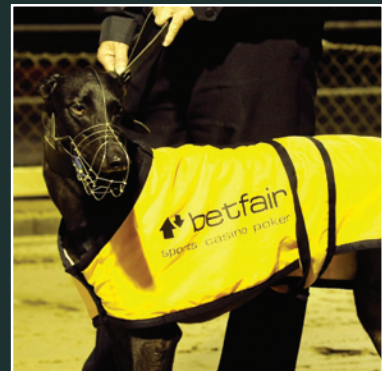
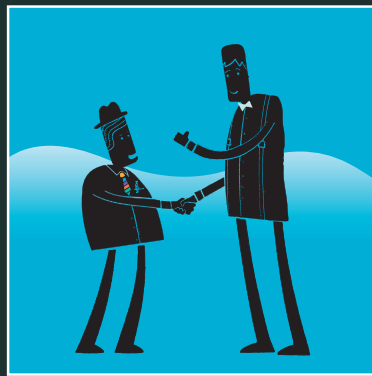


# BETFAIR

ANNUAL REVIEW 2008



 **betfair**  
sports casino poker



THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
INTERNATIONAL TRADE  
2008

# BETFAIR HIGHLIGHTS

## 2007-2008

### **MAY 2007**

- Creates new IT development centre in Cluj, Romania.

### **JULY 2007**

- Becomes official betting partner of England Rugby Union team.

### **SEPTEMBER 2007**

- Brings World Series of Poker Europe to London.
- Wins 'Operator of the Year' at the eGaming Review Industry Awards.

### **OCTOBER 2007**

- First Betfair television advert screened in UK and Sweden.
- Financial markets company Tradefair is launched.

### **NOVEMBER 2007**

- Launches the Betfair Starting Price (BSP).

### **JANUARY 2008**

- Launches Tote betting product for UK horseracing.

### **MARCH 2008**

- Wins case against Western Australia in the Australian High Court.

### **APRIL 2008**

- Wins Queen's Award for Enterprise in the International Trade category.
- Betfair TV – a joint venture with Top Up TV – is announced.

### **MAY 2008**

- Launches Italian Sportsbook.

### **JUNE 2008**

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

### **SEPTEMBER 2008**

- Wins 'Green Operator of the Year' & 'Best Offline Marketing Campaign' at the eGaming Review Industry Awards.
- Number of registered customers passes the two million mark.

# LETTER FROM THE CHAIRMAN

Dear Shareholder

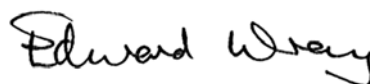
In 2003 Betfair won the prestigious Queen's Award for Enterprise in the Innovation category. The award was in recognition of the fact that we had created the world's first successful betting exchange. At the time, I said that our next target was "to take this great British innovation onto the global stage." Five years on, we are well on our way to achieving that aim. In September we registered our two millionth customer, just 20 months after passing the one million mark, and our international accounts are now responsible for 44% of all revenue. This tremendous rate of growth worldwide was recognised in April of this year when Betfair won its second Queen's Award, this time for International Trade. It is a fantastic endorsement of all the hard work put in by Betfair staff around the world and one which places the company in an elite group of multiple Queen's Award winners.

In tandem with this recognition, I am delighted to report that your company continues to perform strongly. Revenues this year were £240 million, an increase of 29%, while all measures of earnings grew at even faster rates as we begin to reap the rewards of our significant – and ongoing – investment programme. During the year we released several products that maintained our reputation for delivering highly innovative products for our customers. The most notable of these product releases were the Betfair Starting Price – which is already giving punters as much as 30% better odds when compared to the existing Starting Price system – and Tradefair, which will bring the same kind of innovation and exchange-based excellence to financial markets that Betfair has brought to the sports betting market.

As always, a proactive approach to regulation remains central to the way we do business. In the UK, the Gambling Act has been in force for over a year, and the group has successfully complied with the new legal requirements. We have had a number of significant regulatory breakthroughs during the year, in particular winning a unanimous verdict in the Australian High Court, thus overturning anti-Betfair (and discriminatory) legislation in the State of Western Australia. This decision will pave the way for greater market access across Australia, and potentially elsewhere. In a further positive development, we have also had a similar case against The Netherlands referred to the European Court of Justice, although we are disappointed and surprised that the UK Government has declined to intervene and offer public support for the principles of a free market.

During the year we improved the holding structure of the Group. As a result, your investment in Betfair is now held through Betfair Group Limited, and we were able to return over £100 million of capital to shareholders. We continue to have a very strong balance sheet, with no debt and a significant amount of cash. We expect to meet our ambitious growth targets in the coming year, despite the obviously worsening wider economic climate, and this strong capital structure will allow us to take advantage of opportunities that we are sure will arise.

As we look forward, with excitement and a sense of anticipation, to the coming year and beyond, I want to take this opportunity to thank every single member of Betfair's staff, whose combination of tremendous enthusiasm, professionalism and dedication continues to be the company's single biggest asset.



Edward Wray  
Chairman



# CHIEF EXECUTIVE'S REVIEW

## SUMMARY

Betfair had another very successful year, achieving 29% top line revenue growth, and has recently passed the two millionth registered customer milestone. We are consolidating our position as the betting platform for the internet with truly global reach. Over 50% of all new customers are from outside the UK and revenue from non-UK customers now accounts for 44% of total revenues. We were recognised for that achievement by winning our second Queen's Award for Enterprise, this time within the International Trade category.

The past financial year saw Betfair begin to leverage its strategic investments from previous years to deliver a 32% increase in like-for-like EBITDA (earnings before interest, tax, depreciation and amortisation) to £42.3m. We continue to balance on-going investment with operational efficiencies and remain confident that Betfair is well positioned to meet our long-term objectives.

## PRODUCT UPDATE

Innovation drives Betfair and in 2007/08 we continued to enhance our core products while also adding exciting new ones to our portfolio.

In November 2007 we launched the Betfair Starting Price (BSP), a product which took the equivalent of 30 person years

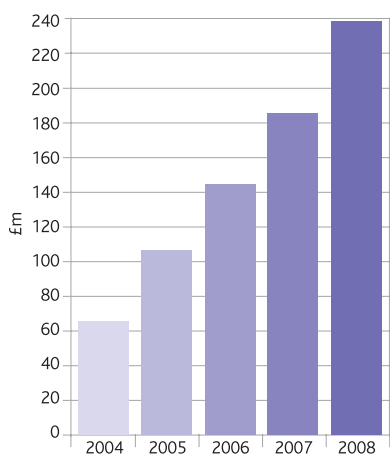
to develop. This represents the first significant challenge to the traditional horseracing industry Starting Price, as determined by the on-course bookmakers, and is aimed at the large number of punters who want to place a bet without having to understand the complexities of the exchange. Since its launch on our UK & Ireland horseracing markets, the BSP has consistently outperformed the existing industry SP, delivering odds to our customers that are 30% better on average. We hope to offer the BSP on many more markets and events in the coming year.

We have also expanded our range of community products to make the experience of using Betfair more interesting and enjoyable. Betfair's racing customers now have a multi-functional landing page with Timeform-i, which offers advanced form guides and other key data. They can also bet on the UK, Irish, and Australian Totes direct from their Betfair wallet, taking advantage of the Totes' unique betting products, and they can watch live video streaming of all UK and Irish race meetings.

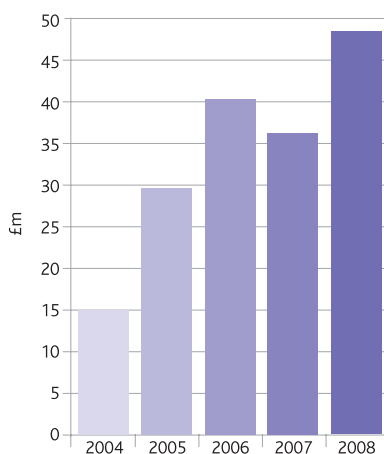
Elsewhere, after securing our state-issued licence, Betfair now has an Italian sports betting product. Although it follows the more traditional fixed-odds betting model, it gives us an important foothold and localised offering in this key territory while we pursue licensing specific to the betting exchange model.

In the autumn of 2007, Betfair launched Tradefair - the first application of its exchange technology outside the betting

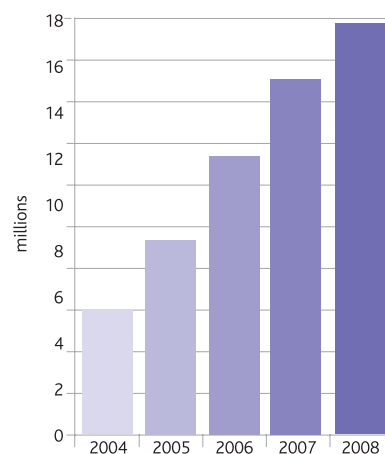
**TOTAL REVENUE**  
for the year ended 30 April



**ADJUSTED EBITDA**  
for the year ended 30 April



**ACTIVE PLAYER DAYS**  
for the year ended 30 April





WORLD'S BIGGEST ADVERTISEMENT, EURO 2008, VIENNA.

## “WE ARE CONSOLIDATING OUR POSITION AS THE BETTING PLATFORM FOR THE INTERNET WITH TRULY GLOBAL REACH.”

industry. This business focuses on financial markets, using the exchange for products like binaries, while relying on a white-label partnership for its spread betting product. Tradefair moves the Betfair Group into the online retail financial derivatives market and is expected to achieve FSA authorisation shortly.

We also continue to broaden the range of different platforms that offer Betfair products. In April 2008 we announced a joint venture with Top Up TV, the Freeview digital television company, to create Betfair TV. This will eventually provide games and fixed odds overlays onto live TV sports broadcasts, accessed via a Freeview set-top box. Betfair TV should be accessible to over nine million homes by the end of 2008.

Taikai is a new social betting product that combines the competitiveness of betting tournaments with the functionality of our betting exchange. We developed Taikai to encourage participation from the existing Betfair community, but also to address new markets where traditional for-money betting products are not allowed.

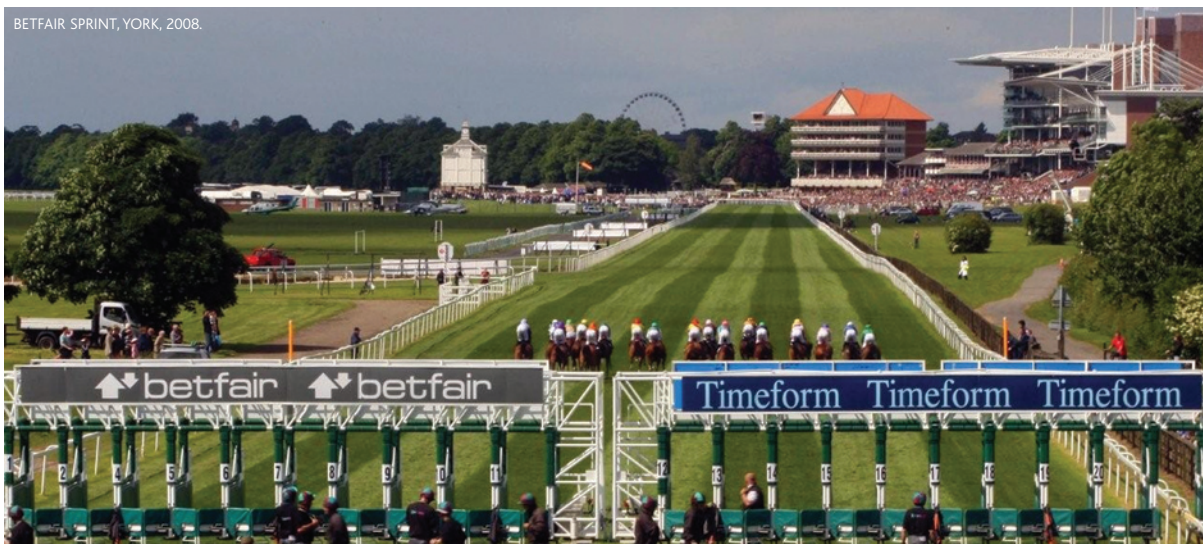
### MARKETING & BRAND

The Betfair brand further evolved during 2007/08 with the introduction of 'Betting As It Should Be' as the overarching strapline. This message reinforces everything we've achieved in our short history and at the same time articulates our longer-term aims.

In September 2007, the World Series of Poker Europe presented by Betfair became the first World Series event to be staged outside Las Vegas. The tournament took place across three London casinos and the £1m first prize went to 18-year-old poker prodigy Annette Obrestad of Norway, who has since become a Betfair-sponsored professional player. The Betfair brand reached 100 million homes globally via TV coverage of the event and we expect that the 2008 event will be even more widely promoted.

September was also a key period for the industry. The Gambling Act came into force at the beginning of the month, allowing betting companies to advertise on UK television for the first

# CHIEF EXECUTIVE'S REVIEW



time. Betfair extended its brand recognition with its first TV advertising campaign in October 2007. The 30 second ads were aired in the UK around Champions League football matches and the Rugby World Cup, offering us the first opportunity to see the Betfair 'Pixel Punters' come to life and driving spontaneous brand awareness. At the same time, Betfair remains a major sponsor of sport around the world.

Betfair Radio has grown substantially over the past year. It now provides live commentary on all UK racing and offered its first outside broadcast, covering all four days of the Cheltenham Festival from the racecourse. On the back of that success, it has won contracts to be the official on-course radio station for Glorious Goodwood, York's Ebor meeting, the Betfair meeting at Haydock, and the 2009 Cheltenham Festival.

## OPERATIONAL OVERVIEW

Our two million registered customers place ever increasing demands on our technology infrastructure with our systems matching more bets this year than in all preceding years combined. Our continual investment in IT has put us in a good position to accommodate current and future demands. Enhancements during the past year have resulted in more system headroom than ever before while allowing Betfair to offer one of the most robust, geographically distributed technology platforms across all exchange industries.

As we experience increased operational leverage, our headcount rose only modestly, from 1050 to 1237. The operational base in Malta has taken on added significance and now includes over



150 staff supporting our Games and International businesses. Across the company, we continue to optimise our operational expenditures including the use of new locations, such as Cluj in Romania for software development, and new technologies, such as Genesys, for improved call centre efficiency.

# “WE CONTINUE TO ADAPT AND LEAD THE WAY IN A NEWLY-REGULATED BETTING WORLD YET REMAIN COMMITTED TO OUR CORE PRINCIPLES.”



ENGLAND V WALES, TWICKENHAM, AUGUST 2007.

## CORPORATE UPDATE

Betfair's ongoing policy of actively working with regulators around the world to establish best practices meant that we were well positioned for the introduction of the UK Gambling Act. Betfair continues to set the benchmark standard in many of the areas that are now under formal regulation by the new Act and the Gambling Commission.

Similarly, we maintain our core belief that the company should always operate within the law and secure licences where reasonable, as we did this year in Italy. Perhaps the most significant regulatory breakthrough during the year was the High Court victory in Australia which should allow Betfair to operate more freely throughout that country. We remain committed to pushing for a regulated approach to online gaming, not least within some EU member states who in our view continue to contravene EU laws by restricting our freedom to offer our services.

With 2008 being an Olympic year, we continued our work with SportsAid, the charity that supports young elite British athletes, and we are on target to raise £500,000 by the end of the two year partnership. Meanwhile, Betfair is actively addressing the environmental impact of the business and in November 2007 we launched a strategy to significantly reduce Betfair's carbon footprint. Betfair was named the Green Operator of the Year at the eGaming Review Industry Awards in recognition of our efforts.

Betfair continues to play a strong role in supporting the regulators of sport in the fight against corruption. The number

of information-sharing agreements - or Memoranda of Understanding - now stands at 35 and includes many of the major sporting bodies around the world. The value of these agreements to our business and to sport remains unquestioned.

In summary, Betfair has enjoyed another highly successful 12 months. We have built on significant expansion in our infrastructure during the previous year to achieve our objectives of growing top-line revenue and operating margins. We continue to adapt and lead the way in a newly-regulated betting world yet remain committed to our core principles. We would not have been able to achieve all this without the commitment and passion of our staff around the world so I would once again like to say a heartfelt thank you to them all. They continue to make Betfair what it is - betting as it should be.

David Yu  
Chief Executive Officer



# KEY FINANCIAL INFORMATION

Selected Extracts from the Directors' Report and consolidated financial statements of Betfair Group Ltd.

## Consolidated profit and loss account for the year ended 30 April 2008

	2008 £'000	2007 £'000
Revenue: Group and share of joint ventures and associates	239,653	185,933
Less: Share of joint ventures and associates revenue	<u>(6,100)</u>	<u>(4,005)</u>
<b>Group revenue</b>	<b>233,553</b>	<b>181,928</b>
Cost of sales	<u>(40,089)</u>	<u>(38,721)</u>
<b>Gross profit</b>	<b>193,464</b>	<b>143,207</b>
Administrative expenses before depreciation and amortisation	(160,074)	(116,937)
Other operating income	<u>8,877</u>	<u>5,698</u>
<b>EBITDA</b>	<b>42,267</b>	<b>31,968</b>
Depreciation and amortisation	<u>(13,780)</u>	<u>(11,867)</u>
<b>Group operating profit</b>	<b>28,487</b>	<b>20,101</b>
Share of net operating loss in joint ventures and associates	<u>(87)</u>	<u>(1,520)</u>
<b>Total operating profit</b>	<b>28,400</b>	<b>18,581</b>
Interest receivable and similar income	9,893	7,116
Interest payable and similar charges	<u>(269)</u>	<u>(352)</u>
<b>Profit on ordinary activities before taxation</b>	<b>38,024</b>	<b>25,345</b>
Taxation	<u>(8,251)</u>	<u>(5,957)</u>
<b>Profit for the financial year</b>	<b><u>29,773</u></b>	<b><u>19,388</u></b>

All activities relate to continuing operations in the current and prior year.



## Consolidated balance sheet as at 30 April 2008

	2008 £'000	2007 £'000
<b>Fixed assets</b>		
Intangible assets	15,664	16,844
Tangible assets	22,074	22,696
Investments		
- Interest in joint ventures	7,551	3,955
- Interest in associates	1,853	-
- Other investments	<u>2,270</u>	<u>-</u>
	49,412	43,495
<b>Current assets</b>		
Debtors	14,849	12,294
Cash at bank and in hand	<u>110,961</u>	<u>179,604</u>
	125,810	191,898
<b>Current liabilities</b>		
Creditors: amounts falling due within one year	<u>(74,008)</u>	<u>(60,225)</u>
<b>Net current assets</b>	<u>51,802</u>	<u>131,673</u>
<b>Total assets less current liabilities</b>	101,214	175,168
Creditors: amounts falling due after more than one year	<u>-</u>	<u>(432)</u>
<b>Net assets</b>	<u>101,214</u>	<u>174,736</u>
<b>Capital and reserves</b>		
Called up share capital	104	111
Other reserves	69	90,807
Profit and loss reserve	<u>101,036</u>	<u>83,818</u>
Shareholders' funds	101,209	174,736
Minority interest	<u>5</u>	<u>-</u>
	<u>101,214</u>	<u>174,736</u>

# KEY FINANCIAL INFORMATION

## Consolidated cash flow statement for the year ended 30 April 2008

	2008 £'000	2007 £'000
<b>Net cash inflow from operating activities</b>	<b>59,023</b>	<b>38,487</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	9,324	6,704
Interest paid	<u>(158)</u>	<u>(110)</u>
<b>Total returns on investments and servicing of finance</b>	<b>9,166</b>	<b>6,594</b>
<b>Taxation</b>	<b>(5,849)</b>	<b>(2,445)</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible fixed assets	(13,201)	(16,338)
Payment to acquire intangible fixed assets	(398)	(202)
Proceeds on disposal of tangible fixed assets	<u>663</u>	<u>162</u>
<b>Total capital expenditure and financial investment</b>	<b>(12,936)</b>	<b>(16,378)</b>
<b>Acquisitions</b>		
Cash consideration paid to acquire subsidiaries	-	(9,119)
Cash consideration paid to acquire joint ventures	(3,500)	-
Cash consideration paid to acquire associates	(1,719)	-
Cash consideration paid to acquire other investments	(2,270)	-
Net cash acquired with subsidiary	-	434
Cash invested in joint venture	<u>-</u>	<u>(687)</u>
<b>Total acquisitions</b>	<b>(7,489)</b>	<b>(9,372)</b>
<b>Net cash inflow before financing</b>	<b>41,915</b>	<b>16,886</b>
<b>Financing</b>		
Issue of shares net of costs	1,651	20,161
Payment for cancellation of shares in TSEL	(112,192)	-
Loan notes redeemed	<u>(283)</u>	<u>-</u>
<b>Total financing</b>	<b>(110,824)</b>	<b>20,161</b>
<b>Net cash (outflow) / inflow</b>	<b>(68,909)</b>	<b>37,047</b>
<b>Revaluation of foreign currency cash balances</b>	<u>266</u>	<u>(149)</u>
<b>(Decrease) / increase in cash in the year</b>	<u><b>(68,643)</b></u>	<u><b>36,898</b></u>

# FIVE-YEAR SUMMARY

For the year ended 30 April

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Total Revenue	239,653	185,933	145,398	107,114	66,725
Adjusted EBITDA	48,077	36,471	40,271	29,705	14,989
Share-based payment charges	(5,810)	(4,503)	(1,830)	(482)	(459)
EBITDA before exceptional items	42,267	31,968	38,441	29,223	14,530
Exceptional items	-	-	2,807	(3,948)	-
EBITDA	42,267	31,968	41,248	25,275	14,530
Profit on ordinary activities before tax	38,024	25,345	36,451	23,148	13,278
Profit for the financial year	29,773	19,388	27,009	17,117	10,519

Amounts received on customer account balances held in the stakeholder account are included in EBITDA.  
Adjusted EBITDA is EBITDA excluding share-based payment charges and exceptional items

# 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)
Chris Batterham	(Non-executive)
Josh Hannah	(Non-executive)
Fru Hazlitt	(Non-executive)

## COMPANY SECRETARY

Martin Cruddace

## PRINCIPAL PLACE OF BUSINESS

Waterfront, Hammersmith Embankment  
Winslow Road, London, W6 9HP

## AUDITORS

KPMG LLP  
8 Salisbury Square, London, EC4Y 8BB

## PRINCIPAL BANKERS

Royal Bank of Scotland plc  
280 Bishopsgate, London, EC2M 4RB

## PRINCIPAL SOLICITORS

Freshfields Bruckhaus Deringer  
65 Fleet Street, London, EC4Y 1HS

# BETTING AS IT SHOULD BE.

## CONTACT US

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or [corporate.betfair.com](http://corporate.betfair.com)

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