

13 December 2012

Betfair Group plc
("Betfair")

Interim results for the six months ended 31 October 2012

Betfair (LSE:BET) today announces its unaudited results for the six months ended 31 October 2012.

Group summary

<i>Unaudited</i>	Underlying ^{1, 2}			Reported ²		
	H1 FY13 £m	H1 FY12 £m	Change %	H1 FY13 £m	H1 FY12 £m	Change %
Group revenue	200.6	191.2	+5%	200.6	191.2	+5%
EBITDA	42.3	43.1	-2%	38.5	43.1	-11%
Profit before tax	21.0	27.0	-22%	(64.0)	27.5	N/A
Basic earnings per share (p)	17.4	23.2	-25%	(58.9)	23.4	N/A

Strategic highlights

- Plan to reinvigorate the business announced, with three key elements:
 - Focus on regulated jurisdictions to increase sustainability of revenues
 - Invest in product and brand to enhance our competitive position and drive growth
 - Introduce greater accountability and become a leaner and more dynamic business; c.£20 million of savings identified to date
- Exiting from investments in LMAX and Kabam
- Dividend policy reviewed: medium term payout target increased to 40% of Group profit after tax, reflecting confidence in long term outlook and increased capital discipline

Financial highlights

- Changed approach to reporting:
 - focus is on Group numbers rather than Core
 - share based payments are included in underlying financials
 - applying a more conservative approach to the capitalisation of future development costs
- Group revenue from continuing operations up 5% to £200.6 million, driven by a strong sports and mobile performance²
- Group underlying EBITDA from continuing operations down 2% to £42.3 million, as marketing investment offsets revenue growth^{1, 2}
- Group underlying earnings per share down 25% to 17.4 pence due to a higher depreciation and amortisation charge following increased capital expenditure in the prior year¹
- Interim dividend up 25% to 4.0 pence per share
- Non-cash impairment of goodwill and other intangible assets of £80.6 million
- Current underlying trading is in-line with expectations: revenue up 7% in Q3 to date after adjusting for regulatory impacts in Spain, Germany and Cyprus.

- ¹ Underlying figures are stated after making a number of adjustments in order to aid comparability between periods. These adjustments involve the exclusion, where relevant, of separately disclosed items (restructuring costs and impairments) and the associated tax effect of these adjustments. A reconciliation of reported figures to underlying figures is set out in Appendix 2.
- ² Continuing operations (excludes LMAX exchange)

Commenting on today's announcement, Breon Corcoran, Betfair's Chief Executive Officer, said:

"This is a solid set of results for the first six months of the year.

"We are now pursuing a new and more focused strategy to address the business' challenges and exploit its market opportunities.

"The review we have carried out over the past four months has demonstrated a number of strengths. Betfair has a unique product offering, strong brand affinity and scale in the UK. However, we have also identified a number of areas requiring change and fixing these will take time.

"Recent regulatory developments have been challenging and we are reducing our exposure to markets with an uncertain regulatory future. We will focus investment within regulated markets with sustainable revenues.

"Creating a simpler product that retains the key advantages of the exchange, combined with investment to return the brand to its previously strong position, will allow us to increase our audience and accelerate revenue growth.

"I'm excited to be leading Betfair through this change and proud of what we've achieved over the last four months".

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Analyst and investor results webcast

There will be a live webcast of the results presentation at 9.30 a.m. GMT. Please pre-register for access to the webcast by visiting the group website (<http://corporate.betfair.com>). A copy of the webcast and slide presentation given at the meeting will be available on the Group's website later today.

BUSINESS REVIEW

Strategy update

Betfair operates in a highly competitive industry in which winners will be those who achieve and benefit from scale, both in-country and internationally. Following a period of significant success, the business has lost ground in recent years to competitors and faced a number of setbacks in following its international strategy.

Breon Corcoran joined Betfair as CEO on 1 August and is today setting out a plan to reinvigorate the business. This has three key elements:

- Focus the business on regulated jurisdictions to increase sustainability of revenues
- Invest in product and brand to enhance our competitive position and drive growth
- Introduce greater accountability and become a leaner and more dynamic business

If we deliver on these objectives, over time we will become an efficient and focused operator with the capacity to drive investment in a compelling and broad customer proposition that addresses a far greater part of the available market than we do today.

Focus on regulated jurisdictions

Betfair's international expansion, leveraged a centralised product to offer services to new geographies at low marginal cost. This approach was successful in growing international revenues to almost 50% of total Betfair revenues.

More recently, however, an increasing number of countries have, or are in the process of, introducing gaming regulation. This brings additional costs such as taxation and compliance costs, and in some cases results in risk to revenues if, for instance, product limitations are introduced. This risk has recently been illustrated in Germany, where we invested over a number of years to build a business with annual revenues of £13 million. Following changes in taxation laws in July 2012, which, if applicable, make our exchange model unviable, we have chosen to withdraw from the market. Other examples exist, including France, Greece and Cyprus.

We are addressing regulatory uncertainty by ceasing marketing and other investment in countries where we are not confident there is sufficient near-term regulatory visibility until such clarity is received. These countries contributed 24% of Group revenue in the first six months of the year and included 8% from Cyprus, Germany and Greece.

Stopping investment in these markets will allow greater focus on markets that are regulated or are in the process of regulating in the near term.

We anticipate that revenue from these jurisdictions will reduce over the next few years, reflecting our suspension of marketing and other local activity. While this will act as a drag on Group revenue growth for a period of time, we believe it better positions the company for the long-term and ensures that the quality of earnings is improved.

Investment in our products and brand to enhance our competitive position and drive growth

Our brand and unique products are our greatest assets. However, awareness of Betfair in the UK, our primary market, has suffered in recent years as competitor spend has increased and we have diverted marketing resources towards the pursuit of international growth. Also, our brand messaging has not always been inclusive and has sometimes limited the customer base we have addressed.

At the same time, while the exchange delivers high levels of customer satisfaction and retention due to its flexibility, value and uniqueness, some of its features can also make it appear complex to new customers. Unfamiliar terminology, such as 'back and lay', and concepts, such as 'market depth' and 'over-round percentage', can act as barriers to trial. Consequently, historically, this has also acted to limit the market we have addressed. In addition, liquidity gaps in certain markets can lead to situations where the betting proposition is sub-optimal, reducing Betfair's share of wallet.

In the UK, we intend to increase our marketing investment to help tackle market share losses and re-position our brand to increase its relevance with a wider audience.

While the exchange will continue to be central to Betfair's product portfolio, we are focused on developing a simpler, more intuitive customer interface for new customers, who can then be introduced to the benefits of the exchange as their relationship with Betfair develops.

We are responding to the issue of illiquid markets by taking bets on a risk basis. Betfair has already started in this direction through its fixed odds product, but we will now move faster towards a more competitive risk product.

Introduce greater accountability and cost discipline to become a leaner and more dynamic business

There are three main changes we are making to improve organisational effectiveness:

- A new structure to deliver greater accountability
- Increased investment focus
- Improved organisational efficiency

Betfair is currently organised around the three pillars of Product, Technology and Commercial. The Product department designs products, the Technology department builds them and the Commercial department then sells them. This structure does not engender a culture of product ownership or P&L accountability.

We will now operate under a new organisational structure based on the Exchange, Sportsbook and Gaming business units. Each unit will control, and have responsibility for, the design, build and sale of their respective products. This will help to drive a culture of increased ownership, resulting in faster and more efficient delivery.

Betfair is a gambling company and we believe that the opportunities and challenges facing this business demand the focus of both management time and the company's resources.

Accordingly, we have taken the decision to dispose of stakes in two non-gambling companies. We have entered an agreement to sell a majority stake in the LMAX financial exchange to a combination of management, led by current CEO David Mercer, and other private investors including Betfair co-founder, Edward Wray, for £2.4 million. The transaction is subject to FSA approval. The Tradefair financial spread betting business, which was previously part of the LMAX segment, will be retained as it is a cross-sell product for our existing customer base.

In addition, we have sold our minority stake in social gaming company Kabam for \$30 million.

There is also a need to reduce costs. The main driver of excess cost in the business is complexity and inefficiency. We have commenced a detailed review of the cost base and have identified a number of areas of expenditure that either do not create value or where efficacy of spend could be improved.

So far, we have identified opportunities to reduce costs by approximately £20 million on an annual run-rate basis. The one-off cost to achieve these efficiencies is expected to be not more than one times the annual saving.

These efficiencies will include how we source services from external suppliers as well as the number of people we employ. This will involve some difficult decisions, but we are confident that our employees see the need for the business to become leaner and will embrace being part of a more efficient organisation.

Management update

The most important factor in creating a high performing organisational culture is having the right people. We are pleased to have made some important changes to the leadership team:

- Alex Gersh has been appointed as Chief Financial Officer and he brings important international, growth and software industry experience and a strong focus on investment returns.
- Mark Ody is joining as Brand Director. Mark has a broad background of commercial and brand management, including at Diageo where he had regional responsibility for the Guinness, Malibu and Bombay Sapphire brands. More recently, he has run his own marketing consultancy business working with online brands.
- John McElligot, is joining as Managing Director of our Exchange business. John has a background in digital retailing, most recently at eBay.
- Paul LaFontaine, has been appointed Managing Director of Gaming. Paul was previously CEO of an international social networking and gaming business.
- Mark Brooker, who has been Betfair's Corporate Development Director for the past 3 years, has been appointed Managing Director of Sports.

Operating review

Sports

Sports revenue was up 8% in the period, driven by a 15% increase in football revenue. This was boosted by the European Championships and an increase in the number of second tier fixtures offered. Racing revenue was up slightly year-on-year, despite a large number of UK fixture cancellations due to the poor weather in June and July. Cancellations in the period totalled 55, compared with just two in the prior year.

Customer activity on our exchange continues to be strong, with the total value of bets up 12% year-on-year in the first half, led by growth in in-play betting. Part of this increase has resulted from many customers being introduced to the concept of trading through our 'Cash Out' tool, which makes it simpler for customers to lock-in profits or limit losses during a sporting event. The tool is one of the ways that we are bringing the advantages of the exchange to a wider audience and it has been particularly popular with recently acquired customers. In September, Cash Out was enhanced and is now available on 80% of all exchange markets and all major mobile platforms. This, combined with a TV marketing campaign, has led to a doubling of the number of daily Cash Out transactions in recent weeks.

Risk volumes increased by 17% in the period, helped by the launch of our 'fixed odds' product. Risk revenue increased by 47% in the period, reflecting the higher volumes and an easy comparative in the first quarter of last year, when margins were weak following losses in our telephone betting channel. Margins in August and September were affected by adverse sporting results, but October and November have seen strong margins.

We have completed the first stage of integration of Openbet and Amelco platforms and are starting to use these to drive increased levels of automation in our risk business. This will expand the number of markets we are able to offer. We have also strengthened our risk management and trading teams and processes to manage the growth we expect to see in this area.

Games

Games revenue was down 2% in the first half, after being significantly affected by regulation. Adjusting for Tradefair, which is now reported in this segment, revenue was flat year-on-year and performance improved throughout the period (revenue up 8% in the second quarter).

In August, we launched a TV advertising campaign featuring Betfair Casino in the UK. This has successfully led to an increase in active users and has helped to drive the revenue progression seen in the last few months. In parallel, the efficiency of online promotional activity has been improved and is driving better returns on investment.

Product enhancements have also contributed to the improved performance, including a refresh of our Arcade site and the addition of 25 new games. In November we re-launched casino products in Italy after withdrawing the product from the market in July 2011 for regulatory reasons.

Poker

The poker market continues to be difficult and revenue in the half was down 11% and second quarter revenue fell by 18%.

During the period, we entered into an agreement with Playtech to provide access to its iPoker network. This gives Betfair flexibility to choose the best network for its customers on a country-by-country basis and is particularly valuable in markets with ring-fenced liquidity such as Spain and Italy.

Mobile

The mobile channel continues to exhibit strong growth. In the period, revenue was up 108% to £18.1 million and, in October, we saw our first £1 million mobile revenue week.

Approximately 50% of customers in the UK and Ireland placed a mobile bet in the period. The exchange continues to be the primary driver of mobile usage, but, increasingly customers are also using the channel to access fixed odds and gaming products. This allows us to improve the monetisation of the channel.

Fixed odds multiples are now available across all major mobile platforms as well as through our standalone 'Betfair Multiples' app. Customer uptake has been ahead of our expectations and a significant proportion of revenue from football multiples bets came from the channel in recent months.

Following improvements to our mobile gaming proposition, over 20% of casino customers now play through the mobile channel. Enhancements include improved customer navigation, push notification and the addition of arcade games.

Mobile is also becoming an important acquisition channel. In the UK, where TV campaigns have featured our iPhone app, the channel generated a quarter of new customer activations in recent weeks.

UK Horserace Betting

In the UK, we have demonstrated our commitment to British horseracing by entering into a five-year commercial agreement with the industry. We have agreed to make guaranteed minimum payments of over £40 million during the period. The Department for Culture, Media and Sport (DCMS) has indicated that it intends to consult on proposals to reform or replace the Levy, which could include options to require all betting operators licensed in Great Britain that take bets from British customers to enter into their own commercial deals with the industry. Betfair will support these efforts.

Separately, in July, the High Court issued its judgment in the case of William Hill against the Horserace Betting Levy Board. The Court ruled in favour of the position of the Levy Board and Betfair, confirming the outcome of the consultation the Board undertook in 2010-2011 that determined that customers of betting exchanges are not liable to pay the Levy. William Hill was granted leave to appeal this decision. This appeal is expected to be heard in early 2013 and we again intend to support the Levy Board's position.

European Regulation

In Italy, the decree that sets out the licensing framework for betting exchanges is continuing to progress through the parliamentary process. The timing of any granting of licences, however, remains uncertain.

In Spain, following the award of remote gaming licences in June, we have restricted access to our exchange by Spanish customers until exchange licences are issued. We are continuing to work with the regulator to bring the advantages of exchange betting back to Spanish customers.

In Cyprus, Greece and Germany, countries that we previously indicated to have high regulatory risk, developments over the last six months have been disappointing.

In Cyprus, gaming legislation was introduced in July that seeks to limit the products that operators can offer in the country, including restrictions on betting exchanges, casino and poker. We believe that the legislation contains serious flaws and, in certain significant areas, is inconsistent with European Union law.

In Germany and Greece, a combination of fiscal and legal uncertainty has led us to withdraw some or all of our products until further clarity is received.

We estimate that the impact on revenue from these regulatory changes was approximately £8 million in the first half and the ongoing revenue impact is expected to be around £3.5 million per month on a run-rate basis.

Betfair US

TVG continues to grow faster than the wider market. First half handle and revenue increased by 6% and 7% respectively in local currency. TVG's geographical reach has been widened and it now operates in 20 states, up from 17 in the prior year. The business is acting to address its cost base and this should help it to deliver a positive performance in the full year. However, the cash flows generated by TVG are now expected to be below the level needed to support the goodwill carrying value, resulting in an impairment of £13.5 million.

Betfair Australia

Betfair Australia delivered revenue growth of 17% (local currency) in the period. This was driven by domestic racing, where revenue benefited from an increase in commission rates during the period as the business sought to recover higher race fields fees. These fees, however, largely offset the revenue growth and place a high burden on the business. As more states adopt a turnover based approach to race field fees, there is increasing pressure on the joint venture's profitability.

Current trading and outlook

The UK business has continued to perform well in Q3 to date, but previously flagged regulatory impacts on international revenues have acted as a drag on the Group's growth. Adjusting for the regulatory impact in Spain, Germany and Cyprus, revenue in the period was up 7% year-on-year. Unadjusted revenue was up 2%.

The long term outlook for the business is dependent on us successfully growing revenues in lower risk jurisdictions through our investments in our products and brand. In the short term, our strategy of ceasing to

invest in countries with insufficient regulatory visibility, along with the impact already announced in Greece, Germany and Cyprus, will moderate the Group's top-line growth rate. Consequently, in the current financial year ending 30 April 2013, we expect revenues to be lower than the previous year.

The strategic actions that we are announcing today, and taking account of the changes to our reporting approach to include share based payments in underlying financials and a more conservative approach to capitalisation of development spend, mean that we now expect Group revenues of between £370 million and £385 million and Group underlying EBITDA of between £65 million and £70 million in the current financial year.

As regulated markets contribute a greater proportion of total revenue over the coming years, this impact will diminish and we are confident that the business will be on a stronger footing and better positioned for sustainable growth.

FINANCIAL REVIEW

We intend to make a number of changes to our reporting in light of the strategic changes announced today:

- Focus will be on Group performance, whereas previously our reporting has focused on Core Betfair. We intend, however, to continue to provide sufficient transparency on Group businesses to provide an understanding of the drivers of overall performance.
- Share based payments will now be included within underlying EBITDA, recognising that these items are a real cost to equity holders.
- We will apply a more conservative approach to the capitalisation of future development costs.
- We will review our segmental reporting in light of the new organisational structure announced today.

Group Summary

- Group revenue from continuing operations (excluding the LMAX exchange) was up 5% to £200.6 million (H1 FY12: £191.2 million),
- Underlying Group EBITDA including share based payments was down 2% at £42.3 million (H1 FY12: £43.1 million)
- Underlying basic EPS down 25% at 17.4 pence (H1 FY12: 23.2 pence).

Management believes that underlying results, which exclude separately disclosed items (restructuring and impairment costs), provide additional guidance to statutory measures to help understand the underlying performance of the business during the financial year.

For the six months ended 31 October 2012, the Group reported loss after tax from continuing operations was £59.7 million (H1 FY12: profit after tax of £24.8 million). This was primarily due to a review, and subsequent impairment, of the carrying value of certain intangible assets following the strategic review undertaken.

The Group, excluding discontinued operations, ended the period with a cash balance of £117.9 million (31 October 2011: £136.8 million) and no debt. In addition, customer funds held off balance sheet in separate ring fenced accounts were £291.2 million on the same date (31 October 2011: £282.0 million).

Six months ended 31 October <i>Unaudited</i>	H1 FY13 £m	H1 FY12 £m	Change %
Revenue from continuing operations			
Core Betfair ²	180.2	172.4	+5%
Betfair US	20.4	18.7	+9%
Group	200.6	191.2	+5%
Underlying EBITDA excluding share based payments¹			
Core Betfair ²	45.6	46.4	-2%
Betfair US	1.7	0.5	+240%
Group	47.3	46.9	+1%
Equity settled share-based payments			
Core Betfair ²	(4.7)	(3.7)	+27%
Betfair US	(0.3)	(0.1)	+200%
Group	(5.0)	(3.8)	+32%
Underlying EBITDA including share based payments¹			
Core Betfair ²	40.8	42.8	-5%
Betfair US	1.4	0.3	+360%
Group	42.3	43.1	-2%
Group operating profit	(64.8)	26.0	N/A
Underlying Group operating profit ¹	19.6	26.0	-25%
Profit before tax	(64.0)	27.5	N/A
Underlying Profit before tax ¹	21.0	27.0	-22%
Earnings per share	(58.9p)	23.4p	N/A
Underlying earnings per share ¹	17.4p	23.2p	-25%

¹ Underlying figures are stated after making a number of adjustments in order to aid comparability between periods. These adjustments involve the exclusion, where relevant, of separately disclosed items and the associated tax effect of these adjustments. A reconciliation of reported figures to underlying figures is set out in Appendix 2

² Core Betfair includes Tradefair

Core Betfair

- Tradefair reported within Core Betfair in both periods following discontinuation of LMAX exchange
- Revenue up 5% to £180.2 million (H1 FY12: 172.4 million), driven by sports.
- Underlying EBITDA excluding share based payments down 2% at £45.6 million (H1 FY12: £46.4 million)
- Underlying EBITDA including share based payments down 5% to £40.8 million (H1 FY12: 42.8 million)

Tradefair

Following the decision to exit from our investment in the LMAX exchange and the subsequent reclassification of these operations as discontinued, we have reclassified Tradefair from the LMAX segment to the Games segment of Core Betfair. Therefore, revenue from this business of £1.3 million (H1 FY12: £2.1 million) and EBITDA of £1.0 million (H1 FY12: £1.9 million) has been included in the Core Betfair financials presented throughout this report. In the last financial year, Tradefair generated revenue of £3.0 million and EBITDA of £1.6 million.

Revenues and KPIs

Overall revenue increased by 5% to £180.2 million (H1 FY12: £172.4 million).

The key growth driver was Sports, with revenue up 8% to £140.2 million (H1 FY12: £129.8 million), following strong first quarter growth. This period included the football European Championships, which generated revenue of £7.8 million, although some of this reflects substitution away from other sporting events.

The majority of the revenue increase was in Non-risk Sports, which is predominantly commission earned on the exchange, with revenue up 6% to £132.1 million (H1 FY12: £124.2 million). Revenue from Risk Sports was up 47% to £8.2 million (H1 FY12: £5.5 million) following exceptionally weak margins in the first quarter last year. Margins in the second quarter of the current financial year were below both the prior year and theoretical expectations due to adverse sporting results, particularly in August and September.

During the period, the number of active customers increased across all regions and in total was up 9% to 630,000 (H1 FY12: 576,000). Within this, there was a broadly even contribution from both new and existing

customers. The key drivers of the increase were the Euro 2012 Championships and an increase in marketing investment in the period.

The average revenue per user ("ARPU") was down 4% to £285 (H1 FY12: £296) due to the mathematical dilution from adding new customers to the base as these customers tend to have lower ARPU. In part this is because, on average, they would not have been active for the whole period. ARPU from existing customers was marginally higher year-on-year.

The UK had a strong performance in the period, with revenue up 11%. In Europe, by contrast, revenue was down 8% due to the impact of regulation. Revenue from the Rest of the World had the highest growth rate at 30%, albeit from a relatively small base.

Six months ended 31 October <i>Unaudited</i>	Q1 FY13 £m	Q2 FY13 £m	H1 FY13 £m	Q1 FY12 £m	Q2 FY12 £m	H1 FY12 £m
- Non-risk sports	68.9	63.3	132.1	59.5	64.7	124.2
- Risk sports	3.4	4.7	8.2	0.3	5.2	5.5
- Sports	72.3	68.0	140.2	59.8	70.0	129.8
- Games ¹	14.8	14.6	29.4	15.5	14.5	30.0
- Poker	5.1	4.5	9.6	5.4	5.4	10.8
Core Betfair NGR ²	92.2	87.0	179.3	80.7	89.9	170.6
Management of customer funds	0.5	0.4	0.9	0.9	0.8	1.8
Core Betfair revenue	92.7	87.5	180.2	81.7	90.7	172.4
Change						
- Non-risk sports	+16%	-2%	+6%			
- Risk sports	+952%	-10%	+47%			
- Sports	+21%	-3%	+8%			
- Games ¹	-4%	Flat	-2%			
- Poker	-4%	-18%	-11%			
Core Betfair NGR ²	+14%	-3%	+5%			
Management of customer funds	-45%	-48%	-46%			
Core Betfair revenue	+14%	-4%	+5%			

¹ Games segment includes Tradefair in both periods. ² Net gaming revenue

Gross margin

Core Betfair gross margin was £160.2 million (H1 FY12: £154.1 million), representing a gross margin percentage of 88.9% (H1 FY12: 89.4%). The decline in the gross margin percentage was a result of higher gaming tax and lower margins in Tradefair following reduced financial market volatility.

Administrative expenses

In line with our decision to include the costs incurred as a result of share based payments in underlying EBITDA, these costs have now been included in the breakdown of administrative expenses analysed below.

Six months ended 31 October <i>Unaudited</i>	H1 FY13 £m	H1 FY12 £m	Change %
Commercial and marketing	49.5	39.2	26%
Technology and product	33.0	35.8	-8%
Operations	11.8	10.2	16%
Corporate	25.2	26.1	-3%
Total	119.4	111.3	7%
<i>Commercial and marketing as % of Core Betfair revenue</i>	<i>27.5%</i>	<i>22.7%</i>	
<i>Technology and product as % of Core Betfair revenue</i>	<i>18.3%</i>	<i>20.8%</i>	
<i>Operations as % of Core Betfair revenue</i>	<i>6.5%</i>	<i>5.9%</i>	
<i>Corporate as % of Core Betfair revenue</i>	<i>14.0%</i>	<i>15.1%</i>	
Total as % of Core Betfair revenue	66.3%	64.6%	

Note: In both periods Administrative expenses have been reclassified to include Tradefair and share based payments.

As expected, commercial and marketing spend in the first half was higher than the same period last year due to the football European Championships, as well as a higher number of TV marketing campaigns.

Technology and product costs were lower following the consolidation, from five to two, of data centres and increased use of near-shoring resources in Romania and Portugal. In the period, £10.3m of internal technology development expenditure has been capitalised (H1 FY12: £9.3m). We expect any future capitalisation of development costs to be substantially lower than this on a run-rate basis.

Operations costs were 16% higher in the period as we invested in trading and risk management teams in preparation for the anticipated growth in the risk sports business.

Core Betfair EBITDA

This table reconciles underlying EBITDA to reported EBITDA, including the impact of Tradefair and share based payments.

Six months ended 31 October <i>Unaudited</i>	H1 FY13 £m	H1 FY12 £m	Change %
Underlying EBITDA excl. Tradefair and share based payments	44.6	44.6	Flat
Tradefair	1.0	1.9	-48%
Underlying EBITDA excluding share based payments	45.6	46.4	-2%
Equity settled share-based payments	(4.7)	(3.7)	27%
Underlying EBITDA	40.8	42.8	-5%
Separately disclosed items	(3.4)	-	N/A
EBITDA	37.4	42.8	-13%

Revenue growth was offset by the higher first half marketing spend so, excluding Tradefair and share based payments, underlying EBITDA was flat. Including these items, underlying EBITDA was down 5% to £40.8m (H1 FY12: £42.8m).

Betfair US

TVG revenue was up 9% to £20.4 million (H1 FY12: £18.7 million). On a constant currency basis, revenue was up 7%.

Underlying EBITDA increased to £1.4 million (H1 FY12: £0.3 million) as a result of revenue growth, cost reductions and a reduction in investment in the exchange product following delays to the licensing process.

Separately disclosed items

In light of the strategic review announced today, the following charges have been incurred and treated as separately disclosed items.

Restructuring costs

Restructuring costs totalled £3.8 million (H1 FY12: £nil), primarily representing redundancy costs and other costs to deliver the strategic initiatives announced today. The majority of these costs, £3.4 million, were incurred by Core Betfair.

Impairment of goodwill

Six months ended 31 October <i>Unaudited</i>	H1 FY13 £m
Core Betfair	21.1
Betfair US	13.5
Total	34.6

Following a review of our balance sheet at 31 October 2012, we have impaired goodwill totalling £34.6 million. In Core Betfair, the impairment includes goodwill arising on the acquisitions of Timeform in 2002, the PokerChamps platform in 2005 and Betfair TV, which owns technology that allows betting via internet connected TV sets, in 2008.

Betfair acquired TVG in 2009 as part of an entry strategy into the US gambling market. The goodwill arising on this acquisition was \$53 million. After a strategic review of the business, we have impaired the carrying value of this goodwill by \$21.7 million, or £13.5 million.

Impairment of other intangible assets

Six months ended 31 October <i>Unaudited</i>	H1 FY13 £m
Core Betfair	
– Capitalised development costs	30.4
– Software licences	5.1
Betfair US capitalised development costs	10.4
Total	45.9

In Core Betfair, £30.4 million of own work capitalised has been written down. This includes costs incurred to develop our old website that has recently been replaced, social gaming applications that are no longer in use, development costs relating to jurisdictions where no licence has yet been received and legacy platforms. In addition, the carrying value of certain software licences has been written down by £5.1 million.

In Betfair US, uncertainty around the prospects for exchange based wagering in California has resulted in the impairment of the carrying value of US exchange technology. This impairment totalled £10.4 million.

Depreciation and amortisation

Six months ended 31 October <i>Unaudited</i>	H1 FY13 £m	H1 FY12 £m	Change %
Core Betfair	20.5	16.0	28%
Betfair US	2.2	1.1	100%
Group depreciation and amortisation	22.7	17.1	33%

The increase in the depreciation and amortisation charge resulted from higher capital expenditure during FY12. Following the impairments of intangible assets described above, we now expect the full year depreciation and amortisation charge to be c. £36 million.

Finance income and expenses

Net interest income from corporate funds was £0.4 million (H1 FY12: £0.6 million). Finance income and expenses also includes net foreign exchange losses of £0.6 million (H1 FY12: gain of £0.5 million). This primarily relates to unrealised losses / gains resulting from the re-translation of intercompany trading balances.

Share of profit from equity accounted investments – Betfair Australia

Betfair's share of operating profit from Betfair Australia was £0.9 million (H1 FY12: £0.4 million). Within this, higher revenues were offset by increased race field fees following the introduction of turnover based charges on horserace betting in certain states in Q2.

Taxation

The Group had a tax credit of £4.3 million in the period (H1 FY12: charge of £3.4 million). The Group's effective underlying tax rate was 16.0% (H1 FY12: 16.4%). We continue to expect the long-term sustainable tax rate to remain around this level.

Dividend

The Directors intend to maintain a progressive and sustainable dividend policy with an appropriate level of dividend cover. This dividend policy reflects the strong cash flow characteristics and long-term earnings potential of the Betfair Group and will allow it to retain sufficient capital to fund ongoing operating requirements and continued investment for long term growth.

The Board considers the appropriate target payout ratio to be approximately 40% of profit after tax in the medium term, excluding any exceptional items. This represents a change from our previous policy, which targeted 20% of profit after tax, excluding losses from the 'other investments' segments.

The Board proposes the payment of an interim dividend of 4.0 pence per share. This will be paid on 25 January 2013 to holders of relevant shares on the register at 21 December 2012.

Capital expenditure

Six months ended 31 October £m	H1 FY13			H1 FY12		
	Core	Betfair US	Total	Core	Betfair US	Total
External capex	6.5	0.8	7.3	11.4	1.1	12.5
Internal devex	10.3	2.3	12.6	9.3	2.5	11.8
Total capex	16.8	3.0	19.9	20.7	3.6	24.3

Cash and cash flow

Core Betfair cash flow was £8.9 million in the period (H1 FY12: £14.9 million). The reduction was primarily due the payment of taxes on historical revenues in Spain and other working capital changes.

Cash at 31 October 2012 in continuing operations was £117.9 million (31 October 2011: £136.8 million). The reduction was due to the share buyback in FY12, of which £31.8 million was carried out in the second half of the year.

We previously reported cash at 30 April 2012 of £135.4 million. This included cash within the discontinued LMAX exchange business of £17.1 million, including client funds of £9.3 million. Cash at 30 April 2012 from continuing operations was therefore £118.3 million.

Six months ended 31 October ¹ <i>Unaudited</i>	H1 FY13 £m	H1 FY12 £m
Core Betfair		
Cashflow from operating activities	28.4	40.8
Capex / capitalised development costs	(16.5)	(20.1)
Tax paid	(3.0)	(5.8)
Core Betfair free cash flow	8.9	14.9
Betfair US		
Cashflow from operating activities	2.2	0.6
Capex / capitalised development costs	(3.0)	(1.8)
Other investments free cash flow	(0.8)	(1.2)
Net purchases of own shares	(2.0)	(18.4)
Dividends paid	(7.1)	(6.3)
Other	-	2.1
Net decrease in cash and cash equivalents	(1.0)	(8.9)
Balance as at 31 October ¹ <i>Unaudited</i>	H1 FY13 £m	H1 FY12 £m
Cash and cash equivalents	117.9	136.8
Customer funds held off balance sheet on deposit in separate ring fenced accounts	291.2	282.0

¹ Continuing operations

Principal risks and uncertainties

The principal risks facing the Group are summarised in Appendix 3.

Responsibility Statement of the Directors in respect of the condensed consolidated interim financial statements

We confirm that to the best of our knowledge the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

The interim management report includes a fair review of the information required by:

- (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the board of Betfair Group plc

Breon Corcoran
Chief Executive Officer
13 December 2012

Condensed Consolidated Income Statement

	Six months ended 31 October 2012 (Unaudited)	Six months ended 31 October 2011 (Unaudited)	Year ended 30 April 2012 (Audited)
Note	£'000	£'000	£'000
Continuing operations			
Revenue	200,612	191,170	388,477
Cost of sales	(24,268)	(23,534)	(48,109)
Gross profit	176,344	167,636	340,368
Administrative expenses	(241,146)	(141,678)	(294,029)
Group operating (loss) / profit	(64,802)	25,958	46,339
Analysed as:			
Underlying EBITDA* (excluding separately disclosed items)	42,250	43,090	89,886
Separately disclosed items - restructuring	3 (3,754)	-	(6,395)
EBITDA*	38,496	43,090	83,491
Separately disclosed items - impairment of goodwill and other intangible assets	4 (80,553)	-	-
Depreciation and amortisation	(22,745)	(17,132)	(37,152)
Group operating (loss) / profit	(64,802)	25,958	46,339
Finance income	5 421	1,133	3,579
Finance expense	5 (557)	-	-
Net finance (expense) / income	(136)	1,133	3,579
Share of profit of equity accounted investments	904	417	4,292
(Loss) / profit before tax	(64,034)	27,508	54,210
Tax	6 4,262	(3,415)	(7,619)
(Loss) / profit for the period / year from continuing operations	(59,772)	24,093	46,591
Discontinued Operations			
Loss for the period / year from discontinued operations, net of tax	15 (14,994)	(6,658)	(12,642)
(Loss) / profit for the period / year	(74,766)	17,435	33,949
Attributable to:			
Equity holders of the Parent	(74,709)	18,102	34,661
Non-controlling interest	(57)	(667)	(712)
(Loss) / profit for the period / year	(74,766)	17,435	33,949

**Earnings per share
From continuing operations**

Basic	(58.9)p	23.4p	45.4p
Diluted **	-	23.2p	44.5p
From continuing and discontinued operations			
Basic	(73.7)p	17.1p	33.1p
Diluted **	-	16.9p	32.5p

* EBITDA is defined as Group operating profit before net finance income, tax, impairment, depreciation and amortisation. It excludes amounts in respect of the Group's equity accounted investments and is considered by the Directors to be a key measure of its financial performance. Underlying EBITDA has historically been presented as EBITDA excluding separately disclosed items and equity-settled share-based payments. For the 6 months ended 31 October 2012 charges relating to equity-settled share-based payments have been included within Underlying EBITDA and comparative periods have been amended accordingly.

** As any potential ordinary shares would have the effect of decreasing the loss per share, they have not been treated as dilutive; hence diluted earnings per share has not been disclosed.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 October 2012 (Unaudited)	Six months ended 31 October 2011 (Unaudited)	Year ended 30 April 2012 (Audited)
	£'000	£'000	£'000
(Loss) / profit for the period / year	(74,766)	17,435	33,949
Other comprehensive income / (expense)			
Available for sale investments gain arising during the period	16,835	-	-
Foreign exchange differences arising on consolidation	851	187	(2,875)
Other comprehensive income / (expense) for the period / year	17,686	187	(2,875)
Total comprehensive (expense) / income for the period / year	(57,080)	17,622	31,074
Attributable to:			
Equity holders of the Parent	(57,023)	18,289	31,786
Non-controlling interest	(57)	(667)	(712)
Total comprehensive (expense) / income for the period / year	(57,080)	17,622	31,074

Condensed Consolidated Balance Sheet

	Note	31 October 2012 (Unaudited) £'000	31 October 2011 (Unaudited) £'000	30 April 2012 (Audited) £'000
Non-current assets				
Property, plant and equipment	8	28,782	31,663	33,701
Goodwill and other intangibles	9	46,928	119,637	132,389
Investments		7,116	2,405	6,190
Available-for-sale financial assets	10	18,950	2,115	2,115
Deferred tax asset		2,537	1,008	-
		104,313	156,828	174,395
Current assets				
Trade and other receivables		21,452	28,337	29,551
Assets held for sale	15	29,719	-	-
Cash and cash equivalents	11	117,852	143,201	135,408
		169,023	171,538	164,959
Total assets		273,336	328,366	339,354
Current liabilities				
Trade and other payables		97,262	95,035	118,460
Tax payable		20,971	20,442	22,872
Liabilities directly associated with assets classified as held for sale	15	20,828	-	-
		139,061	115,477	141,332
Non-current liabilities				
Deferred tax liabilities		-	-	1,955
Total liabilities		139,061	115,477	143,287
Net assets		134,275	212,889	196,067
Share capital	12	103	105	102
Share premium		13,127	11,132	11,996
Other reserves		5,013	(6,176)	(9,324)
Retained earnings		115,807	204,817	193,293
Equity attributable to equity holders of the Parent		134,050	209,878	196,067
Non-controlling interest		225	3,011	-
Total equity		134,275	212,889	196,067

Condensed Consolidated Statement of Changes in Equity For the six month period ended 31 October 2012

Attributable to equity holders of the Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total parent equity £'000	Non- controlling interest £'000	Total equity £'000
Balance at 1 May 2012	102	11,996	976	(10,300)	193,293	196,067	-	196,067
Total comprehensive income for the period								
Loss for the period	-	-	-	-	(74,709)	(74,709)	(57)	(74,766)
Other comprehensive income								
Available for sale investments gain arising during the period	-	-	16,835	-	-	16,835	-	16,835
Foreign exchange differences	-	-	(6)	(1,970)	2,827	851	-	851
Other comprehensive income	-	-	16,829	(1,970)	2,827	17,686	-	17,686
Total comprehensive loss for the period	-	-	16,829	(1,970)	(71,882)	(57,023)	(57)	(57,080)
Transactions with owners, recorded directly in equity								
Distributions to owners								
Issue of shares	1	1,131	-	-	-	1,132	-	1,132
Equity-settled share-based payments	-	-	-	-	4,661	4,661	-	4,661
Purchase of own shares by EBT*	-	-	-	-	(3,173)	(3,173)	-	(3,173)
Dividend paid	-	-	-	-	(7,092)	(7,092)	-	(7,092)
Tax on equity-settled share-based payments	-	-	(522)	-	-	(522)	-	(522)
Total transactions with owners	1	1,131	(522)	-	(5,604)	(4,994)	-	(4,994)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Issue of shares by subsidiary to non-controlling interest	-	-	-	-	-	-	282	282
Total changes in ownership interests in subsidiaries	-	-	-	-	-	-	282	282
Balance at 31 October 2012	103	13,127	17,283	(12,270)	115,807	134,050	225	134,275

* The Group's Employee Benefit Trust is defined as EBT.

Condensed Consolidated Statement of Changes in Equity For the six month period ended 31 October 2011

Attributable to equity holders of the Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total parent equity £'000	Non- controlling interest £'000	Total equity £'000
Balance at 1 May 2011	108	10,694	1,569	(7,543)	207,058	211,886	3,678	215,564
Total comprehensive income for the period								
Profit / (loss) for the period	-	-	-	-	18,102	18,102	(667)	17,435
Other comprehensive income								
Foreign exchange differences	-	-	-	522	(335)	187	-	187
Other comprehensive income	-	-	-	522	(335)	187	-	187
Total comprehensive income for the period	-	-	-	522	17,767	18,289	(667)	17,622
Transactions with owners, recorded directly in equity								
Distributions to owners								
Issue of shares	1	438	-	-	-	439	-	439
Equity-settled share-based payments	-	-	-	-	3,593	3,593	-	3,593
Purchase of own shares	(4)	-	4	-	(18,379)	(18,379)	-	(18,379)
Sale of own shares by the EBT*	-	-	-	-	1,010	1,010	-	1,010
Dividend paid	-	-	-	-	(6,232)	(6,232)	-	(6,232)
Tax on equity-settled share-based payments	-	-	(728)	-	-	(728)	-	(728)
Total transactions with owners	(3)	438	(724)	-	(20,008)	(20,297)	-	(20,297)
Balance at 31 October 2011	105	11,132	845	(7,021)	204,817	209,878	3,011	212,889

* The Group's Employee Benefit Trust is defined as EBT

Condensed Consolidated Statement of Changes in Equity For the year ended 30 April 2012

Attributable to equity holders of the Company

	Share capital £'000	Share premium £'000	Other reserves £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total parent equity £'000	Non- controlling interest £'000	Total equity £'000
Balance at 1 May 2011	108	10,694	1,569	(7,543)	207,058	211,886	3,678	215,564
Total comprehensive income for the year								
Profit for the year	-	-	-	-	34,661	34,661	(712)	33,949
Other comprehensive income								
Foreign exchange differences	-	-	-	(2,757)	(118)	(2,875)	-	(2,875)
Other comprehensive expense	-	-	-	(2,757)	(118)	(2,875)	-	(2,875)
Total comprehensive income for the year	-	-	-	(2,757)	34,543	31,786	(712)	31,074
Transactions with owners, recorded directly in equity								
Distributions to owners								
Issue of shares	1	1,302	-	-	-	1,303	-	1,303
Cancellation of shares	(7)	-	7	-	-	-	-	-
Dividend paid	-	-	-	-	(9,561)	(9,561)	-	(9,561)
Equity-settled share-based payments	-	-	-	-	7,613	7,613	-	7,613
Purchase of own shares	-	-	-	-	(50,216)	(50,216)	-	(50,216)
Purchase of own shares by EBT*	-	-	-	-	(120)	(120)	-	(120)
Sale of own shares by the EBT*	-	-	-	-	1,010	1,010	-	1,010
Deferred tax on equity-settled share-based payments	-	-	(600)	-	-	(600)	-	(600)
Total transactions with owners	(6)	1,302	(593)	-	(51,274)	(50,571)	-	(50,571)
Changes of ownership interests in subsidiaries that do not result in a loss of control								
Acquisition of non-controlling interest without a change in control	-	-	-	-	2,966	2,966	(2,966)	-
Total changes in ownership interest in subsidiaries	-	-	-	-	2,966	2,966	(2,966)	-
Balance at 30 April 2012	102	11,996	976	(10,300)	193,293	196,067	-	196,067

* The Group's Employee Benefit Trust is defined as EBT.

Condensed Consolidated Cash Flow Statement

	Six months ended 31 October 2012 (Unaudited)	Six months ended 31 October 2011 (Unaudited)	Year ended 30 April 2012 (Audited)
Note	£'000	£'000	£'000
Cash flows from operating activities			
(Loss) / profit for the period / year	(74,766)	17,435	33,949
<i>Adjustments for:</i>			
Depreciation and amortisation	24,878	19,266	41,206
Loss on disposal of property, plant and equipment	-	-	33
Equity settled share-based payments and associated costs	13 5,007	3,829	8,051
Impairment loss recognised in respect of goodwill and other assets	88,657	-	-
Share of profit of equity accounted investments	(904)	(417)	(4,292)
Net finance (income) / expense	5, 15 64	(1,150)	(3,344)
Tax	(3,907)	3,415	7,619
Increase in trade and other receivables	(1,033)	(7,162)	(8,421)
(Decrease) / increase in trade and other payables	(947)	4,884	26,087
Cash generated from operations	37,049	40,100	100,888
Tax paid	(3,031)	(5,815)	(4,499)
Net cash from operating activities	34,018	34,285	96,389
Cash flows from investing activities			
Acquisition of property, plant and equipment	8 (5,487)	(5,652)	(14,357)
Proceeds from sale of property, plant and equipment	-	-	19
Acquisition of external other intangible assets	9 (3,081)	(4,531)	(15,366)
Capitalised internal development expenditure	9 (14,109)	(13,282)	(29,353)
Cash injection in jointly controlled entities	-	(85)	(85)
Finance income received	422	620	1,330
Net cash used in investing activities	(22,255)	(22,930)	(57,812)
Cash flows from financing activities			
Proceeds from the issue of share capital	1,132	439	1,303
Purchase and cancellation of own shares	-	(18,379)	(50,216)
Purchase of own shares by the EBT	(3,173)	-	(120)
Sale of own shares by the EBT	-	1,010	1,010
Dividends paid	(7,092)	(6,232)	(9,561)
Net cash used in financing activities	(9,133)	(23,162)	(57,584)
Net increase / (decrease) in cash and cash equivalents	2,630	(11,807)	(19,007)
Cash and cash equivalents at the beginning of the period / year	135,408	155,038	155,038
Reclassification of cash as held-for-sale	15 (20,538)	-	-
Effect on exchange rate fluctuations on cash held	352	(30)	(623)
Cash and cash equivalents at period / year end	11 117,852	143,201	135,408

1 Accounting policies

Reporting entity

Betfair Group plc (the 'Company') is a company incorporated and domiciled in the UK.

The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 October 2012 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities. The Group is involved in the provision of betting services and online gaming products.

The audited consolidated financial statements of the Group as at and for the year ended 30 April 2012 are available upon request from the Company's registered office at Waterfront, Hammersmith Embankment, Chancellors Road, London W6 9HP.

The condensed consolidated interim financial statements for the six months ended 31 October 2012 are unaudited and do not constitute statutory accounts, but have been reviewed by the auditors and their report is on page 40 of this statement.

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed and adopted for use in the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all the statements required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 April 2012.

The comparative figures for the financial year ended 30 April 2012 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters in which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The condensed consolidated interim financial statements were approved by the Board of Directors on 13 December 2012.

Basis of preparation

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following:

- financial instruments classified as available for sale are measured at fair value.

Going concern

The Group has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore they continue to adopt the going concern basis in the condensed consolidated interim financial statements.

Basis of consolidation

The condensed consolidated interim financial statements incorporate the net assets and results of the Company and entities controlled by the Company (its subsidiaries) made up to the period and year end presented. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the net assets and results of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the condensed consolidated interim financial statements (continued)

1 Accounting policies (continued)

Basis of consolidation (continued)

Business combinations

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to income statement in the period of acquisition.

Significant accounting policies

These condensed consolidated interim financial statements are unaudited and have been prepared on the basis of accounting policies consistent with those applied in the consolidated financial statements for the year ended 30 April 2012.

Except as described below, the significant accounting policies applied are consistent with those of the annual financial statements for the year ended 30 April 2012.

Held for sale and discontinued operations

Disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. In order to qualify as held for sale, management must be committed to the sale which should be expected to be completed within one year from the date of classification.

When the criteria described above are met, all of the assets and liabilities of that subsidiary are classified as held for sale regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Results in relation to discontinued operations are disclosed as a single amount on the face of the consolidated income statement comprising the total post-tax loss of the subsidiary classified as held for sale. The comparative periods in the income statement are restated in the same way.

Restructuring costs

A restructuring cost is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation to those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a restructuring cost includes only the direct expenditure arising from the restructuring, which are those amounts that are both necessarily incurred by the restructuring and not associated with the ongoing activities of the entity.

Reclassification of equity-settled share-based payments

Underlying EBITDA in the Consolidated Income Statement has historically been presented as EBITDA excluding separately disclosed items and equity-settled share-based payments. For the 6 month period ended 31 October 2012 charges relating to equity-settled share-based payments have been included within Underlying EBITDA and comparative periods have been amended accordingly.

If no reclassification was made, the Underlying EBITDA would be £47,257k for the six month period to 31 October 2012, £46,919k for the six month period to 31 October 2011 and £97,937k for the year ended 30 April 2012, respectively.

Other new standards and interpretations were adopted effective 1 May 2012 but had no material impact on the condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements (continued)

1 Accounting policies (continued)

Risks and uncertainties

The Board continuously assesses and monitors the key risks of the business. Despite the current uncertainty in the global economy, the key risks that could affect the Group's performance and the factors that mitigate those risks, have not significantly changed from those set out in the Group's annual report for 2012. Significant risk factors that could impact the business are summarised in Appendix 3 of this statement.

Accounting estimates and judgements

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 30 April 2012.

Notes to the condensed consolidated interim financial statements (continued)

2 Operating Segments

The Group's continuing operating businesses are organised and managed as reportable business segments according to the information which is used by the Group's Chief Operating Decision Maker (CODM) by which financial information is regularly reviewed in making decisions about operating matters. These segments are:

- Core Betfair
 - Sports
 - Games
 - Poker
 - Management of customer funds
- Other investments
 - Betfair US
- High rollers

Sports consists of the Exchange sports betting product, which offers markets on Racing, Football and Sports and Specials (SAS), plus Multiples, Tote, Timeform and Sportsbook. Games consists of various casino products and bespoke exchange games products. All of these gaming activities (and Poker) are played by customers in a number of geographical areas.

Sports and Games meet the quantitative thresholds required by IFRS 8 as reportable segments. Although Poker and revenue from the management of customer funds do not meet these requirements, the Board has concluded that these segments should be separately disclosed as they are closely monitored by the CODM.

The Group's US operations (including the TVG Network) meet the quantitative threshold to be disclosed separately.

Following the decision to dispose of the Group's subsidiary LMAX Limited's operations in October 2012 and therefore treat these operations as discontinued, the segmental information disclosed previously has been amended to remove the results from the disposal group classified as held for sale (see note 15). Tradefair Spreads Limited's operation which was previously reported under the LMAX segment and which is part of the Group's continuing operations is now reported as part of the Core reporting segment.

The results of the Australian joint venture are consolidated in the Group accounts on an equity accounting basis. As such only the net assets and the share of gains and losses are presented in the operating segment note below. If proportional consolidation was applied the Group's share of the Australian joint venture would have increased revenue by £8.6 million (six month period ended 31 October 2011: £7.7 million; year ended 30 April 2012: £16 million) and increased EBITDA by £1.1 million (six month period ended 31 October 2011: increased by £0.7 million; year ended 30 April 2012: increased by £4.9 million).

The revenue from Sports, Games, Poker and the management of customer funds represents the developed and integrated parts of the Group's business and has been grouped together as Core Betfair. Other investments represent relatively recent additions to the Group's business which the CODM considers to be in the early stages of development.

The Group focuses its internal management reporting predominantly on revenue, as the products' potential to generate revenue is the chief driver of the Group's business and the allocation of resources. The Group's cost base is to a large extent fixed in nature. Corporate expenses, assets and liabilities cannot readily be allocated to individual operating segments and are not used by the CODM for making operating and resource allocation decisions. However, expenses are allocated and reviewed by the CODM between Core Betfair, the operating segments grouped into Other investments (and High rollers in the prior years) and the analysis of EBITDA is summarised below.

Management also reviews Group revenue on a geographic basis, determined by the location of the customers when known. This information is analysed below on the following basis:

- UK
- Europe
- Rest of World
- Unallocated

Notes to the condensed consolidated interim financial statements (continued)

2 Operating Segments (continued)

Segmental information for the six months ended 31 October 2012, 31 October 2011 and the year ended 30 April 2012 for continuing operations is as follows:

Six months ended 31 October 2012 (unaudited)

	Sports £'000	Games** £'000	Poker £'000	Management of customer funds £'000	Core Betfair £'000	US £'000	Other investments £'000	Group £'000
Revenue	140,247	29,418	9,591	947	180,203	20,409	20,409	200,612
Underlying EBITDA*					40,811	1,439	1,439	42,250
Separately disclosed Items					(3,427)	(327)	(327)	(3,754)
EBITDA					37,384	1,112	1,112	38,496
Depreciation and amortisation								(22,745)
Impairment loss on assets								(80,553)
Net finance expense								(136)
Share of profit of equity accounted investments								904
Loss before tax								(64,034)
Tax								4,262
Loss for the period from discontinued operations								(14,994)
Loss after tax and discontinued operations								(74,766)
Total assets (**)								273,336
Total liabilities (**)								(139,061)

* Underlying EBITDA has historically been presented as EBITDA excluding separately disclosed items and equity-settled share-based payments. For the 6 months ended 31 October 2012 charges relating to equity-settled share-based payments have been included within Underlying EBITDA and comparative periods have been amended accordingly.

** Includes results from Tradefair Spreads Limited that was previously disclosed as LMAX and classified as other investments.

Notes to the condensed consolidated interim financial statements (continued)

2 Operating Segments (continued)

Six months ended 31 October 2011 (unaudited)

	Sports £'000	Games** £'000	Poker £'000	Management of customer funds £'000	Core Betfair £'000	US £'000	Other investments £'000	Group £'000
Revenue	129,802	30,100	10,779	1,760	172,441	18,729	18,729	191,170
Underlying EBITDA*					42,768	322	322	43,090
EBITDA					42,768	322	322	43,090
Depreciation and amortisation								(17,132)
Net finance income								1,133
Share of profit of equity accounted investments								417
Profit before tax								27,508
Tax								(3,415)
Loss for the period from discontinued operations								(6,658)
Profit after tax and discontinued operations								17,435
Total assets								328,366
Total liabilities								115,477

* Underlying EBITDA has historically been presented as EBITDA excluding separately disclosed items and equity-settled share-based payments. For the 6 months ended 31 October 2012 charges relating to equity-settled share-based payments have been included within Underlying EBITDA and comparative periods have been amended accordingly.

** The amount disclosed previously has been amended to remove the results from the disposal group classified as held for sale. See note 15 for a breakdown of this disposal group. The results relating to Tradefair Spreads Limited's operation which was previously reported under the LMAX segment and which is still part of the Group's continuing operations is shown within Games.

Notes to the condensed consolidated interim financial statements (continued)

2 Operating Segments (continued)

Year ended 30 April 2012 (audited)

	Sports Games**		Poker	Management of customer funds	Core Betfair	US	Other investments	High rollers	Group
	£'000	£'000							
Revenue	268,208	58,838	22,286	3,014	352,346	36,131	36,131	-	388,477
Underlying EBITDA*					86,903	(919)	(919)	3,902	89,886
Separately disclosed items					(6,395)	-	-	-	(6,395)
EBITDA					80,508	(919)	(919)	3,902	83,491
Depreciation and amortisation									(37,152)
Net finance income									3,579
Share of profit of equity accounted investments									4,292
Profit before tax									54,210
Tax									(7,619)
Loss for the period from discontinued operations									(12,642)
Profit after tax and discontinued operations									33,949
Total assets									339,354
Total liabilities									(143,287)

* Underlying EBITDA has historically been presented as EBITDA excluding separately disclosed items and equity-settled share-based payments. For the 6 months ended 31 October 2012 charges relating to equity-settled share-based payments have been included within Underlying EBITDA and comparative periods have been amended accordingly.

** The amount disclosed previously has been amended to remove the results from the disposal group classified as held for sale. See note 15 for a breakdown of this disposal group. The results relating to Tradefair Spreads Limited's operation which was previously reported under the LMAX segment and which is still part of the Group's continuing operations is shown within Games.

Notes to the condensed consolidated interim financial statements (continued)

2 Operating Segments (continued)

Geographical revenue determined by location of customers is set out below:

Six months ended 31 October 2012 (unaudited)	UK** £'000	Europe £'000	Rest of World £'000	Unallocated* £'000	Group £'000
Core Betfair	107,846	59,741	11,669	947	180,203
Other Investments	-	-	20,409	-	20,409
Total Group	107,846	59,741	32,078	947	200,612
Six months ended 31 October 2011 (unaudited)	UK** £'000	Europe £'000	Rest of World £'000	Unallocated* £'000	Group £'000
Core Betfair	97,088	64,590	9,003	1,760	172,441
Other Investments	-	-	18,729	-	18,729
Total Group	97,088	64,590	27,732	1,760	191,170
Year ended 30 April 2012 (audited)	UK** £'000	Europe £'000	Rest of World £'000	Unallocated* £'000	Group £'000
Core Betfair	196,862	133,682	18,788	3,014	352,346
Other Investments	-	-	36,131	-	36,131
Total Group	196,862	133,682	54,919	3,014	388,477

* Unallocated represents revenue from the management of customer funds.

** Revenue derived from customers located in Ireland has been reclassified from Europe to UK for the six months ended 31 October 2012. The prior year comparatives have been amended to reflect this reclassification.

3 Separately disclosed items

	Six months ended 31 October 2012 (Unaudited) £'000	Six months ended 31 October 2011 (Unaudited) £'000	Year ended 30 April 2012 (Audited) £'000
Regulatory developments	-	-	6,395
Restructuring costs	3,754	-	-
	3,754	-	6,395

During the period ended 31 October 2012, the Group has incurred costs of £3.8m, which relate to its on-going restructuring and cost optimisation initiatives. For the year ended 30 April 2012, separately disclosed items comprise a one-off expense relating to Spanish gaming tax and other costs relating to the Group's Spanish operations in prior periods. During the period ended 31 October 2012, separately disclosed items have been recorded within administrative expenses (during the year ended 30 April 2012, separately disclosed items have been recorded within cost of sales).

Notes to the condensed consolidated interim financial statements (continued)

4 Impairment of goodwill and other intangible assets

	Six months ended 31 October 2012 (Unaudited) £'000	Six months ended 31 October 2011 (Unaudited) £'000	Year ended 30 April 2012 (Audited) £'000
Impairment recognised of goodwill and other intangible assets	80,553	-	-
	80,553	-	-

As at 31 October 2012, following the announcement of the Group's strategic priorities, management has undertaken a review of the carrying value of all intangible assets, including goodwill and capitalised development expenditure. As a result of this review, an impairment charge of £80.6 million has been recorded in the income statement (see note 9).

5 Finance income and expense

	Six months ended 31 October 2012 (Unaudited) £'000	Six months ended 31 October 2011 (Unaudited) £'000	Year ended 30 April 2012 (Audited) £'000
Finance income			
Bank interest receivable	421	630	1,219
Net foreign exchange gain	-	503	2,360
	421	1,133	3,579

Notes to the condensed consolidated interim financial statements (continued)

5 Finance income and expense (continued)

	Six months ended 31 October 2012 (Unaudited) £'000	Six months ended 31 October 2011 (Unaudited) £'000	Year ended 30 April 2012 (Audited) £'000
Finance expense			
Interest expense	3	-	-
Net foreign exchange loss	554	-	-
	557	-	-

The net foreign exchange amount mainly relates to unrealised gains and losses resulting from the re-translation of intercompany trading balances.

6 Tax

Income tax is recognised based on management's best estimate of the underlying effective income tax rate for the full financial year and this income tax rate is then applied to the underlying profit before tax of the six month period.

In the period to 31 October 2012 the Group's underlying estimated effective rate is 16.0% (six month period ended 31 October 2011: 16.4%; year ended 30 April 2012: 16.2%). The actual income tax on separately disclosed items is considered separately and included to arrive at the Group's consolidated income tax credit.

The Group's consolidated effective tax rate for the period was 5.0% based on a tax credit of £3.9 million on a Group consolidated loss before tax of £78.7 million (six month period ended 31 October 2011: 16.4%; year ended 30 April 2012: 18.3%). This is lower than the underlying estimated effective rate primarily due to Goodwill impairments for which no tax deduction is available.

The income tax expense for continuing operations for the six month period ended 31 October 2012 is a credit of £4.3 million (six months ended 31 October 2011: charge of £3.4 million; the year ended 30 April 2012: charge of £7.6 million).

With effect from 1 April 2013, the UK Statutory rate of Corporation tax will be reduced to 23%. This has resulted in a blended standard statutory rate of 23.9% in the year ending 30 April 2013, and will be incorporated into the effective tax rate calculation.

Notes to the condensed consolidated interim financial statements (continued)

7 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six month period ended 31 October 2012 was based on the loss attributable to ordinary shareholders of £74.7 million (six month period ended 31 October 2011: £18.1 million and the year ended 30 April 2012: £34.7 million) and a weighted average number of ordinary shares outstanding of 101,331,971 (six months ended 31 October 2011: 105,700,154 and year ended 30 April 2012: 104,569,704), calculated as follows:

	Six months ended 31 October 2012 (Unaudited)	Six months ended 31 October 2011 (Unaudited)	Year ended 30 April 2012 (Audited)
(Loss) / profit for the period / year (£'000)	(74,709)	18,102	34,661
Weighted average number of shares	101,331,971	105,700,154	104,569,704
Basic earnings per share (*)	(73.7)p	17.1p	33.1p
Diluted earnings per share (*)	<u>-</u>	<u>16.9p</u>	<u>32.5p</u>

(*) The earnings per share calculations include the results of the discontinued operations.

Please see page 15 for the separately disclosed basic and diluted earnings per share for the continuing operations of the Group.

Diluted earnings per share

The calculation of diluted earnings per share for the six month period ended 31 October 2012 was based on the loss attributable to ordinary shareholders of £74.7 million for the six months ended 31 October 2012 (six months ended 31 October 2011: £18.1 million and the year ended 30 April 2012: £34.7 million) and a weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 103,527,925 (31 October 2011: 106,900,666 and 30 April 2012: 106,780,109), calculated as follows:

Profit used for diluted earnings per share

	Six months ended 31 October 2012 (Unaudited) £'000	Six months ended 31 October 2011 (Unaudited) £'000	Year ended 30 April 2012 (Audited) £'000
(Loss) / profit for the period / year used to determine diluted earnings per share	<u>(74,709)</u>	<u>18,102</u>	<u>34,661</u>

As any potential ordinary shares would have the effect of decreasing the loss per share, they have not been treated as dilutive; hence diluted earnings per share have not been disclosed.

Weighted average number of shares (diluted)

	Six months ended 31 October 2012 (Unaudited)	Six months ended 31 October 2011 (Unaudited)	Year ended 30 April 2012 (Audited)
Weighted average number of ordinary shares (basic)	101,331,971	105,700,154	104,569,704
Effect of share options on issue	<u>2,195,954</u>	<u>1,200,512</u>	<u>2,210,405</u>
Weighted average number of ordinary shares (diluted)	<u>103,527,925</u>	<u>106,900,666</u>	<u>106,780,109</u>

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on the market value (31 October 2011 and 30 April 2012: market value) of the Company's shares for the period that the options were outstanding.

Notes to the condensed consolidated interim financial statements (continued)

8 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer equipment £'000	Fixtures and fittings £'000	Vehicles, plant and equipment £'000	Total £'000
Cost						
Balance at 1 May 2011	750	13,671	80,393	6,911	710	102,435
Acquisitions	-	4,176	10,716	1,734	303	16,929
Disposals	-	(4,850)	(986)	(422)	(311)	(6,569)
Foreign exchange differences	-	35	14	54	-	103
Balance at 30 April 2012	750	13,032	90,137	8,277	702	112,898
Acquisitions	-	2,268	2,749	470	-	5,487
Disposals	-	(838)	(38)	(93)	(189)	(1,158)
Reclassification as assets held for sale (*)	-	(422)	(4,436)	(77)	-	(4,935)
Foreign exchange differences	-	15	45	42	-	102
Balance at 31 October 2012	750	14,055	88,457	8,619	513	112,394
Depreciation and impairment						
Balance at 1 May 2011	67	8,120	57,839	3,126	426	69,578
Depreciation for the year	15	2,035	12,633	1,363	187	16,233
Disposals	-	(4,850)	(984)	(408)	(290)	(6,532)
Foreign exchange differences	-	27	(147)	41	(3)	(82)
Balance at 30 April 2012	82	5,332	69,341	4,122	320	79,197
Depreciation for the period	8	1,306	6,220	939	102	8,575
Impairment (*)	-	88	1,521	41	-	1,650
Disposals	-	(772)	(16)	(72)	(122)	(982)
Reclassification as assets held for sale (*)	-	(422)	(4,436)	(77)	-	(4,935)
Foreign exchange differences	-	13	59	35	-	107
Balance at 31 October 2012	90	5,545	72,689	4,988	300	83,612
Net book value						
At 30 April 2012 (Audited)	668	7,700	20,796	4,155	382	33,701
At 31 October 2012 (Unaudited)	660	8,510	15,768	3,631	213	28,782

In the six month period ended 31 October 2011, the Group acquired assets amounting to £6.5 million and there were disposals of assets with net book value of Nil. Depreciation for the six month period ended 31 October 2011 amounted to £7.6 million.

(*) In the six month period ended 31 October 2012, additions totalling £1.3m and depreciation totalling £0.3m was recognised in respect of the disposal group (see note 15). The impairment relates solely to the assets classified as held for sale.

Notes to the condensed consolidated interim financial statements (continued)

9 Goodwill and other intangibles

	Goodwill £'000	Computer software £'000	Licences £'000	Development expenditure £'000	Brand £'000	Customer lists £'000	Broadcasting and wagering technologies £'000	Total £'000
Cost								
Balance at 1 May 2011	53,455	21,696	1,687	74,177	1,913	3,787	864	157,579
Acquisitions through business combinations	216	-	-	-	-	-	-	216
Acquisitions – internally developed	-	-	-	29,353	-	-	-	29,353
Acquisitions – externally purchased	-	9,533	-	7,019	-	-	-	16,552
Disposals	-	(167)	-	-	-	-	-	(167)
Foreign exchange differences	407	(48)	(75)	(55)	47	93	23	392
Balance at 30 April 2012	54,078	31,014	1,612	110,494	1,960	3,880	887	203,925
Acquisitions – internally developed	-	-	-	14,109	-	-	-	14,109
Acquisitions – externally purchased	-	2,043	-	1,038	-	-	-	3,081
Disposals	-	-	-	-	-	-	-	-
Foreign exchange differences	341	(2)	-	(2)	26	52	10	425
Balance at 31 October 2012	54,419	33,055	1,612	125,639	1,986	3,932	897	221,540
Amortisation and impairment								
Balance at 1 May 2011	-	8,514	1,297	32,235	1,913	2,130	622	46,711
Amortisation for the year	-	6,874	126	16,915	-	990	68	24,973
Disposals	-	(155)	-	-	-	-	-	(155)
Foreign exchange differences	-	(8)	(75)	(1)	47	33	11	7
Balance at 30 April 2012	-	15,225	1,348	49,149	1,960	3,153	701	71,536
Amortisation for the period	-	4,066	62	11,655	-	486	34	16,303
Impairment	34,615	5,113	-	47,006	-	-	-	86,734
Disposals	-	-	-	-	-	-	-	-
Foreign exchange differences	-	(38)	-	-	26	39	12	39
Balance at 31 October 2012	34,615	24,366	1,410	107,810	1,986	3,678	747	174,612
Net book value								
At 30 April 2012 (Audited)	54,078	15,789	264	61,345	-	727	186	132,389
At 31 October 2012 (Unaudited)	19,804	8,689	202	17,829	-	254	150	46,928

Goodwill relates to the excess of consideration over the fair value of net assets acquired in relation to various historic acquisitions.

All goodwill is recorded in local currency. Additions during the year are converted at the exchange rate on the date of the transaction and the goodwill at the end of the year is stated at closing exchange rates.

Computer software expenditure represents software licences which have been purchased from an external supplier. Licences represent bookmaking licences held by the Group.

Development expenditure represents project costs that have been developed and generated internally and externally. These costs have been capitalised in accordance with the requirements of IAS 38.

Other intangibles represents assets purchased as part of the TVG Network acquisition, being brand, customer lists and broadcasting and wagering technologies. These are amortised over their estimated useful economic lives which fall between 2 – 6 years.

In the six month period ended 31 October 2011, the Group acquired intangible assets amounting to £19.4 million. There were no disposals. Amortisation for the six month period ended 31 October 2011 amounted to £11.7 million.

Notes to the condensed consolidated interim financial statements (continued)

9 Goodwill and other intangibles (continued)

In the six month period ended 31 October 2012, the Group capitalised development expenditure amounting to £1.5 million and incurred amortisation of £1.9 million in respect of the disposal group. The carrying value as at 31 October 2012 of £6.2 million was written down to Nil (see note 15).

Impairment

Goodwill

Impairment charges of £34.6 million have been recorded in the half year ended 31 October 2012 (2011: £nil). In the prior periods, goodwill has been allocated to the following CGU's in line with Group's segmental reporting:

- Sports
- Games
- Poker
- TVG

As part of the on-going strategic review referred to in the Financial Review and changes to the future reporting structure of the Groups operations, it is considered appropriate to monitor the business at a more granular level and goodwill has been allocated to CGU's on this basis. In line with this approach, subsequent impairments of £21.0 million have been recognised in respect of past acquisitions.

Following recent regulatory developments in the US, management undertook a strategic review of the US market and TVG's position within that market. As a result of this review, the recoverable amount of the TVG CGU is deemed to be below its previously carrying value by an amount of £13.6m. The key changes to assumptions since the previous impairment test relate to an anticipated reduction in operating margins and future growth rates.

Development expenditure and software

As part of the on-going strategic review, management has also performed a detailed review of the carrying value of capitalised development costs. Those projects which are no longer in use as part of the sustainable revenues strategy have been impaired resulting in a charge to the consolidated income statement of £47.0 million. This charge includes the impairment of the development costs incurred in building the US Exchange (£10.4 million) and the LMAX Exchange (£6.2 million). The charge in respect of LMAX has been included within the loss from discontinued operations as a result of the LMAX sale agreed subsequent to the balance sheet date (see note 15). Following a review of the carrying value of the Group's software assets, an impairment charge of £5.1 million has been recorded.

Notes to the condensed consolidated interim financial statements (continued)

10 Available-for-sale financial asset

	31 October 2012 (Unaudited) £'000	31 October 2011 (Unaudited) £'000	30 April 2012 (Audited) £'000
Available-for-sale financial asset	<u>18,950</u>	<u>2,115</u>	<u>2,115</u>

At 31 October 2012, 1 May 2012 and 31 October 2011, the available-for-sale financial assets principally comprise the Group's 11.1% (fully diluted holdings of 8.8%) non-controlling interest in Kabam Inc. (31 October 2012: £18.8 million (*), 31 October 2011 and 30 April 2012: £2.0 million).

(*) Subsequent to the balance sheet date, on 20 November 2012 the Group sold its shares held in Kabam for \$30 million. The carrying value of the available-for-sale investment has accordingly been increased to its fair value of £18.8m as at 31 October 2012 with a corresponding gain being recognised in Other Comprehensive Income (see page 15). The gain in the comprehensive income statement will then be reclassified as realised profit in the income statement in the subsequent period and as of the date of actual sale transaction.

11 Cash and cash equivalents

	31 October 2012 (Unaudited) £'000	31 October 2011 (Unaudited) £'000	30 April 2012 (Audited) £'000
Cash and cash equivalents	<u>117,852</u>	<u>143,201</u>	<u>135,408</u>

The above includes restricted cash of £8.0 million (31 October 2011: £8.0 million and 30 April 2012: £8.0 million) relating to the Group's financial guarantees.

As at 31 October 2012 £291.2 million (31 October 2011: £282.0 million and 30 April 2012: £288.3 million) was held on trust in The Sporting Exchange (Clients) Limited on behalf of the Group's core business customers and is equal to the amounts deposited into customer accounts. The ring fenced customer funds, which are held in trust, are held off balance sheet.

Notes to the condensed consolidated interim financial statements (continued)

12 Equity

Share capital

	Ordinary shares		
	31 October 2012 (Unaudited) No.	31 October 2011 (Unaudited) No.	30 April 2012 (Audited) No.
As at 1 May	102,328,826	107,904,239	107,904,239
Issued by the Group in relation to:			
Exercised share options and restricted shares	400,349	351,393	921,983
Exercised SAYE options	-	-	8,613
Shares cancelled	-	(2,815,343)	(6,506,009)
	102,729,175	105,440,289	102,328,826
Total fully paid, ordinary shares of £0.001 each	31 October 2012 (Unaudited) £'000	31 October 2011 (Unaudited) £'000	30 April 2012 (Audited) £'000
<i>Authorised</i> 200,000,000 ordinary shares of £0.001 each (31 October 2011 and 30 April 2012: 200,000,000)	200	200	200

13 Share-based payments

The Group had the following share-based payment schemes in operation as at 31 October 2012:

- Share option plans
- Save-As-You-Earn scheme
- Restricted shares scheme
- Long term incentive plan (LTIP), Short term incentive plan (STIP) and Management incentive plan (MIP)
- Long term Senior Executives' Incentive Plan
- Stakeholder award scheme

The total expense recognised in respect of these schemes for the six month period ended 31 October 2012 was £5.0 million (six month period ended 31 October 2011: £3.8 million and year ended 30 April 2012: £8.1 million). All the above schemes are treated as equity-settled share-based transactions except for the stakeholder award scheme, the short term incentive plan and the management incentive plan which have an element of cash rewards which can only be settled in cash.

Employer's National Insurance costs have been included which total £0.4 million (six month period ended 31 October 2011: £0.2 million and year ended 30 April 2012: £1.0 million).

During the six months ended 31 October 2012, the Group granted 574,502 (six month period ended 31 October 2011: 303,956 and year ended 30 April 2012: 1,400,415) share options under the share-based payments schemes.

Notes to the condensed consolidated interim financial statements (continued)

14 Related parties

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Betfair Pty Limited

During the period the Group recharged the Australian joint venture, Betfair Pty Limited, the following costs:

- Operational costs amounting to £0.6 million (31 October 2011: £1.1 million and 30 April 2012: £0.9 million)

During the period the Australian joint venture recharged the Group the following costs:

- Salary costs amounting to £0.2 million (31 October 2011: £0.3 million and 30 April 2012: £0.5 million)
- Operational costs amounting to £0.7 million (31 October 2011: £1.3 million and 30 April 2012: £2.0 million)

The outstanding balance as at 31 October 2012 of loans receivable from the Australian joint venture is £7.5 million (31 October 2011: £7.8 million and 30 April 2012: £7.5 million). The loans are not interest bearing.

In addition to the recharges detailed above, the Group collects revenue on behalf of the joint venture and to a lesser extent the Australian joint venture collects revenue on behalf of the Group.

As at 31 October 2012, the Group owed £3.4 million (31 October 2011: £2.6 million and 30 April 2012: £3.0 million) to the Australian joint venture.

Featurespace Limited

During the period, the Group was charged £0.2 million (31 October 2011: £0.2 million and 30 April 2012: £0.5 million) for consultancy services by Featurespace Limited in which the Group has a non-controlling interest.

LMAX Group

During the period, the Group recharged LMAX Limited operating and administrative costs amounting to £0.4 million (31 October 2011: £0.4 million, 30 April 2012: £1.9 million). LMAX Limited recharged the Group such costs amounting to £0.2 million (31 October 2011: £0.3 million, 30 April 2012: £0.3 million).

Transactions with key management personnel

Key management personnel compensation, excluding the Group's Directors, is shown in the table below:

	Six months ended 31 October 2012 (Unaudited) £000	Six months ended 31 October 2011 (Unaudited) £000	Year ended 30 April 2012 (Audited) £000
Short-term benefits	1,569	1,179	2,509
Share-based payment expense	1,237	972	2,197
Total	<u>2,806</u>	<u>2,151</u>	<u>4,706</u>

Notes to the condensed consolidated interim financial statements (continued)

15 Discontinued Operations

In October 2012, the board resolved to dispose of the Group's subsidiary LMAX Limited's operations and negotiations have subsequently taken place. These operations which are expected to be sold within 12 months have been classified as a disposal group held for sale and presented separately in the balance sheet and income statement.

After the balance sheet date, on 12 December 2012 the Group entered into a sale and purchase agreement for the sale of 67% of the shares of LMAX Limited for £2.4m. The transaction is subject to FSA approval. Based on the signed agreement, an additional loss on disposal will be incurred as of the date of completion which is expected to be in the second half of the financial year. It is intended that the Group will not have a significant influence on the remaining investment and following completion, the investment will be classified as available for sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows (the disposal group comprised of assets of £29.7m less liabilities of £20.9m):

	31st October 2012 £000
Trade and other receivables	9,181
Cash and cash equivalents (*)	20,538
Trade and other payables (*)	(20,828)
Net assets of disposal group	8,891

(*) Cash and cash equivalents includes £18.1m of clients funds held and are matched by liabilities of an equal value in trade and other payables.

An impairment loss of £8.1m writing down the carrying amount of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been included in the loss for the period from discontinued operations.

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	Six months ended 31 October 2012 (Unaudited) £'000	Six months ended 31 October 2011 (Unaudited) £'000	Year ended 30 April 2012 (Audited) £'000
Revenue	1,836	109	1,175
Cost of sales	(1,125)	(79)	(565)
Gross profit	711	30	610
Administrative expenses	(15,422)	(6,705)	(13,017)
Operating loss	(14,711)	(6,675)	(12,407)
EBITDA	(4,474)	(4,541)	(8,353)
Impairment loss recognised	(8,104)	-	-
Depreciation and amortisation	(2,133)	(2,134)	(4,054)
Operating loss	(14,711)	(6,675)	(12,407)
Net finance income / (expense)	72	17	(235)
Loss before tax	(14,639)	(6,658)	(12,642)
Tax	(355)	-	-
Loss for the period / year from discontinued operations	(14,994)	(6,658)	(12,642)

Notes to the condensed consolidated interim financial statements (continued)

15 Discontinued Operations (continued)

The cash flows of the discontinued operations were as follows:

	Six months ended 31 October 2012 (Unaudited) £000	Six months ended 31 October 2011 (Unaudited) £000	Year ended 30 April 2012 (Audited) £000
Net cash from operating activities	6,396	(1,428)	(2,280)
Net cash used in investing activities	<u>(2,741)</u>	<u>(1,499)</u>	<u>(2,925)</u>
Net increase / (decrease) in cash and cash equivalents	<u>3,655</u>	<u>(2,927)</u>	<u>(5,205)</u>

16 Dividends proposed and paid

The directors have approved an interim dividend of 4.0p per qualifying ordinary share (31 October 2011: 3.2p) to be paid on 25 January 2013. In line with the requirements of IAS 12 – 'Events after the Balance Sheet Date', this dividend has not been recognised within these interim results.

The final dividend for the year ended 30 April 2012 of 7.0p per qualifying ordinary share (£7.1m) was paid in the period ended 31 October 2012.

17 Subsequent Events

On 20 November 2012, the Group agreed to sell its 11.1% (fully diluted holdings of 8.8%) non-controlling interest in Kabam Inc. for \$30 million. The agreement is in line with the Group's revised strategy and the impact on this interim report has been discussed in note 10.

As stated in note 15, on 12 December 2012, the Group entered into a sale and purchase agreement for the sale of 67% of the shares of LMAX Limited for £2.4m. Based on the signed agreement, an additional loss on disposal will be incurred as of the date of completion and which is expected to be in the second half of the financial year. It is intended that the Group will not have a significant influence on the remaining investment and following completion, the investment will be classified as available for sale.

Independent review report to Betfair Group plc

Introduction

We have been engaged by the Company to review the attached condensed consolidated financial statements in the interim report for the six months ended 31 October 2012 which comprises the condensed consolidated interim income statement, condensed statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and the related explanatory notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the six months ended 31 October 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Mike Harper

for and on behalf of KPMG Audit Plc
Chartered Accountants
15 Canada Square
London E14 5GL
13 December 2012

Appendix 1: Glossary and definitions

“Active”	a customer of Betfair who has a bet settled or plays a real money game during a given period
“Underlying EBITDA”	Underlying EBITDA is EBITDA excluding separately disclosed items
“App”	application software, a piece of software which allows users to perform tasks through a pre-defined user interface
“ARPU”	average revenue per user, which is calculated for each product and geographic segment by dividing Net Gaming Revenue generated by Core Betfair (or by the indicated segment, operating segment or geographic region) by the number of Actives in the period for Core Betfair (or by the indicated segment, operating segment or geographic region)
“Betfair” or the “Company”	Betfair Group plc
“Betfair Australia”	Betfair Australia Pty Ltd, a joint venture which is 50% owned by Betfair and 50% by Crown Limited, together with its subsidiary undertakings
“Betfair US”	Betfair’s US operations, which comprise TSE US Holdings LLC and its subsidiaries including TVG
“Betting Exchange”	the Betfair betting exchange, which is based on the concepts and systems underpinning an order-based stock exchange model and which enables Betfair customers to bet at odds sought by themselves or offered by other customers instead of against a traditional bookmaker
“CFD”	contract for difference, being a contract between two parties stipulating that one party will pay to the other party the difference between the current value of an asset and its value at a future time
“Core Betfair”	Betfair’s segment comprising all Betfair’s activities except for Betfair US, LMAX and Betfair Australia
“EBITDA”	Earnings before interest, tax, impairment, depreciation and amortisation
“FY10” etc	Betfair’s financial year ending 30 April in a given year
“Games”	one of Core Betfair’s operating segments, comprising Betfair Casino, Exchange Games and Betfair Arcade
“Group” or “Betfair Group”	the Company and its consolidated subsidiaries and subsidiary undertakings
“handle”	The total amount of money wagered by customers
“H1, H2 etc”	The first or second half in Betfair’s financial years ended 30 April
“LMAX”	the London Multi-Asset Exchange Limited, previously a subsidiary of Betfair and classified as held-for-sale at the interim Balance Sheet date of 31 October 2012.
“High rollers”	Betfair’s segment which provided betting services to high roller customers during the first half of FY11
“KPIs”	Key Performance Indicators, such as ARPU and Actives
“Net Gaming Revenue”	the sum total of revenue generated by the Sports, Poker and Games operating segments for Core Betfair

Appendix 1: Glossary and definitions

"Q1, Q2" etc	The first or second quarter in Betfair's financial years ended 30 April
"Other Investments"	Betfair's segment comprising Betfair US
"Poker"	one of Core Betfair's operating segments comprising Betfair Poker
"Sports"	one of Core Betfair's operating segments comprising the Betting Exchange, Betfair Multiples, the Italian Sportsbook, Betfair Select and other sports betting products
"TVG"	ODS Technologies LP, a subsidiary undertaking of Betfair, together with its subsidiary undertakings

Appendix 2: Reconciliation of adjustments

Six months ended 31 October 2012					
Unaudited	Revenue £m	EBITDA £m	Operating (loss) / profit £m	(Loss) / profit before tax £m	(Loss) / profit after tax £m
Reported- Continuing and discontinued operations	202.4	34.0	(79.5)	(78.7)	(74.7)
Discontinued operations	(1.8)	4.5	14.7	14.7	15.0
Continuing operations	200.6	38.5	(64.8)	(64.0)	(59.7)
Adjustments for:					
- Separately disclosed items	-	3.8	3.8	3.8	3.8
- Impairment loss recognised in respect of goodwill and other intangible assets	-	-	80.6	80.6	80.6
-Net foreign exchange (gain)/loss	-	-	-	0.6	0.6
- Tax effect of adjustments	-	-	-	-	(7.7)
Underlying	200.6	42.3	19.6	21.0	17.6
Basic earnings per share (underlying)					17.4p
Diluted earnings per share (underlying)					17.0p
Six months ended 31 October 2011					
Unaudited	Revenue £m	EBITDA £m	Operating profit £m	Profit before tax £m	Profit after tax £m
Reported- Continuing and discontinued operations	191.3	38.5	19.3	20.8	18.1
Discontinued operations	(0.1)	4.5	6.7	6.7	6.7
Continuing operations	191.2	43.1	26.0	27.5	24.8
Adjustments for:					
-Net foreign exchange (gain)/loss				(0.5)	(0.5)
Tax effect of adjustments					0.3
Underlying	191.2	43.1	26.0	27.0	24.6
Basic earnings per share (underlying)					23.2p
Diluted earnings per share (underlying)					23.0p
Twelve months ended 30 April 2012					
Unaudited	Revenue £m	EBITDA £m	Operating profit £m	Profit before tax £m	Profit after tax £m
Reported- Continuing and discontinued operations	389.7	75.1	33.9	41.6	34.7
Discontinued operations	(1.2)	8.4	12.4	12.6	12.6
Continuing operations	388.5	83.5	46.3	54.2	47.3
Adjustments for:					
- Separately disclosed items	-	4.5	4.5	4.5	4.5
-Net foreign exchange (gain)/loss	-	-	-	(2.3)	(2.3)
-High rollers		(3.9)	(3.9)	(3.9)	(3.9)
- Tax effect of adjustments					1.9
Underlying	388.5	84.1	46.9	52.5	47.5
Basic earnings per share (underlying)					45.4p
Diluted earnings per share (underlying)					44.5p

Earnings per share are based on a weighted average number of shares in issue during the six month period/ twelve months period of 101,331,971 (October 2011: 105,700,154, April 2012: 104,569,704) (basic) and 103,527,925 (October 2011: 106,900,666, April 2012: 106,780,109) (diluted).

Appendix 3: Risks and uncertainties

The principal risks facing the Group, together with the Group's risk management process in relation to these risks, are unchanged from those set out on pages 36 and 37 of the Company's Annual Report dated 30 April 2012 (which is available for download at <http://corporate.betfair.com>) and relates to risks as follows:

Risks relating to the online betting and gaming industry

- The regulation and legality of online betting and gaming and varying enforcement
- The reaction of third party suppliers to the uncertainty regarding the legality of online betting and gaming
- Attempts by EU and Non-EU Member States to prevent online betting and gaming operators from providing services to customers within their territory
- Changes to online betting and gaming regulations or their interpretation by regulators
- Changes to the taxation of online betting and gaming or the imposition of other levies, duties or charges
- Betting and gaming licence compliance, renewal and revocation
- Clarification of online betting and gaming regulation may restrict Betfair or lead to increased competition
- Negative publicity about problem and underage betting and gaming and fraud and corruption in sport

Risks relating to the operations of Betfair

- Enhanced competition in Betfair's markets or the development of new technologies or products by Betfair's competitors
- The failure or disruption of Betfair's technology and advanced information systems
- Unauthorised and/or inappropriate access to customer data or other critical information assets
- Site outages and/or loss of customer connectivity
- Ability to attract, retain or motivate highly skilled employees
- Software error, unplanned functionality or disruption of Betfair's technology and advanced information systems
- The level of liquidity in the Betting Exchange
- Missed growth opportunities through ineffective marketing programmes and brand awareness
- Reliance on key customers
- Failure to protect/assert intellectual property rights
- Failure to adequately protect customer account information

Appendix 4: KPI's

Sports KPIs

Period	Q1	Q2	H1	Q1	Q2	H1
<i>Unaudited</i>	FY13	FY13	FY13	FY12	FY12	FY12
Sports KPIs						
- Actives ('000)	445	401	572	381	365	500
- ARPU (£)	162	170	245	157	192	260
- Net Gaming Revenue (£m)	72.3	68.0	140.2	59.8	70.0	129.8
- Non-risk sports (£m)	68.9	63.3	132.1	59.5	64.7	124.2
- Risk sports (£m)	3.4	4.7	8.2	0.3	5.2	5.5
Change						
- Actives	17%	10%	14%			
- ARPU	3%	(11%)	(6%)			
- Net Gaming Revenue	21%	(3%)	8%			
- Non-risk sports	16%	(2%)	6%			
- Risk sports	952%	(10%)	47%			

Games KPIs

Period	Q1	Q2	H1	Q1	Q2	H1
<i>Unaudited</i>	FY13	FY13	FY13	FY12	FY12	FY12
Games KPIs						
- Actives ('000)	93	79	136	86	77	129
- ARPU (£)	159	186	216	181	190	232
- Net Gaming Revenue (£m)	14.8	14.6	29.4	15.5	14.5	30.0
Change						
- Actives	9%	3%	5%			
- ARPU	(12%)	(2%)	(7%)			
- Net Gaming Revenue	(4%)	Flat	(2%)			

Poker KPIs

Period	Q1	Q2	H1	Q1	Q2	H1
<i>Unaudited</i>	FY13	FY13	FY13	FY12	FY12	FY12
Poker KPIs						
- Actives ('000)	61	53	85	63	63	93
- ARPU (£)	84	85	113	86	87	116
- Net Gaming Revenue (£m)	5.1	4.5	9.6	5.4	5.4	10.8
Change						
- Actives	(3%)	(16%)	(9%)			
- ARPU	(2%)	(2%)	(3%)			
- Net Gaming Revenue	(4%)	(18%)	(11%)			

Appendix 4: KPI's

Geographic KPIs

Period	Q1	Q2	H1	Q1	Q2	H1
<i>Unaudited</i>	FY13	FY13	FY13	FY12	FY12	FY12
Actives ('000)						
- UK*	283	251	348	258	233	322
- Europe	193	175	262	164	169	237
- Rest of World	12	14	19	10	12	16
Total	487	440	630	433	414	576
ARPU (£)						
- UK*	201	204	309	179	218	301
- Europe	155	170	228	182	205	272
- Rest of World	456	448	606	443	382	562
Total	189	198	285	186	217	296
Net Gaming Revenue (£m)						
- UK*	56.7	51.1	107.8	46.2	50.8	97.0
- Europe	30.0	29.8	59.7	29.9	34.7	64.6
- Rest of World	5.6	6.1	11.7	4.6	4.4	9.0
Total	92.2	87.0	179.3	80.7	89.9	170.6
Change in Actives						
- UK	9%	8%	8%			
- Europe	17%	3%	10%			
- Rest of World	18%	18%	20%			
Total	13%	6%	9%			
Change in ARPU						
- UK	12%	7%	3%			
- Europe	(15%)	(17%)	(16%)			
- Rest of World	3%	17%	8%			
Total	2%	(9%)	(4%)			
Change in Net Gaming Revenue						
- UK	23%	1%	11%			
- Europe	Flat	(14%)	(8%)			
- Rest of World	21%	39%	30%			
Total	14%	(3%)	5%			

* Note that the historical Q1 FY12 KPIs have been restated to reflect changes in our regional management structure. In both periods Ireland has been grouped with the UK rather than being included in Europe.