

# BETFAIR

## ANNUAL REVIEW 2010



# BETFAIR HIGHLIGHTS

## 2009-2010

### JULY 2009

- TVG announces headline sponsorship of the Breeders' Cup.

### AUGUST 2009

- Betfair becomes Official Betting Partner of Manchester United FC and FC Barcelona.

### DECEMBER 2009

- Betfair named 'UK Sports Betting Operator of the Year' at eGaming Review Awards.

### JANUARY 2010

- Anthony Nolan Trust becomes Betfair's Charity of the Year for 2010.

### FEBRUARY 2010

- Betfair awarded Carbon Standard Trust certification, highlighting its commitment to the environment.
- Hitwise names Betfair as the UK's busiest online betting site.

### APRIL 2010

- Number of registered customers at Betfair passes three million.

### MAY 2010

- Betfair becomes the first in the industry to have a betting application for the iPhone in the Apple® App Store<sup>SM</sup>.

### JULY 2010

- Betfair Poker announces move to Ogame poker network.
- Betfair becomes the first in the industry to have a betting application for the iPad in the Apple® App Store<sup>SM</sup>.

### AUGUST 2010

- Betfair's Cash 4 Clubs scheme awards its 100th grant to grassroots sports clubs in UK.

### SEPTEMBER 2010

- Betfair announces its intention to list on the London Stock Exchange.

### OCTOBER 2010

- Betfair becomes a Plc as its shares begin trading on the London Stock Exchange.
- LMAX launches its exchange platform for retail financial trading of contracts for difference (CFDs) and Foreign Exchange.

# CHAIRMAN'S STATEMENT

It is with great pride that I write, for the first time, as the Chairman of Betfair Group plc. The recent listing on the London Stock Exchange was a significant milestone in the life of your company and one which signals our intent to build upon a decade of sustained success.

During the last year we grew group revenues by 13%, to £341m, and delivered an adjusted EBITDA of £54m in 2010, despite a challenging economic environment. The success of these results was driven by our resilient business model and the competitive advantage offered by the core of our business, the betting exchange proposition.

Innovation and a focus on the customer remains at the heart of everything we do and is crucial to maintaining our leading position in the online gaming marketplace. In the past year, enhancements across our product range have ensured that we continue to offer our customers a unique, rich and diverse gaming experience. While the diversification of our product range is important, it is also significant that the appeal of our core product shows no signs of abating, with 84% of customers active on the Betting Exchange this year.

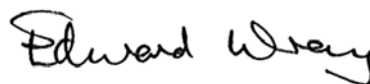
We have invested over 4.5 million man hours in the development of our platform over the past 10 years, and as a result we have a strong, stable and state-of-the-art platform on which to run the business. However, we are not resting there and continue to take significant steps towards improving its capabilities. The implementation of a technology re-architecture project, which began in the last calendar quarter of 2009, will give us the flexibility to react to the evolving regulatory landscape and deploy our business quickly into new territories in the future. Betfair is already a truly international business, and with over 50% of our Group revenues now coming from outside of the UK, the anticipated benefits of this investment in our technology are clear.

We remain very focused on regulatory developments around the world. In the US, our ownership of the TVG business has helped us build effective relationships with local regulatory and political stakeholders and we believe that we are well placed to benefit from any future liberalisation in the region, such as the recent passing of legislation in California which will allow exchange wagering on horse racing from 2012. In Europe, we continue to campaign for a regulated and licensed online gambling market, and have been encouraged by moves towards regulation in a number of countries on the continent.

During the year we appointed Ian Dyson to the Board as a Non-executive Director and Chair of the Audit Committee. Ian, who

is currently Chief Executive Officer of Punch Taverns plc and was previously Group Finance and Operations Director at Marks & Spencer plc, brings a wealth of experience and I am delighted to welcome him to the Company. At our AGM, our Co-Founder Andrew Black, better known to many as Bert, stepped down from the Board. Without Bert there would be no Betfair and his inspiration, enthusiasm and vision over the years have been central to the success of the company. At the same time, Chris Batterham also stepped down from the Board after almost a decade as a Non-executive Director. Chris has been an invaluable source of knowledge and experience for the company during his time on the Board. On behalf of the Board I would like to thank them both for their tremendous work and contribution to Betfair.

In June, Betfair celebrated its tenth birthday. We have an outstanding management team and a dedicated and talented group of employees. As we enter our second decade, and begin life as a public company, they will ensure that we are best positioned to repeat, and improve on, the success of the last ten years.



**Edward Wray**  
Chairman



# CHIEF EXECUTIVE'S REVIEW

## BETFAIR'S INITIAL PUBLIC OFFERING

Betfair's admission to listing on the London Stock Exchange in October this year was the natural next step for a company that, since its inception a decade ago, has shown great determination and ability to evolve and grow.

We believe that the listing of Betfair's shares will help provide a platform for growth: it will assist Betfair in the development of its international operations through the enhanced transparency and reputational benefits of being a plc; it gives us greater flexibility to react to a developing and consolidating industry; and it strengthens our ability to retain key people as well as attract top new talent. The listing has also provided ongoing flexibility and liquidity for our loyal group of shareholders.

As the business looks ahead to an exciting new chapter, it is our aim to ensure that Betfair's creative and dynamic culture remains the same, since the company's future success relies on us staying true to the ethos and high standards which we have set for ourselves in the past.

## SUMMARY

Despite a challenging global economic backdrop, Betfair delivered a strong performance in the year ending 30th April 2010. Group

revenue rose by 13% to £341m (2009: £301m), a tenth successive year of double-digit revenue growth. The company also continues to be cash generative and at the end of April had cash reserves of £151m and no debt.

During the year we decided to make substantial investments in both our Core Betfair business and our other investments.

In the Core Betfair business, we decided during 2009 to embark on a £25m three year plan to enhance our technology platform so that it will be more cost efficient, more flexible and more capable of supporting future international growth. We expect this work to be completed by the end of the year ending 30 April 2012. We also invested significantly during the year in a brand and marketing campaign ahead of the 2010 FIFA World Cup.

Outside the Core Betfair business, we made further investment in our US business, TVG, and we believe we are well positioned in the event of any future liberalisation of the US online betting and gaming market. We also provided further support to our subsidiary, LMAX, ahead of the launch of its exchange platform in October 2010. LMAX is a platform which offers online retail financial trading of contracts for difference (CFDs) in a broad range of asset classes including equity indices, commodities and Foreign Exchange. LMAX's technology platform has evolved from Betfair's own exchange technology platform and we're very excited about the potential for the business.

ROYAL ASCOT



# “WE NOW HAVE MORE THAN **THREE MILLION REGISTERED CUSTOMERS**, WITH THE NUMBER OF **ACTIVE CUSTOMERS RISING BY 26% TO 823,000**”

As planned, these investments had an impact on adjusted EBITDA which fell to £54m (FY09 £70m). Despite being down year-on-year, this figure represents strong underlying growth and profitability which has given us the confidence to invest in the business when we deem it right to do so. We believe that this investment in the company during the year will help to secure future growth for shareholders.

We now have more than three million registered customers, with the number of active customers rising by 26% to 823,000 in the past year. This is testament to our customers' appreciation of the uniqueness of the Betting Exchange product.

We are proud of our success to date and are committed to maximising all opportunities for future growth in order to continue our journey from start-up to leading global internet business.

## PRODUCT UPDATE

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This time last year I wrote of our intention to innovate in the area of mobile betting products. I'm therefore delighted to report that in May we became the first gaming company to offer iPhone users a betting application in the Apple® App Store<sup>SM</sup>. The App has been extremely popular and since launch it has been downloaded over 50,000 times, a feat which contributed to mobile revenues increasing by 61% this past year.

We followed this with the release of the first betting application for the iPad, followed by the introduction of our Android application. These ground breaking products highlight our commitment to providing users with the most advanced and convenient methods of placing their bets.

We took the decision during the year to migrate our Poker product onto the Ogame Network, with the migration taking place after the year end in July 2010. As a result, Betfair Poker now offers its players enhanced gaming options, more tournaments and a significantly larger liquidity pool to play in, all of which we believe will bring long term benefits and stability to what is an important component of our business.

Our move to the Ogame Network reiterated our desire to offer our customers a best of breed gaming experience across all of our products. Another example has been the introduction of the Playtech downloadable casino product in November 2009. This development, along with the migration of our web-based casino client to a Playtech platform in August 2010, allows us to provide a better integrated and more flexible casino offering to our customers.

UK GENERAL ELECTION



## MARKETING AND BRAND

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In the past year we've invested significantly in marketing initiatives aimed primarily at positioning Betfair in the high growth football market.

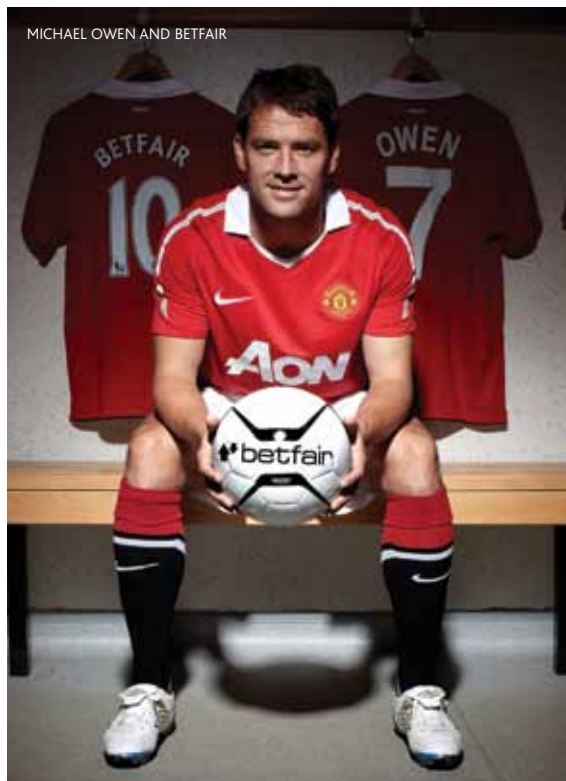
In the lead-up to the 2010 FIFA World Cup, our concerted and targeted efforts online, on television and through our partnerships with Manchester United FC and FC Barcelona, delivered strong growth in customer acquisitions. The partnerships with these two clubs are now into their second years and we've been delighted with how we've leveraged these landmark

# CHIEF EXECUTIVE'S REVIEW

BETFAIR IPAD APP



MICHAEL OWEN AND BETFAIR



deals in order to cement our position as the world's biggest betting community.

Our investment in UK horseracing over the past year has been substantial. We recently made the commitment to be a sponsor at every UK racecourse at least once every 12 months. Furthermore, our continuing partnership with Ascot Racecourse saw us once again sponsor their flagship race, The King George VI & Queen Elizabeth Stakes.

In June, we decided to cease our voluntary Levy payment to the British Horseracing Authority, choosing instead to invest more than £1m directly into UK horseracing. This figure is in addition to the £6.3m paid last year through statutory Levy payments. This voluntary payment highlights our ongoing support of UK horseracing and our desire to see it thrive.

## OPERATIONAL OVERVIEW

During the past year we began work on a planned enhancement of our exchange platform. The project will focus on allowing us to rapidly implement new products and services in new jurisdictions;

operate these new products locally; quickly integrate third party software, services and products; and personalise and improve our customers' experience.

Maintaining and improving the technology that our business was built upon is central to our future success. The re-architecture project will provide us with an infrastructure capable of supporting future international growth in what is an increasingly complex environment.

It is crucial for our business to maintain a world-class IT infrastructure and this is reflected in our technology team now representing more than 600 of our total headcount of just over 2000. We continue to invest in our talent base by hiring highly experienced and skilled personnel to help drive the business forward.

In July, we announced that we will open a new data centre in Dublin, with the city also set to host our Telbet operations. The enhanced levels of connectivity and reliability offered in Dublin should result in long-term improved performance for customers and cost savings for the business. The site will also give us additional flexibility as the regulatory environment develops.

# “SUSTAINED GROWTH AND PROFITABILITY THANKS TO A UNIQUE, REWARDING AND CONSTANTLY IMPROVING EXPERIENCE”

## CORPORATE UPDATE

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Our long-standing commitment to take a measured and prudent approach to regulatory compliance has continued to guide the business over the past twelve months.

In May 2010 we ceased operating in France after taking the decision not to apply for one of the new licences on offer. In our opinion the new French licensing and taxation regime is overly restrictive and does not allow us to offer a commercially viable product. We will continue to monitor the situation and are ready to review our position if there is any change.

Elsewhere in Europe, the Danish government passed primary legislation to regulate the sector in June and we look forward to applying for a Danish licence for the exchange and other products in 2011.

Other countries in Europe are also reviewing their approach to regulation and we are following progress closely in order to react quickly if any changes create new opportunities for Betfair.

In the US, Betfair continues to work constructively with individual States and the US Federal Government in order to help progress towards a legalised online gambling market. Developments in California and New Jersey with regards to exchange betting are of particular relevance to us and we are following their respective legislative and regulatory paths closely.

Maintaining close working relationships with government bodies has been crucial to establishing our reputation as a trustworthy and transparent operator, and so too are the links we have built with sporting bodies. This year, we signed landmark agreements with the British Athletes Commission (BAC) and the Professional Players Federation (PPF), to promote player education and support the organisations in their efforts to safeguard the integrity of sport.

Our commitment towards corporate responsibility remains wholehearted and robust and over the past year we have taken a strategic approach to integrating social and environmental concerns into how we do business. A Board level Corporate Responsibility Steering Committee has been established, chaired by Non-executive Director Fru Hazlitt, in order to review and manage our activities.

We are keen to support the communities in countries where we operate. In addition to activities in Romania and Malta, our flagship Cash 4 Clubs programme distributed a total of £90,000 to

community sports clubs across the UK and our Charity of the Year partnership with the Anthony Nolan Trust is on course to reach its fundraising target of £150,000.

## SUMMARY

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For ten years, the business has delivered sustained growth and profitability thanks to its ability to offer a unique, rewarding and constantly improving experience to customers.

I am delighted that this past year has proved to be no different despite a testing economic climate and our decision to invest heavily in the business. This is testament to the hard work of Betfair's employees around the world.

We face the next year with a strong commitment to build on what we have delivered over the past decade and to produce the best results for both our customers and shareholders - old and new.



**David Yu**  
Chief Executive Officer



# KEY FINANCIAL INFORMATION

## Consolidated profit and loss account for the year ended 30 April 2010

	2010 £'000	2009 £'000
<b>Continuing operations</b>		
Revenue	340,915	301,206
Cost of sales	(55,894)	(48,566)
<b>Gross profit</b>	<b>285,021</b>	<b>252,640</b>
Administrative expenses	(266,575)	(208,145)
<b>Group operating profit</b>	<b>18,446</b>	<b>44,495</b>
Analysed as:		
<b>Adjusted EBITDA* (excluding exceptional items and equity settled share-based payments)</b>	<b>53,484</b>	<b>70,288</b>
Exceptional items	(4,600)	(892)
Equity settled share-based payments	(4,192)	(4,250)
<b>EBITDA*</b>	<b>44,692</b>	<b>65,146</b>
Depreciation and amortisation	(26,246)	(20,651)
<b>Group operating profit</b>	<b>18,446</b>	<b>44,495</b>
Profit on disposal of operations	-	1,805
Finance income	2,389	4,168
Finance expense	(16)	(1,344)
Net finance income	2,373	2,824
Share of loss of equity accounted investments	(3,041)	(1,656)
<b>Profit before tax</b>	<b>17,778</b>	<b>47,468</b>
Taxation	(2,659)	(8,644)
<b>Profit for the year</b>	<b>15,119</b>	<b>38,824</b>
<b>Attributable to:</b>		
Equity holders of the Parent	15,119	38,824
Minority interest	-	-
<b>Profit for the year</b>	<b>15,119</b>	<b>38,824</b>

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

\*EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization.



## Consolidated balance sheet as at 30 April 2010

	2010 £'000	2009 £'000
<b>Non-current assets</b>		
Property, plant and equipment	24,463	22,578
Intangible assets	88,980	77,285
Investments	152	6,209
Available-for-sale financial assets	4,385	2,420
Deferred tax asset	5,460	5,549
	<u>123,440</u>	<u>114,041</u>
<b>Current assets</b>		
Derivative financial asset	-	2,254
Trade and other receivables	22,212	15,924
Cash and cash equivalents	150,947	133,367
	<u>173,159</u>	<u>151,545</u>
<b>Total assets</b>	<u>296,599</u>	<u>265,586</u>
<b>Current liabilities</b>		
Trade and other payables	88,857	73,403
Tax payable	25,930	27,374
	<u>114,787</u>	<u>100,777</u>
<b>Total liabilities</b>	<u>114,787</u>	<u>100,777</u>
<b>Net assets</b>	<u>181,812</u>	<u>164,809</u>
<b>Equity attributable to equity holders of the Parent</b>		
Share capital	105	104
Share premium	4,078	2,128
Other reserves	(2,263)	1,975
Retained earnings	179,892	160,602
	<u>181,812</u>	<u>164,809</u>
<b>Minority interest</b>	-	-
<b>Total equity</b>	<u>181,812</u>	<u>164,809</u>

# KEY FINANCIAL INFORMATION

## Consolidated cash flow statement for the year ended 30 April 2010

	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>		
Profit for the year	15,119	38,824
Adjustments for:		
Depreciation and amortisation	26,246	20,651
Loss on disposal of property, plant and equipment	19	18
Profit on disposal of operations	-	(1,805)
Taxation	2,659	8,644
Equity settled share-based payments	4,192	4,250
Net finance income	(2,373)	(2,824)
Share of loss of equity accounted investments	3,041	1,656
Increase in trade and other receivables	(6,758)	(1,337)
Increase in trade and other payables	13,783	3,428
<b>Cash generated from operations</b>	<b>55,928</b>	<b>71,505</b>
Taxation paid	(2,879)	(5,517)
<b>Net cash from operating activities</b>	<b>53,049</b>	<b>65,988</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary net of cash acquired	(3,261)	7,114
Disposal of subsidiaries	-	(702)
Acquisition of property, plant and equipment	(12,472)	(12,156)
Proceeds from sale of property, plant and equipment	52	47
Acquisition of other intangible assets	(5,460)	(2,507)
Capitalised development expenditure	(14,659)	(8,094)
Finance income received	779	3,707
Cash injection in jointly controlled entities	(225)	-
Acquisition of available-for-sale financial assets	(1,965)	(150)
Proceeds from sale of associates	-	4,555
Dividends from associates	-	219
<b>Net cash used in investing activities</b>	<b>(37,211)</b>	<b>(7,967)</b>
<b>Cash flows from financing activities</b>		
Settlement of liabilities due to related parties of acquired subsidiary	-	(35,966)
Proceeds from the issue of share capital	1,855	710
Loan notes redeemed	-	(140)
<b>Net cash from / (used) in financing activities</b>	<b>1,855</b>	<b>(35,396)</b>
Net increase in cash and cash equivalents	17,693	22,625
Cash and cash equivalents at the beginning of the year	133,367	110,961
Foreign exchange differences	(113)	(219)
<b>Cash and cash equivalents at 30 April</b>	<b>150,947</b>	<b>133,367</b>

# THREE-YEAR SUMMARY

For the year ended 30 April

	2010 £'000	2009 £'000	2008 £'000
<b>Restated under IFRS</b>			
Revenue	340,915	301,206	242,430
Adjusted EBITDA	53,484	70,288	53,855
Equity settled share-based payment charges	(4,192)	(4,250)	(4,319)
EBITDA before exceptional items	49,292	66,038	49,536
Exceptional items	(4,600)	(892)	-
EBITDA	44,692	65,146	49,536
Profit before tax	17,778	47,468	43,781
Profit for the year	15,119	38,824	30,749

Amounts received on customer account balances held in the stakeholder account are included in EBITDA.

Adjusted EBITDA is EBITDA excluding share-based payment charges and exceptional items

# DIRECTORS AND ADVISERS

## DIRECTORS

Edward Wray	(Non-executive Chairman & Co-Founder)
David Yu	(Chief Executive Officer)
Stephen Morana	(Chief Financial Officer)
Mike McTighe	(Senior Independent Director)
Ian Dyson	(Independent Non-executive Director)
Josh Hannah	(Non-executive Director)
Fru Hazlitt	(Independent Non-executive Director)

## COMPANY SECRETARY

Martin Cruddace

## PRINCIPAL PLACE OF BUSINESS

Waterfront, Hammersmith Embankment, Chancellors Road (Access on Winslow Road), London, W6 9HP

## AUDITORS

KPMG LLP  
8 Salisbury Square, London, EC4Y 8BB

## PRINCIPAL BANKERS

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280 Bishopsgate, London, EC2M 4RB

## PRINCIPAL SOLICITORS

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**THE WORLD'S BIGGEST  
BETTING COMMUNITY**

## **CONTACT US**

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