the Company.
- 3) In the case of a corporation, this form must be executed under its Common Seal or under the hand of an officer or attorney duly authorised.
- 4) In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown. The vote of the senior joint holder who tenders a vote, whether in person or proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of joint holding.
- 5) To be valid this proxy form and any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the offices of the Company's Registrars, not later than 10.00am on 20 June 2005 or 48 hours before any adjourned Meeting.
- 6) Any alterations made to this proxy form must be initialed.
- 7) On a poll a person entitled to more than one vote need not use all his, her or its votes or cast all the votes he, she or it uses in the same way.
- 8) Completion and return of this proxy form will not preclude you from attending the Meeting and from speaking and voting in person if you wish.

Third fold and tuck in

Capita Registrars
The Registry
34 Beckenham Road
BECKENHAM
Kent BR3 4TU

Second fold

First fold

Definition

EBITDA is not defined under IFRS. However, it is an industry standard term calculated as the earnings of the company after adding back interest expense, income tax expense, depreciation and amortisation.

Disclaimer

This document contains forward-looking statements relating to future events and future performance. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expects," "projects," "plans," "anticipates," and similar expressions. These statements represent management's expectations or beliefs concerning, among other things, future operating results and various components thereof or the economic performance of NETELLER. The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

OFFICERS AND PROFESSIONAL ADVISERS

Directors

Stephen Eric Lawrence
Gordon Wayne Herman
Dale Patrick Johnson
John David Lefebvre
Donald Clague Lindsay
John Hamilton Webster

Secretary

Samantha Jayne Leahy

Registered Office

4th Floor
Standard Bank Building
1 Circular Road
Douglas, Isle of Man
IM1 1AF

Registrar

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Solicitors

Berwin Leighton Paisner
Adelaide House
London Bridge
London
EC4R 9HA

Auditors

Deloitte & Touche
Grosvenor House
66 – 67 Athol Street
Douglas
Isle of Man
IM99 1XJ

Principal Bankers

Barclays Bank
Barclays House
Victoria Street
Douglas
Isle of Man
IM1 1HN

Joint Broker and Nominated Advisor

Canaccord Capital (Europe) Limited
1st Floor
Brook House
Upper Brook Street
London
W1K 7QF

Joint Broker

Panmure Gordon & Co. Plc
155 Moorgate
London
EC2M 6XB

NETELLER[®]

Fourth Floor, Standard Bank Building, One Circular Road

Douglas, Isle of Man, IM1 1AF

Tel: +44 (0) 1624 698700 Fax: +44 (0) 1624 615320

neteller.com