

BETFAIR

ANNUAL REVIEW 2009



 **betfair**
sports casino poker



BETFAIR HIGHLIGHTS 2008-2009

MAY 2008

- Launches Italian Sportsbook.

JUNE 2008

- Betfair's case against the Dutch Government is referred to the European Court of Justice.

SEPTEMBER 2008

- Launches Betfair Arcade.
- Number of registered customers passes the two million mark.

OCTOBER 2008

- Launches iPhone betting platform.
- Lifting of advertising ban in Australia.

DECEMBER 2008

- Signs five-year partnership with Ascot Racecourse including title sponsorship of the King George VI & Queen Elizabeth Stakes.

JANUARY 2009

- Completes \$50m acquisition of TVG Network in the USA.

MARCH 2009

- Launches new horse racing multiples product.

APRIL 2009

- Becomes Official Betting Partner of the England and Wales Cricket Board (ECB).
- Number of registered customers passes 2.5 million.

JULY 2009

- Completes acquisition of I.T. development centre in Cluj, Romania.

AUGUST 2009

- Becomes Official Betting Partner of Manchester United FC and FC Barcelona.

LETTER FROM THE CHAIRMAN

Dear Shareholder

Three years ago at the Betfair AGM we outlined a strategy to consolidate your company's position as the premier online betting operator anywhere in the world. I am pleased to report that revenue and active customers have more than doubled during the subsequent period. This is a particularly pleasing performance when set in the context of the extremely difficult macroeconomic environment of the past couple of years and is evidence that we have managed to consolidate our position within the industry.

Over the past 12 months total revenue has grown 27% to £303m, while adjusted EBITDA has risen by 29% to £72m. Our core betting exchange continues to deliver a sustainable competitive advantage and nearly 90% of all our active customers in the last 12 months have used the exchange. At the same time, new products and enhancements to existing offerings ensure we continue to provide the most advanced, diverse, reliable and trusted betting platform on the internet.

A key part of the strategy over the past three years has been a focus on international expansion. The most significant development in this area was our acquisition of TVG Network in January 2009. TVG is both the largest legal online wagering business and the most widely distributed horse racing TV channel in the US. Our strong balance sheet enabled us to fund this acquisition entirely in cash at a time when competing bidders were struggling to raise finance for the deal. I believe this acquisition is strategically very significant for Betfair. It provides an ideal entry for us into one of the most potentially lucrative markets in the world, and will position us well for future developments there. Our international business elsewhere continues to grow rapidly, with 49% of total revenue now coming from outside the United Kingdom. The localisation of our existing offering is essential to the ongoing growth of the company and this remains at the forefront of our plans for the upcoming year.

We continue to be committed to conforming to local laws in all jurisdictions. As has been the case for some time, the regulatory situation remains unclear and open to interpretation in many areas. We continue to monitor developments very closely and are prepared to take action where necessary. For example, we recently commenced action against the Dutch Government over its aggressive stance against online gaming operators in the EEA, which we believe is in contravention of EC law. We remain prepared to launch further action where necessary.

Technology and innovation remain at the heart of what we do. As new markets open up we will need to tailor our product to meet the needs of both customers and regulators. One of the key investments being made this year is an upgrade to our platform to ensure that it has all the necessary flexibility to meet potential future needs. This, together with a stream of innovative new products, is ensuring that our team of over 400 engineers are working at the cutting-edge of technical development. Betfair remains an aspirational place to work for many people.

In October last year Mike McTighe joined the Board as Senior Independent Director. He brings a wealth of experience as both a seasoned executive and non-executive, and we are pleased to welcome him to the Board.

As your company enters its tenth year I am extremely proud of what everyone connected with the business has achieved. However, as before, the more we achieve the more we realise how much there is still to achieve, and the next year promises to be even busier than the last one. We are fortunate that our employees continue to rise to the challenges that the business presents. Their pride, passion and dedication never cease to amaze me and the Board is extremely grateful for all of their effort and hard work.

Edward Wray

Edward Wray
Chairman



CHIEF EXECUTIVE'S REVIEW

SUMMARY

This has been another highly successful year for Betfair. We have delivered significant growth despite the difficult economic climate. Total revenue is up 27% to £303m (2008: £240m) as we benefit from a three-year plan of investment in our product range and international operations. The fact that 49% of revenue now comes from outside the United Kingdom (2008: 44%) is a testament to the growing strength of our international business and cements the fact that Betfair remains on target to become a truly global brand.

Despite continuing this significant programme of investment, adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) has increased 29% to £72m. In addition, we have seen a 25% increase in active customers, and now have more than 2.5m registered overall (2008: 1.7m). Betfair is now the largest online sports betting operator in Europe.

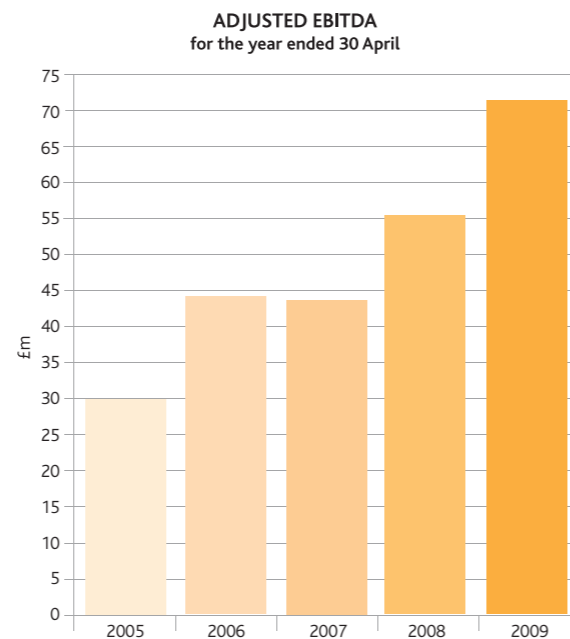
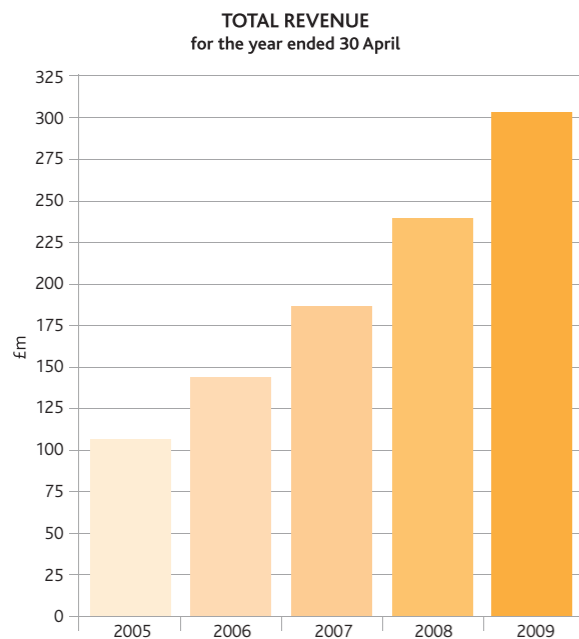
It is especially pleasing that these strong results have been achieved without losing focus on continually developing our platform, product and brand. We will continue to push into international markets and to innovate with popular new products, and I look forward to another exciting year ahead.



PRODUCT UPDATE

The last 12 months has seen significant investment in our portfolio, both in enhancing existing products and adding new offerings.

In January we completed the acquisition of TVG Network for \$50m. TVG is a digital cable network that combines televised coverage from US racetracks, broadcasting into more than 30 million homes, and allows viewers to bet directly into racecourse tote pools remotely.



The TVG acquisition ensures Betfair is well placed to take advantage of any legislative change in the US, whilst the skills and knowledge that Betfair possesses will help the TVG business grow significantly over the coming years.

Our commitment to horse racing has continued with the launch of a new Multiples product based on the Betfair Starting Price. We have also expanded our Games portfolio by introducing the Betfair Arcade, which was a significant contributor to the 31% growth in the Games business over the past year.

In October 2008 we introduced in-running betting on Australian horse racing markets, which has enabled Australian customers to experience one of Betfair's core strengths for the first time. 18% of all money traded on UK horse racing is now bet in-play, results we expect to see replicated over time on Australian racing.

Over the past year we have taken over seven million bets through the mobile channel. No other company offers as many markets, hits as many handsets or offers such high quality user experience to its customers on the move. With mobile betting set to increase exponentially over the next few years, we will continue to invest and ensure we have the premier mobile betting platform on the market.



“BETFAIR IS NOW THE LARGEST ONLINE SPORTS BETTING OPERATOR IN EUROPE.”

Significant investment in Tradefair, our financial betting business, continues, and the potential opportunities in this area are exciting. At present we offer a white label financial spread betting service but are on track to deliver a new exchange-based product over the next 12 months in a move aimed to revolutionise how people trade on the financial markets.

MARKETING & BRAND

The Betfair brand has seen many changes over the last few years, culminating with the introduction of 'Betting As It Should Be'. The last 12 months has seen the consolidation of that message, whilst added emphasis has been placed on conveying Betfair's three key marketing pillars: value, community and stature.

We signed one of the biggest sponsorship deals in the history of horse racing by entering into a five-year partnership with Ascot Racecourse, the centrepiece of which is the sponsorship of the King George VI & Queen Elizabeth Stakes, now one of the richest races in the UK. This long-term partnership highlights our

continued support of British racing, above and beyond our £7.3m contribution to the horse racing levy over the past year, of which nearly 20% was voluntary.

In addition, we became the Official Betting Partner of the England and Wales Cricket Board (ECB), further reinforcing our commitment to cricket. This partnership enabled us to be the most recognisable betting company throughout the summer's biggest sporting event in the UK, the Ashes, and to emphasise our core brand message of community through an integrated 'Fan v Fan' marketing campaign.

In Australia, a significant legal decision saw the lifting of the ban on advertising. This has enabled Betfair to market to potential customers far more widely. At the forefront of this new marketing strategy has been the signing of a ground-breaking sponsorship with the Melbourne Racing Club that included the renaming of the famous Sandown Racecourse as Betfair Park. Since the lifting of the ban, and our subsequent marketing activities, we have seen a 40% growth in revenue.

CHIEF EXECUTIVE'S REVIEW

“WE WILL CONTINUE TO PUSH INTO INTERNATIONAL MARKETS AND TO INNOVATE WITH POPULAR NEW PRODUCTS.”

In the coming year we will be embarking on new avenues of sponsorship, as highlighted by the signing of partnerships with Manchester United and FC Barcelona. These new relationships will continue the 'Fan v Fan' rivalry theme and will enable Betfair to appeal to a new customer base as we increase our focus on football in the run up to the 2010 FIFA World Cup.

OPERATIONAL OVERVIEW

We continue to invest so that our technology remains at the cutting-edge to ensure we are able to handle the demands placed upon Betfair's systems from around the world, 24 hours a day, 365 days a year. On average, Betfair matches 6.4 million trades a day, 99.99% of which are completed within 120 milliseconds, and all markets are settled in real time. We believe this technology keeps us highly differentiated to our competitors in the online gaming space.

Earlier this year we acquired our I.T. development centre in Cluj, Romania. This centre currently handles a quarter of Betfair's development needs, with a focus on our Sportsbook, Games and Mobile applications. The centre in Cluj demonstrates that we aim to hire the best technology talent in the world, no matter where it is based.



OLD TRAFFORD, AUGUST 2009

CORPORATE UPDATE

Regulatory volatility continues to be a challenge for the business. We continue to operate in accordance with local regulations and remain steadfast in our belief that this is the right thing to do.

The acquisition of TVG means that we now hold licences in the UK, Italy, Malta, Germany, Austria, Australia and the US, and



SPARKS CHARITY POKER NIGHT, AUGUST 2009

SUMMARY

Once again I am delighted with the Group's results. The business continues to grow extremely rapidly despite the tough global economic situation. This is testament to the work of the 1,700 Betfair employees worldwide. Our strong position today would not be possible without their dedication, enthusiasm and hard work, and I would like to thank them all once again for all they do.

The quality and value provided across our product portfolio, together with our relentless focus on value for the customer, our substantial investments in technology and the importance we place on regulatory affairs means that the business is well positioned for a leading role globally. I look forward to the next 12 months with a real sense of excitement as to what we can achieve.

David Yu
Chief Executive Officer

we continue to work with governments worldwide to push for a regulated approach to the further liberalisation of gambling markets. Where this is not possible we are prepared to take sterner measures, as highlighted by our legal action against the Dutch Government.

In addition to working with governments, we have maintained our existing relationships with sporting bodies and continued to build new ones, signing a further 13 Memoranda of Understanding in the last 12 months, taking the total number to 44.

Our commitment to Corporate and Social Responsibility (CSR) remains industry-leading. Our flagship programme, Cash4Clubs, provides financial support for community sports clubs across the UK. We recognise the importance of sport in building and maintaining communities and are committed to ensuring that funds get to where they are most needed.

We concluded a successful two-year partnership with SportsAid where we raised £500,000 for the next generation of British athletes. Our new Charity of the Year is Sparks, a children's medical research charity founded by sportsmen. Sparks was chosen by employees with the aim of raising £75,000 which will be matched by Betfair.



ROYAL ASCOT, JUNE 2009

KEY FINANCIAL INFORMATION

Selected extracts from the Directors' Report and consolidated financial statements of Betfair Group Limited.

Consolidated profit and loss account for the year ended 30 April 2009

	Before exceptional items	Exceptional items	Total	(Restated)
	2009	2009	2009	2008
	£'000	£'000	£'000	£'000
Revenue: Group and share of joint ventures and associates	303,487	-	303,487	239,653
Less: Share of joint ventures and associates revenue	(10,562)	-	(10,562)	(6,100)
Group revenue	292,925	-	292,925	233,553
Cost of sales	(48,566)	-	(48,566)	(40,089)
Gross profit	244,359	-	244,359	193,464
Administrative expenses before depreciation and amortisation	(186,472)	(892)	(187,364)	(152,402)
Other operating income	8,281	-	8,281	8,877
EBITDA	66,168	(892)	65,276	49,939
Depreciation and amortisation	(25,879)	-	(25,879)	(17,477)
Group operating profit	40,289	(892)	39,397	32,462
Share of net operating loss in joint ventures and associates	(1,562)	-	(1,562)	(87)
Total operating profit	38,727	(892)	37,835	32,375
Profit on disposal of operations	-	2,058	2,058	-
Profit on ordinary activities before interest and taxation	38,727	1,166	39,893	32,375
Interest receivable and similar income	3,875	-	3,875	9,893
Interest payable and similar charges	(1,344)	-	(1,344)	(269)
Profit on ordinary activities before taxation	41,258	1,166	42,424	41,999
Taxation	(8,063)	250	(7,813)	(9,364)
Profit for the financial year	33,195	1,416	34,611	32,635

2008 Restatement: During the year the Group decided to capitalise development costs and accrue for earned and untaken annual leave in line with International Financial Reporting Standards and permitted by UK GAAP. Comparatives for 2008 have been restated accordingly.

Further details of exceptional items and the 2008 restatement are included in Betfair Group Limited's Directors' report and consolidated financial statements which may be obtained from Companies House.

Consolidated balance sheet as at 30 April 2009

	2009	(Restated)
	2009	2008
	£'000	£'000
Fixed assets		
Intangible assets	62,657	28,816
Tangible assets	24,689	22,074
Investments		
- Interest in joint ventures	5,554	7,551
- Interest in associates	-	1,853
- Other investments	2,420	2,270
	95,320	62,564
Current assets		
Debtors	18,025	11,391
Cash at bank and in hand	133,367	110,961
	151,392	122,352
Current liabilities		
Creditors: amounts falling due within one year	(96,315)	(74,808)
Net current assets	55,077	47,544
Net assets	150,397	110,108
Capital and reserves		
Called up share capital	104	104
Share premium account	2,128	69
Profit and loss reserve	148,165	109,930
Shareholders' funds	150,397	110,103
Minority interest	-	5
Total equity	150,397	110,108

KEY FINANCIAL INFORMATION

Consolidated cash flow statement for the year ended 30 April 2009

	2009 £'000	2008 £'000
Net cash inflow from operating activities	71,978	66,769
Dividends received from associates	219	-
Returns on investments and servicing of finance		
Interest received	3,713	9,324
Interest paid	<u>(6)</u>	<u>(158)</u>
Total returns on investments and servicing of finance	3,707	9,166
Taxation	(5,517)	(5,849)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(14,306)	(13,201)
Payments to acquire intangible fixed assets	(357)	(398)
Proceeds on disposal of tangible fixed assets	47	663
Capitalised development expenditure	<u>(8,094)</u>	<u>(7,746)</u>
Total capital expenditure and financial investment	(22,710)	(20,682)
Acquisitions and disposals		
Acquisition of subsidiaries	(1,278)	-
Cash acquired with subsidiaries	8,392	-
Disposal of subsidiaries	(702)	-
Cash consideration paid to acquire joint ventures	-	(3,500)
Capital injection in joint ventures	(473)	-
Acquisition of associates	-	(1,719)
Proceeds from sale of associates	4,555	-
Acquisition of other investments	<u>(150)</u>	<u>(2,270)</u>
Total acquisitions and disposals	10,344	(7,489)
Net cash inflow before financing	58,021	41,915
Financing		
Settlement of liabilities due to related parties of acquired subsidiary	(35,966)	-
Issue of shares net of costs	710	1,651
Purchase of The Sporting Exchange Limited shares	-	(112,192)
Loan notes redeemed	<u>(140)</u>	<u>(283)</u>
Total financing	(35,396)	(110,824)
Net cash inflow / (outflow)	22,625	(68,909)
Revaluation of foreign currency cash balances	(219)	266
Increase / (decrease) in cash in the year	<u>22,406</u>	<u>(68,643)</u>

FIVE-YEAR SUMMARY

For the year ended 30 April

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Total Revenue	303,487	239,653	185,933	145,398	107,114
Adjusted EBITDA	71,635	55,749	43,565	44,131	30,051
Share-based payment charges	(5,467)	(5,810)	(4,503)	(1,830)	(482)
EBITDA before exceptional items	66,168	49,939	39,062	42,301	29,569
Exceptional items	(892)	-	-	2,807	(3,948)
EBITDA	65,276	49,939	39,062	45,108	25,621
Profit on ordinary activities before tax	42,424	41,999	30,101	39,534	22,710
Profit for the financial year	34,611	32,635	22,812	29,229	16,802

Adjusted EBITDA is EBITDA excluding share-based payment charges and exceptional items. Results for 2005-2008 have been restated for changes in accounting policies relating to the capitalisation of development costs and accruing for earned and untaken annual leave.

DIRECTORS AND ADVISERS

DIRECTORS

Edward Wray	(Non-executive Chairman & Founder)
David Yu	(Chief Executive Officer)
Stephen Morana	(Chief Financial Officer)
Andrew Black	(Non-executive & Founder)
Mike McTighe	(Senior Independent Director)
Chris Batterham	(Non-executive)
Josh Hannah	(Non-executive)
Fru Hazlitt	(Non-executive)

SECRETARY

Martin Cruddace

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AUDITORS

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PRINCIPAL BANKERS

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PRINCIPAL SOLICITORS

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BETTING AS IT SHOULD BE.

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