

THE BETFAIR 2007 ANNUAL REVIEW



THE QUEEN'S AWARDS
FOR ENTERPRISE:
INNOVATOR
2003

 **betfair**
sports casino poker

BETFAIR'S HIGHLIGHTS 2006-2007

May 2006

World Cup Betting Zone launches.

June 2006

Betfair Mobile launches in time for the World Cup.

July 2006

Bulgarian and Czech language sites are added, taking the total to 17.

August 2006

Australian office in Hobart, Tasmania becomes fully operational with the launch of the Australian exchange.

October 2006

Launches online casino, featuring the revolutionary Zero Lounge.

Betfair Poker re-launches on Betfair's own platform, developed since the PokerChamps acquisition.

Hosts the second Pride of Racing Awards to salute the unsung heroes of the horseracing industry.

Wins 'Socially Responsible Operator of the Year' at the eGaming Industry Awards for the second year running and the first annual 'Citrix Customer Innovation Award'.

November 2006

Acquires Timeform, the world-renowned brand publishing horseracing ratings, form guides and analysis.

Hosts the Betfair Asian Poker Tour in Singapore, the first legal tournament in that region.

December 2006

Becomes the first online gaming organisation to gain the internationally-recognised ISO/IEC 27001:2005 Information Security Management System Certification.

January 2007

Number of registered customers breaks the 1 million barrier.

SportsAid, the charity for sports people, named as Betfair's official charity partner.

February 2007

Obtains a Sportsbook licence in Italy.

March 2007

Betfair Radio launches.

Kauto Star wins the Betfair Million; a £1 million bonus offered to any horse which could win the Betfair Chase at Haydock, the King George at Kempton and the Cheltenham Gold Cup in one season.

Wins, for the second time, the Computer Weekly award for 'Best Places to Work in IT'.

Betfair Racing, integrating Timeform data, launches.

April 2007

Launches Exchange Omaha Hi.

May 2007

Hosts the SportsAid Quiz at Lord's; the main fundraising event of its annual partnership with SportsAid.

July 2007

Becomes the official betting partner of the Rugby Football Union.

Announces a deal with Tattersalls, Europe's largest Bloodstock Auctioneers, which will see it sponsoring the Tattersalls October Yearling Sale.

August 2007

Supports 'Team GBR' competing at the World University Summer Games in Bangkok.

Betting.betfair.com launches, providing betting-related sports news.

September 2007

Brings the World Series of Poker Europe to London.

Betfair Turbo Tennis launches at the O2 Arena.

Signs a Memorandum of Understanding with the Football Federation of Australia, taking the total number of information-sharing agreements to 27.

Wins 'Operator of the Year' at the eGaming Review Industry Awards.

LETTER FROM THE CHAIRMAN

Dear Shareholder

I am delighted to be able to report on another year of strong performance for your company. Like-for-like revenue, excluding our joint venture in Australia, grew by 30% to £182 million and the business continues to be extremely profitable and cash-generative. We remain firmly on track to deliver all of the key components of the 3-year plan that we outlined to shareholders a year ago.

As foreshadowed at our shareholder presentations over the past 12 months, the last financial year represented a year of heavy investment for Betfair. This investment has seen us establish very strong foundations for our business internationally, with core parts of our business now operating from both Australia and Malta, and with our customer base becoming increasingly international. In addition, this investment has enabled us to broaden our product range with the addition of new products like Multiples and Casino.

The nature of investment at Betfair means that we often bear the whole cost of an investment in a single year, while the benefits from that will continue to flow for many years to come. Certainly, the very strong trading performance in the first few months of our current financial year is evidence of the benefit of this investment programme.

The last year has seen a number of well-publicised regulatory developments around the world, which allow Betfair to continue to differentiate itself positively from its competition. In the United Kingdom, the Gambling Act has finally come into force and we are very well-positioned to capitalise on the opportunities that will open up as a result. Elsewhere the regulatory situation is less complete. Betfair has a long-standing policy of operating only in countries where it is legal to do so. As a result, we have not been affected by the fallout from the United States. Our future plans are not in any way predicated on accessing any non-legal markets. However, we believe that new markets will open up and we continue to be best-placed to work with regulators around the world in the future.

The impressive progress of the company during the last year would not have been possible without the extraordinary efforts of everyone at Betfair. The most important part of my message, therefore, is to thank David Yu, his senior executive team, and all of their staff in the company, in all of our offices around the

world, for their amazing hard work, dedication and professionalism throughout the year. Together they are continuing to build an outstanding company.

Edward Wray

Edward Wray
Non-executive Chairman



CHIEF EXECUTIVE'S REVIEW

Summary

It has been a very exciting year during which significant steps have been taken towards transforming Betfair from a primarily UK-based betting exchange to the world's leading legal e-gaming site. There has been a 30% like-for-like growth in top-line revenue and a 57% increase in active customers, despite the numerous regulatory issues facing the sector.

We ended the year in a very strong cash position with £180m of corporate funds at the year end (2006: £143m) in addition to £174m of client funds held on trust in separate ring-fenced accounts (2006: £141m), demonstrating the continued confidence that customers have in the company.

As planned, this financial year has been one of strategic investment across a number of key areas. These investments, including Research and Development spend of £22 million (2006: £12 million), resulted in our like-for-like EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) falling to £36.5 million in 2007 from £40.2 million but will enable us to realise our long-term objectives.

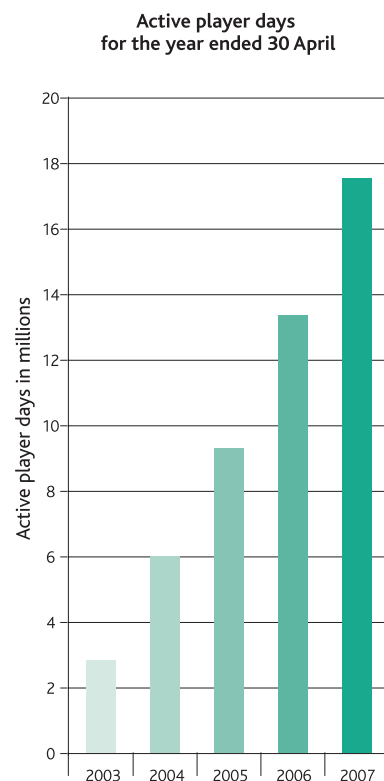
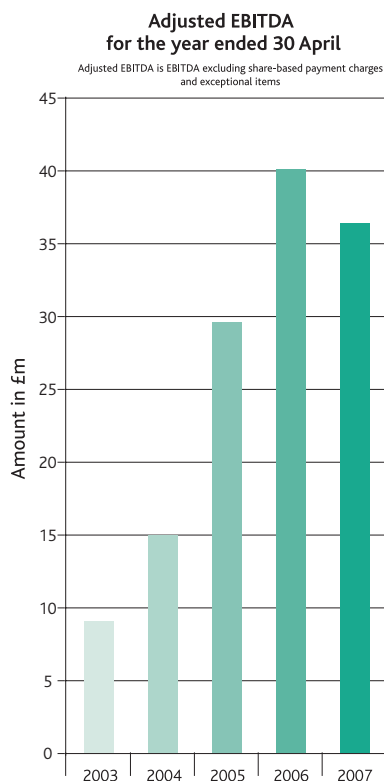
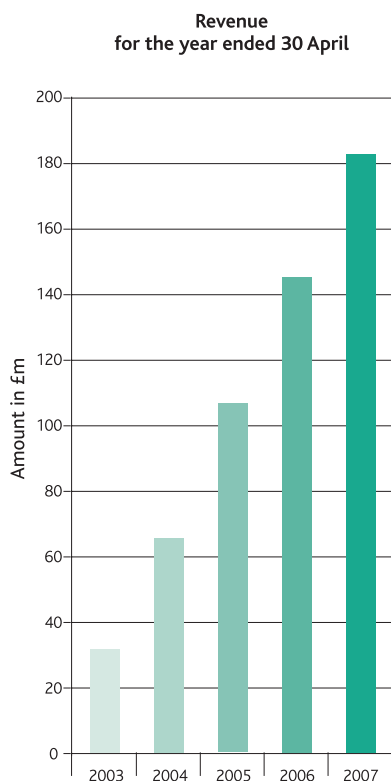
The payback on many of these initiatives is already being realised and we are greatly encouraged by results to date in FY2008.

Corporate Update

Our long-standing and well-documented policy of refusing any accounts or bets from the United States meant that the passing of the Unlawful Internet Gambling Enforcement Act (UIGEA) in October 2006 had no impact on our revenue or financial outlook. We are committed to working with regulators, both in the UK with the newly-established Gambling Commission and internationally, to ensure that best practices are applied throughout the organisation.

Betfair will shortly begin trading in Italy under our recently-awarded Sportsbook licence. We now hold licences in the UK, Italy, Malta, Germany, Austria and Australia, and will continue to work with governments to push for a regulatory, rather than prohibitive, approach. Whilst international growth has been strong, we still face regulatory volatility as European member states, in our view, continue to contravene EU laws by restricting our freedom to offer our services.

Operations in Malta, from where we now manage our Poker, Exchange Games, Casino and Multiples products, have been significantly expanded, with over 70 full-time staff and considerable technical infrastructure. We work very closely with



“Handles more transactions than all the European stock markets combined.”

the Lottery & Gaming Association (LGA) and we will continue to invest in our Maltese infrastructure over time.

In November 2006, Betfair acquired Timeform, the premium independent racing form guide and one of the oldest and most-trusted brands in racing, demonstrating the importance we place on providing first-class content. Integration of the two businesses has been successful and, despite Timeform making a small loss in its first five months of trading after acquisition, we are confident that over time we will generate positive returns.

Betfair won a number of awards over the course of the year, including 'Socially Responsible Operator of the Year' at the 2006 eGaming Awards for the second year running. Another significant award was the first annual 'Citrix Customer Innovation Award' which recognised our leading-edge use of technology. In September 2007, Betfair scooped the top accolade, 'Operator of the Year', at the eGaming Industry Awards, which demonstrates our commitment to push the boundary continually in what we offer our customers.

Product Update

There have been a number of significant enhancements to our product offering, in line with our ambition to be the betting platform for the internet.

Betfair Casino, with its revolutionary 'Zero Lounge', was launched in October 2006. We believe we now offer the most attractive casino on the internet, bringing together Betfair's integrity with the highest return-to-player percentages. Over 50,000 customers used the casino in the first nine months and our customer base grew by an average of 65% month-on-month. We are confident that we are already a top-ten online casino.

We continued to invest in new 'Exchange Games', our innovative mix of gaming products with an exchange twist, adding Exchange Hi-Lo, Exchange Omaha Hi and Exchange Baccarat to our portfolio.

In January 2007 we launched our multiples and accumulator products, allowing customers to place traditional multiples bets in an exchange environment. It is a superior product in terms of functionality, choice and price over our competition. Because of the nature of the multiples product, Betfair becomes the "house"

to these bets, with our revenue derived from the net winnings, but where we use the exchange to manage risk.

It has been an important year for Betfair Poker as we migrated from a third-party poker platform onto our own software. This followed the acquisition of Pokerchamps in October 2005 and was a significant strategic move, giving us full autonomy over our poker product going forward. This transition has not been without its issues, but we believe we ended the financial year with a product which will provide a solid foundation for future growth.

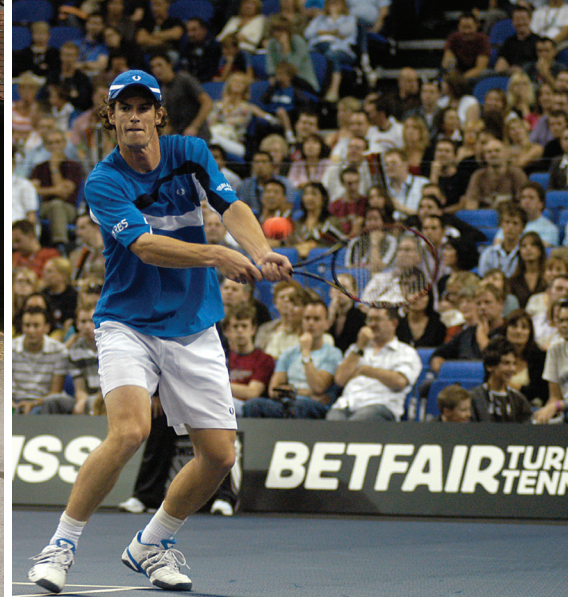
We have also made a major push to increase the level of content on the site. Sports news pages now provide relevant betting-related sports stories, and Betfair Radio, an online radio service, provides up-to-the-minute information on Betfair prices, as well as live commentary on all UK racing.

Evidence of our investment programme is reflected in the range and rate of new products added to the site over the past few months. These include 'Zones' for all major team sports such as soccer, rugby and cricket, offering market views, links to all upcoming and in-play games, and dedicated match pages. A 'Betfair Racing' site integrates Timeform data with Betfair's markets and gives live course information and fast results, whilst Betfair Mobile

WORLD SERIES OF POKER EUROPE PRESENTED BY BETFAIR.



CHIEF EXECUTIVE'S REVIEW



KAUTO STAR WINS THE BETFAIR MILLION.
ANDY MURRAY COMPETING AT BETFAIR TURBO TENNIS.

“The number of registered customers has broken the one million mark.”

is now available in more languages. A 'no-frills' exchange betting experience is also downloadable via Betfair Direct.

Marketing and Brand

The Betfair brand was refreshed as we increased marketing activity and identified opportunities to increase our brand awareness. A key pillar of our strategy is to attract new customers in order to keep the exchange a vibrant and thriving marketplace.

Part of this strategy saw us associated with some big events. The Betfair Million, offered for the second year, achieved a far-reaching national profile as Kauto Star won the hat-trick of races required to scoop the million-pound bonus.

Betfair Turbo Tennis was launched in September 2007 at the O2 Arena in London. Andy Murray beat Goran Ivanisevic, James Blake and Pat Cash, all of which was broadcast on Channel 4. This innovative format is aimed at attracting a new, young audience to tennis.

Betfair's profile in the poker world was given a boost when we hosted the Betfair Asian Poker Tour in Singapore in November 2006. This was the first legal tournament in that region and

announced Betfair onto the global poker stage. That reputation has since grown with Betfair's biggest sponsorship to date: we are the presenting sponsor of the World Series of Poker Europe for the next five years in partnership with Harrah's Entertainment, the owner of the World Series of Poker brand and one of the premiere US land-based casino operators.

The first World Series of Poker tournament held outside the United States occurred in London during September 2007, with prominent branding throughout the city and the event for Betfair. The tournament saw 350 of the world's best poker players competing for a share of the £3.5million prize pool. History was created when Annette Obrestad, an 18 year old poker professional from Norway, became the youngest-ever player to win a World Series of Poker bracelet. She has subsequently become a Betfair-sponsored player.

Operational Overview

Substantial investment in system capacity means that we now process, on average, almost five million transactions per day and serve over four billion page impressions per week. This is more than all the European stock markets combined. Increasing the capacity and robustness of our IT infrastructure is critical to providing the scalability to deal with predicted future growth

and therefore this year has been one of continued investment in back-end software enhancement, the latest hardware systems, and improved enterprise processes.

As a result we more than doubled our product development capacity and expanded our total IT resource to over 300 people. We believe that our ability to generate and develop new and innovative ideas more efficiently and effectively than our competitors is a commercial advantage. Overall, our capacity, scalability, and reliability have never been better.

Over the course of the year we launched a fully-functional exchange in Australia. The proprietary technology developed to distribute transactions and data across multiple exchanges further distinguishes Betfair as one of the world's leading exchange operators regardless of industry. Whilst we continue to face marketing restrictions in Australia, we look forward to changes that will allow us to advertise our product, putting the Joint Venture with Crown Limited in prime position to develop the Australian market for the exchange business.

The number of registered customers has broken the one million mark but the important statistic is the number of active users during the year, which is 433,000, an increase of 57% on the previous year. We thank our customers for their continued loyalty, as evidenced by more than 9 player-days per month per active customer.

Headcount has grown over the year, with many key positions being filled. Currently nearly 1,200 people work for Betfair across the main offices in Hammersmith and Stevenage (UK), Mosta (Malta) and Hobart (Australia). Whilst we expect continued growth, we are experiencing leverage in many corporate and operational areas and therefore the growth over the upcoming year will be far less than in previous years.

Corporate Social Responsibility

Betfair aspires to lead the industry in its approach to CSR, and has therefore made a commitment to its local communities, charity, and the environment. We have a two-year partnership with SportsAid which see us raising £250,000 for young athletes, which Betfair will then match. We are also the Development Partner of University Team GBR, supporting the British contingent at events such as the World University Summer Games in Bangkok in August 2007. We have formulated a comprehensive environmental policy and we are working with communities local to our offices, with members of the company from the Executive Committee downwards getting involved in volunteer projects.

Betfair continues to play a significant role in the fight against corruption in sport. The number of ground-breaking Memoranda

of Understanding with sporting regulators stands at 27 and information that we have provided has been pivotal in the recent horseracing investigations. We are committed to developing further relationships within sport.

In summary, we are very pleased with progress over the past year and are extremely optimistic about the year ahead. Our primary focus will continue to be top-line revenue growth by enhancing our products; further expanding into legal markets; and offering our customers a world-class service whilst always staying true to our core principles of innovation, value, fairness, and integrity. That focus, combined with our scale and efficiency, will ensure that long-term margin-enhancement is unequivocal. But, of course, without the dedication and passion from our staff around the world, none of these highlighted achievements would be possible; I would like to say thank you to everyone at Betfair.



David Yu
Chief Executive Officer



KEY FINANCIAL INFORMATION

Selected extracts from the Directors' report and consolidated financial statements of The Sporting Exchange Limited (as filed at Companies House).

Consolidated profit and loss account for the year ended 30 April 2007

	2007 £'000	2006 (restated) £'000
Revenue: group and share of joint venture	185,933	145,398
less: share of joint venture's revenue	(4,005)	(697)
Group revenue	181,928	144,701
Cost of sales	(38,721)	(35,919)
Gross profit	143,207	108,782
Administrative expenses before depreciation and amortisation	(116,937)	(77,092) *
Other operating income	5,698	9,558 *
EBITDA	31,968	41,248
Depreciation and amortisation	(11,867)	(7,000)
Group operating profit	20,101	34,248
Share of operating loss in joint venture	(1,520)	(221)
Total operating profit	18,581	34,027
Interest receivable	7,116	2,830
Interest payable and similar charges	(352)	(406)
Profit on ordinary activities before taxation	25,345	36,451
Tax on profit on ordinary activities	(5,957)	(9,442) *
Profit for the financial year	19,388	27,009

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

* Included within administrative expenses and other operating income in the prior year is an exceptional charge of £2.5 million and an exceptional credit of £5.3 million respectively. Included within tax on profit on ordinary activities in the prior year is a charge of £0.8 million relating to these exceptional items.

2006 Restatement: During the year the Group adopted FRS 20 'Share-based payment' which superseded UITF 17 'Employee Share Schemes'. Under the new standard, the fair value of options and restricted shares is recognised as an employee expense. Comparatives for 2006 have been restated accordingly.

Further details of exceptional items and the 2006 restatement are included in The Sporting Exchange Limited's Directors' report and consolidated financial statements which may be obtained from Companies House.

Consolidated balance sheet at 30 April 2007

	2007		2006 (restated)	
	£'000	£'000	£'000	£'000
Fixed assets				
Intangible assets		16,844		11,878
Tangible assets		22,696		16,766
Investments				
Interest in joint venture				
Share of gross assets	3,268		4,853	
Share of gross liabilities	(2,895)		(2,957)	
	373		1,896	
Goodwill	386		501	
Loan	3,196		2,543	
		3,955		4,940
		43,495		33,584
Current assets				
Debtors	12,294		9,373	
Cash at bank and in hand	179,604		142,706	
	191,898		152,079	
Creditors: amounts falling due within one year	(60,225)		(51,604)	
Net current assets		131,673		100,475
Total assets less current liabilities		175,168		134,059
Creditors: amounts falling due after more than one year		(432)		-
Provisions for liabilities and charges		-		(3,762)
Net assets		174,736		130,297
Capital and reserves				
Called up share capital		111		109
Share premium account		83,692		63,395
Other reserves		7,115		7,115
Profit and loss account		83,818		59,678
Shareholders' funds		174,736		130,297

KEY FINANCIAL INFORMATION

Consolidated cash flow statement for the year ended 30 April 2007

	2007 £'000	2006 £'000
Net cash inflow from operating activities	38,487	63,493
Returns on investments and servicing of finance		
Interest received	6,704	2,854
Interest paid	(110)	(83)
Total returns on investments and servicing of finance	<u>6,594</u>	<u>2,771</u>
Taxation	(2,445)	(132)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(16,338)	(8,812)
Payments to acquire intangible fixed assets	(202)	(803)
Proceeds on disposal of tangible fixed assets	162	-
Total capital expenditure and financial investment	<u>(16,378)</u>	<u>(9,615)</u>
Acquisitions		
Cash consideration paid to acquire trades or businesses	(9,119)	(4,885)
Net cash acquired with subsidiary	434	374
Cash invested in joint venture	(687)	(11,994)
Total acquisitions	<u>(9,372)</u>	<u>(16,505)</u>
Net cash inflow before financing	16,886	40,012
Financing		
Issue of shares net of costs	20,161	47,672
Consideration received on sale of own shares	-	2,651
Convertible loan notes redeemed	-	(111)
Total financing	<u>20,161</u>	<u>50,212</u>
Net cash inflow	37,047	90,224
Revaluation of foreign currency cash balances	(149)	64
Increase in cash in the year	<u><u>36,898</u></u>	<u><u>90,288</u></u>

FIVE-YEAR SUMMARY

For the year ended 30 April

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Revenue	181,928	144,701	107,114	66,725	32,319
Adjusted EBITDA	36,471	40,271	29,705	14,989	9,024
Share-based payment charges	(4,503)	(1,830)	(482)	(459)	(111)
EBITDA before exceptional items	31,968	38,441	29,223	14,530	8,913
Exceptional items	0	2,807	(3,948)	0	0
EBITDA	31,968	41,248	25,275	14,530	8,913
Profit on ordinary activities before taxation	25,345	36,451	23,148	13,278	8,706
Profit for the financial year	19,388	27,009	17,117	10,519	7,518

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 and Founder)
David Yu (Chief Executive Officer)
Andrew Black (Founder)
Stephen Morana (Chief Financial Officer)
Chris Batterham (Non-executive)
Josh Hannah (Non-executive)
Fru Hazlitt (Non-executive)
Bernard Giroud (Observer)

SECRETARY

Martin Cruddace

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PRINCIPAL SOLICITORS

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REGISTRARS AND TRANSFER OFFICE

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CONTACT US

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