

Annual Review 2006

THE SPORTING EXCHANGE LIMITED



Snapshot of 2005-2006

May 2005

Betfair obtains a licence to operate in Malta.

June 2005

Betfair launches Spanish and Turkish language websites.

July 2005

Exchange Poker, the first of Betfair's innovative games, launches from Malta.

July - September 2005

Betfair sponsors The Ashes on Channel 4; its first broadcast sponsorship.

October 2005

Betfair acquires the Danish-based poker platform, PokerChamps.

Betfair hosts the 'Pride of Racing' Dinner – a new initiative in aid of Racing Welfare to salute the unsung heroes of the horseracing industry.

Betfair signs MoUs with the Sony Ericsson WTA Tour, the International Tennis Federation, the Grand Slam Committee, the Lawn Tennis Association and the Australian Football League.

November 2005

Betfair wins for the second year running 'Company of the Year' at the CBI Growing Business Awards.

Betfair is named 'Socially Responsible Operator of the Year' at the inaugural eGaming Industry Awards.

Exchange Blackjack launches.

December 2005

Betfair welcomes the UK Treasury's decision to maintain the current taxation regime for betting and betting exchanges.

The one-billionth bet is placed on the site.

January 2006

David Yu is appointed CEO and Tim Bunting joins Betfair as Non-executive Chairman.

February 2006

Betfair is awarded its first licence to operate in Australia by the Tasmanian Gaming Commission.

Betfair signs a deal with PayPal to allow its European customers to make payments using its service.

Betfair signs MoUs with the Belgian FA, the British Darts Organisation and the Rugby Football League.

Betfair launches a new Express View which displays the current back prices only on all Betfair's markets.

April 2006

Betfair signs an agreement with Post Office Ltd to help verify customers' identity.

May 2006

Betfair signs a MoU ahead of the World Cup with FIFA Early Warning Systems Ltd.

Betfair launches its World Cup Betting Zone.

June 2006

Betfair breaks many records with the amount of activity during the World Cup.

Betfair wins the 'Most Effective Enterprise-Wide Infrastructure' award at the Effective IT Awards.

Betfair Mobile launches in time for the World Cup.

The third of Betfair's exchange-enabled products, Exchange Baccarat, launches.

July 2006

French, Bulgarian and Czech language sites are added, taking the total to 18.

Betfair signs MoUs with Racing Services Tasmania and Racing Victoria Limited.

August 2006

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

Betfair agrees to pay ten per cent of its revenue on Irish horseracing directly to Horse Racing Ireland (HRI). The agreement guarantees revenues to HRI in excess of €1 million (£700,000) a year, for the first three years.

Betfair agrees MoUs with the Irish Turf Club and the Irish Football Association.

Letter from the Chairman

Dear Shareholder

I am delighted to report a further year of growth in all areas of the business. As well as achieving strong financial results, we have continued to strive to ensure our site, products and service maintain quality and reliability as our business grows.

We have continued to expand our global reach where the regulatory framework allows and have been successful in securing a licence to operate in Australia. We have also succeeded in securing the ability to use a licence in Germany.

Betfair's strategy is designed to accelerate growth of the exchange. We will continue to invest in new products and features to make the site better and more accessible to all our existing customers, and importantly, to attract new ones. To that end, we have substantially increased the rate of investment since January, specifically in our core sports business. We will also look to use content to help acquire and retain customers.

Betfair is committed to providing customers with a broad gaming portfolio. In this regard, we continue to make progress, having acquired PokerChamps in October 2005, and having launched Exchange Games in the last financial year which are being run out of Malta. Substantial plans are in place for this year, with a focus on new innovative products.

We are pleased that after an 18-month policy review the Chancellor announced that there is to be no change to the way we are taxed (from a sports betting perspective) in comparison to other bookmakers.

At the time of writing, we are working very closely with the UK Gambling Commission on the consultation process regarding applicable conditions for an operating licence under the Gambling Act 2005, which comes into effect early next year.

In the past year we have made several changes to the Board. Stephen Hill and Owen O'Donnell left as CEO and CFO respectively, in October and August 2005. My predecessor, Sir Robert Horton, resigned from the Board in January 2006 together with Justin Dowley and Nick Irens. The continuing directors and I wish to thank them for their hard work and contribution to the business.

The Remuneration Committee is made up of Josh Hannah (Chair) and Fru Hazlitt. The Audit Committee is made up of Chris Batterham (Chair) and me.

I am delighted that David Yu accepted the role of Chief Executive Officer as of January 2006. Since joining us from Flutter in 2001, David's technological vision has been a key pillar of our success, and I have no doubt his talents as CEO will underpin our continued growth. David is supported by a top class management team and skilled, committed staff. I am confident that Betfair is in good hands with excellent prospects for the future.

It only leaves me to thank all the staff of Betfair for their incredible hard work and commitment over the past year.

Tim Bunting

Tim Bunting
Non-executive Chairman



Chief Executive's Review

Financial Summary

During the year to 30 April 2006, the Group has grown considerably in scale and complexity. All of the key metrics demonstrate that we remain a high-growth company. Year-on-year revenue growth of 36 per cent to £145 million drove profits before tax up to £38 million from £23 million, an increase of 65 per cent. Other key operating metrics, such as monthly active customers and number of bets placed, also saw very healthy growth.

We remain significantly cash-generative and ended the year with a cash balance of over £142 million (2005: £52 million). The net assets of the Group have increased from £48 million in 2005 to £130 million in 2006, reflecting a strong balance sheet position.

Corporate Update

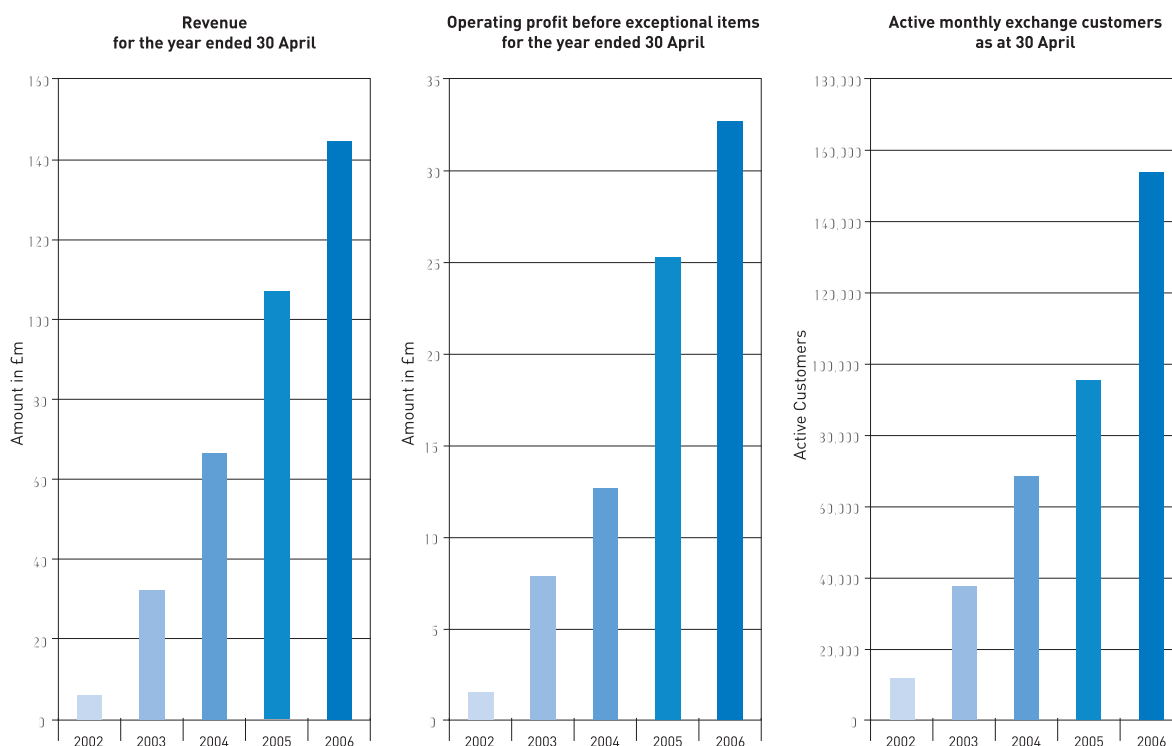
During the course of the year, the business continued to be increasingly international in its profile: regions outside the UK (the exchange is now available in 18 languages) now contribute more than a third of our revenues, compared to less than a quarter last year, and 50 per cent

of new registrations now come from outside the UK. This trend will continue in the coming year, boosted by the granting of an Australian licence which saw us begin operations via our joint venture with Publishing and Broadcasting Limited (PBL) in Tasmania on 7 February.

Earlier in the financial year we welcomed the UK Treasury's decision to maintain the current taxation regime for betting and betting exchanges. This was a significant decision, taken after 18 months of detailed consultation. It means that an equitable tax structure remains in place for betting exchanges which is important for the future of the business.

At the close of 2005, Betfair became the first company successfully to retain its 'Company of the Year' title at the CBI Growing Business Awards. Betfair was also ranked fourth in the Sunday Times Profit Track 2006 and seventh in the Sunday Times Tech Track 2005. The company has won a series of further accolades over the course of the year.

We continue to work closely with a number of sporting regulators, notably in horseracing, football and tennis, which highlights the importance of our information-



“Betfair became the first company successfully to retain its ‘Company of the Year’ title at the CBI Growing Business Awards.”

sharing agreements. A series of 'MoUs' (Memorandum of Understanding) have been signed with sports bodies over the year, including the Rugby Football Union, Women's Tennis Association, International Tennis Federation, Belgian Football Association, British Darts Organisation, Racing Services Tasmania, Racing Victoria Limited and, most importantly in light of the World Cup, FIFA. This brings the total number of agreements we have with sports bodies worldwide to 24.

Stance on the US Market

In light of recent events in the United States we continue to monitor the situation. We wish to reiterate our well-documented and long-standing policy of not accepting US customers, funds, or bets. For many years, we have followed industry best-practice to ensure that we are able to detect and block unwanted usage.

Operational Overview

From an operational perspective it has been a fantastic year. The size and scalability of the site is demonstrated by the fact that there were over 1.3 billion bets placed on the exchange in 2005, which is more than all the previous years' totals added together. We now regularly handle over five million bets per day, serve two billion page impressions a week and more than £2,000 a minute is deposited onto the site.

We now employ over 900 staff across five main offices in West and North London, Denmark, Malta and Australia. While we are beginning to experience economies of scale in many operational areas, we continue to recruit heavily in IT, Product Management and International Development. These new hires will accelerate our product delivery and competitive advantage in the years ahead.

Customer numbers are also impressive. In the past year we have doubled the number of registered customers, with over 900,000 by the end of the World Cup. The number of monthly actives increased from 95,000 to over 150,000 by April 2006, and in the space of a year we also doubled the



Betfair's headquarters in Hammersmith, London.

number of active customers trading on an average Premiership football match.

An agreement was reached with Post Office Ltd to allow customers to validate their details at any outlet which should enhance our service in this area and confirm our continued commitment to the integrity of the audit trail.

The World Cup was a significant milestone in Betfair's history. As expected it was by far the biggest event in terms of demand, traffic and general interest and all parts of the business performed exceptionally. We handled more than 11 million bets during the tournament on over 3,000 different markets.

Product Update

The online gaming industry remains highly competitive and we therefore continue to make significant investment in initiatives to expand the business through marketing and product enhancement. Similarly, we continue to invest and improve our technical infrastructure, since the continued robustness and security of our technology is key to the business. We now manage four global data centres, two in the UK, and one each in Malta and Australia, and we have more than doubled our system capacity. 99.9 per cent of bets are processed sub-second and according to Hitwise, Betfair is ranked first by visits in the Sport Betting online industry.



Betfair's World Cup Betting Interface.

A separate study also showed that people spend an average of one hour and ten minutes a week on Betfair, which is many times greater than our nearest rivals. In addition, a new homepage was developed for first-time visitors which increased the likelihood of opening an account by 50 per cent and has since been rolled out across all languages.

A totally new interface was designed ahead of the World Cup. The World Cup Betting Zone was based on the wall chart concept and all group stage, knockout stage and outright views were integrated with key markets. Competition statistics, news headlines and match previews were also integrated, making it a 'one-stop shop' for customers.

A Simplified User Interface – the Express View – was launched at the start of the spring racing campaign. The 'back only' site was designed to appeal to the more

recreational punter and to compete directly with traditional bookmakers. These two products are the first examples of us offering additional choice in response to customer needs and alternative products to broaden our appeal to a new audience.

Betfair Mobile was also launched. The product contains most of the features of the website on a mobile phone making it more accessible, and the uptake has been very positive.

Other significant moves include a deal which allows European customers to make payments using PayPal. This was an enormous endorsement as it made Betfair the first online gambling company to be approved by PayPal. This brings our total number of payment methods to 20.

The poker market is particularly competitive and therefore it is important that we expand our product portfolio and diversify our revenue streams. We acquired PokerChamps, a Danish-based poker platform, in October, and from August this year Betfair's entire Games portfolio has been hosted from Malta. We will continue to invest and improve the product to make it the most exciting poker offering. The Games offering was also extended with the launch of Exchange Baccarat, complementing exchange versions of Poker and Blackjack. These unique exchange-enabled products offer further opportunities for customers and reinforce our reputation for innovation.

Our B2B business continues to grow with over 40 customers using our Application Programmer's Interface to integrate the exchange into their trading systems. Our recent agreement



Broadcasting sponsor of the Ashes, Summer 2005.

“In the past year, we have doubled the number of registered customers on Betfair”

with Orbis, one of the leading betting platform software vendors, will simplify adoption by even more UK bookmakers.

Communications/Marketing Update

We were thrilled to be directly involved with the Ashes as the nation was gripped over the summer months of 2005. Our presence on Channel 4 was Betfair's first broadcast sponsorship and it proved a great success. At the start of the summer Betfair was the fifth most likely betting company to be mentioned. But by the middle of the coverage, as a result of TV sponsorship, ground presence, perimeter sponsorship and the highly visible Betfair blimp, Betfair had risen to number one position, and we retained this brand leadership into the autumn.

We continue to be one of the top sponsors of horseracing in Britain. We introduced a new three-mile Championship race – the Betfair Chase – at Haydock Park and launched the Betfair Million. This was a very exciting initiative which saw a £1 million bonus offered to the connections of any horse winning the Betfair Chase, the King George VI Stakes and the Cheltenham Gold Cup. It will be offered again this year and further new and innovative sponsorship opportunities, such as this, are being sought.

The Cheltenham and Aintree racing festivals are central to our Marketing and Communications campaigns and the launch of the Express View was closely aligned to this. It is a key time to acquire new customers – the acquisition rate more than doubled during Cheltenham week – and consolidate our offering to existing customers. It was also an important time as we continued our relationship as the official bookmaker of the Grand National at Aintree.

In addition, we have made significant contributions to the racing industry from a charitable perspective. We worked with Racing Welfare over the course of 2005 and together we raised close to £250,000 for racing's own charity. We were also proud to launch a new initiative – The Pride of Racing – which is an event aimed at saluting the unsung heroes of the horseracing industry.

Looking Ahead

We are on track to reach our objectives and we continue to invest for long-term growth.

These investments and developments for the future will impact short-term profitability but will allow us to build much greater long-term value.

We are confident of achieving sustainable growth, not least through international expansion and dedicated 'Community' efforts. There are exciting plans in place at Betfair, particularly as we develop and deploy products at a faster rate than ever before.



David Yu
Chief Executive Officer



Key Financial Information

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

Consolidated profit and loss account for the year ended 30 April 2006

	2006			2005
	Before exceptional items £'000	Exceptional items £'000	Total £'000	(restated) £'000
Revenue: group and share of joint venture	145,398	-	145,398	107,114
less: share of joint venture's revenue	(697)	-	(697)	-
Group revenue	144,701	-	144,701	107,114
Cost of sales	(35,919)	-	(35,919)	(27,982)
Gross profit	108,782	-	108,782	79,132
Administrative expenses	(80,222)	(2,500)	(82,722)	(60,825)*
Other income	4,251	5,307	9,558	3,051
Group operating profit	32,811	2,807	35,618	21,358
Share of operating loss in joint venture	(221)	-	(221)	-
Total operating profit	32,590	2,807	35,397	21,358
Interest receivable	2,830	-	2,830	1,790
Interest payable and similar charges	(406)	-	(406)	-
Profit on ordinary activities before taxation	35,014	2,807	37,821	23,148
Tax on profit on ordinary activities	(9,149)	(842)	(9,991)	(6,031)*
Profit for the financial year	25,865	1,965	27,830	17,117

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

* Included within administrative expenses in the prior year is an exceptional charge of £3.9 million and included within tax on profits on ordinary activities in the prior year is a tax credit of £1.2 million relating to the exceptional charge.

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

2005 Restatement: Amounts received on customer account balances held in the stakeholder account were reclassified from bank interest receivable to other income as they represent income from the management of customer balances.

Consolidated balance sheet at 30 April 2006

	2006		2005	
	£'000	£'000	£'000	£'000
Fixed assets				
Intangible assets		11,878		-
Tangible assets		16,766		11,083
Investments				
Interest in joint venture				
Share of gross assets	4,853		-	
Share of gross liabilities	(2,957)		-	
	<u>1,896</u>		<u>-</u>	
Goodwill	501		514	
Loan	2,543		101	
		<u>4,940</u>		<u>615</u>
		<u>33,584</u>		<u>11,698</u>
Current assets				
Debtors	8,824		8,215	
Cash at bank and in hand	142,706		52,418	
	<u>151,530</u>		<u>60,633</u>	
Creditors: amounts falling due within one year	<u>(51,604)</u>		<u>(23,523)</u>	
Net current assets		<u>99,926</u>		<u>37,110</u>
Total assets less current liabilities		<u>133,510</u>		<u>48,808</u>
Provisions for liabilities and charges		<u>(3,762)</u>		<u>(480)</u>
Net assets		<u>129,748</u>		<u>48,328</u>
Capital and reserves				
Called up share capital		109		103
Share premium account		63,395		14,774
Other reserves		7,115		6,733
Profit and loss account		59,129		26,718
		<u>129,748</u>		<u>48,328</u>
Equity shareholders' funds		<u>129,748</u>		<u>48,328</u>

Consolidated cash flow statement for the year ended 30 April 2006

	2006 £'000	2005 (restated) £'000
Net cash inflow from operating activities	64,139	32,235
Returns on investments and servicing of finance		
Interest received	2,854	1,738
Interest paid	(83)	-
Total returns on investments and servicing of finance	2,771	1,738
Taxation	(132)	(2,800)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(8,812)	(8,622)
Payment to acquire intangible assets	(803)	-
Total capital expenditure and financial investment	(9,615)	(8,622)
Acquisitions		
Cash consideration paid to acquire trades or businesses	(4,885)	(359)
Net cash acquired with subsidiary	374	-
Cash invested in joint venture	(11,994)	(615)
Sporting Options rescue package payments	(582)	(2,133)
Total acquisitions	(17,087)	(3,107)
Net cash inflow before financing	40,076	19,444
Financing		
Issue of shares net of costs	47,672	688
Consideration received on sale of own shares	2,651	-
Convertible loan notes redeemed	(111)	-
Total financing	50,212	688
Increase in cash in the year	<u>90,288</u>	<u>20,132</u>

Five-year Summary

For the year ended 30 April

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Revenue	144,701	107,114	66,725	32,319	6,090
Operating profit before exceptional items	32,590	25,306	12,664	8,274	1,511
Exceptional items	2,807	(3,948)	-	-	-
Operating profit after exceptional items	35,397	21,358	12,664	8,274	1,511
Profit on ordinary activities before taxation	37,821	23,148	13,278	8,706	1,759
Profit for the year	27,830	17,117	10,519	7,518	1,760
Adjusted operating profit before exceptionals*	32,590	25,306	11,937	5,800	738

*Adjusted to show Gross Profits Tax (GPT) on a like for like basis at 15 per cent for all years.

Amounts received on customer account balances held in the stakeholder account were reclassified for previous years and included in operating profit.

Directors and Advisers

DIRECTORS

Tim Bunting (Non-executive Chairman)
 David Yu (Chief Executive Officer)
 Andrew Black (Founder)
 Edward Wray (Founder)
 Chris Batterham (Non-executive)
 Josh Hannah (Non-executive)
 Fru Hazlitt (Non-executive)
 Bernard Giroud (Observer)

SECRETARY

Martin Cruddace

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PRINCIPAL SOLICITORS

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