

To Our Stockholders,

In 2008, we embraced a tremendous amount of fundamental change against the backdrop of a deteriorating external market and economy. Even with the challenges, we exited the year a stronger company and remain a leader in e-commerce, payments and Internet voice communications. Our performance for the full year not only reflects the strength of our portfolio, but also the operating discipline, strategic clarity and focus with which our management team is leading the company going forward.

Financially, the company had a good year, marked by strong revenue growth, stronger EPS growth and excellent free cash flow. Despite the extremely challenging economic environment in 2008 – including a slowdown in global e-commerce, a strengthening dollar, and declining interest rates – we delivered \$8.5 billion in revenues, an 11 percent increase from the prior year, and \$1.36 of diluted EPS. We also delivered a solid operating margin of 24 percent.

The size of the eBay marketplace continues to be the largest in the world with nearly \$60 billion of gross merchandise volume (the total value of goods sold in all of our Marketplaces) in 2008. PayPal continues to experience strong growth, both on eBay and across e-commerce, and Skype had a great year, growing both revenues and user base.

In addition, we strengthened our portfolio by investing in the growth of our emerging businesses and through key acquisitions. In 2008, advertising, global classifieds and StubHub, the leading online tickets marketplace, all gained momentum in terms of revenues.

Key acquisitions we made during the year will help us build on our strengths. Fraud Sciences enhances PayPal's risk management capabilities. Bill Me Later further extends our leadership position in payments. And dba.dk and BilBasen, leading classifieds sites in Denmark, broaden our global leadership in online classifieds.

Connecting buyers and sellers

In 2008, we focused on three clear priorities to both improve our core Marketplaces business and connect more buyers and sellers than ever before.

1. Make eBay safer and easier to use
2. Improve value and selection by combining fixed price with auction-style listings in a uniquely eBay way
3. Extend PayPal's leadership position both on eBay and across e-commerce

We made progress in all three areas in 2008. Turning to Marketplaces, we made more fundamental changes to our core eBay business than at any point in our history. Many of these changes were overdue and were things that our sellers had been asking for and that our buyers had come to expect. We believe that eBay is a healthier marketplace than it was a year ago. Our pricing is more competitive, our success is more aligned with that of our sellers, and fixed price and auction-style listings are becoming more balanced.

While we still have a lot of work to do, the significant structural changes we made in 2008 provide the necessary foundation to continue moving aggressively ahead to accelerate growth in our core business.

Despite increasing competition for the attention of buyers and sellers, eBay remains one of the leading e-commerce platforms in the world. In fact, more than 85 million people came to our Marketplaces sites globally in December 2008, making eBay the most-visited retail site for holiday shopping, according to ComScore.

We also continued to expand the number of ways we connect buyers and sellers. We have strong momentum in advertising, classifieds and StubHub. For the full year, text and graphical advertising revenue was up 139 percent, StubHub was up 54 percent and classifieds grew 57 percent. These alternative e-commerce formats are increasingly giving us profitable, scalable and more diverse ways to monetize our traffic and connect buyers and sellers. Collectively, these alternative formats delivered \$1 billion in revenue in 2008.

We've only just started to tap the enormous potential of our payments business through PayPal, especially across e-commerce. In 2008, PayPal increased its penetration on eBay by 5 points to 58 percent, and we significantly expanded market share outside of eBay. In fact, we reached two important milestones during the year – for the first

time, PayPal's total payment volume (the total value of all payments made via PayPal) *off* eBay equaled volume *on* eBay, and PayPal Merchant Services revenue nearly reached the billion-dollar mark, up 45 percent year over year.

Skype had a terrific 2008. Revenue of \$551 million was up 44 percent, and registered users reached 405 million, up 47 percent from the prior year. More and more people discovered how easily Skype helps family and friends stay connected, regardless of where they are in the world.

Across our portfolio, technology has always been a key enabler of our growth and a tool to connect and empower millions of people globally. In 2008, we were recognized for this contribution: eBay Inc. became the first Internet company to be awarded the National Medal of Technology and Innovation, which is America's highest honor for technological and scientific achievement. We're proud of our technology heritage ... and excited about how we can build on it in the years to come.

Within our organization, we strategically invested \$1.4 billion in our portfolio and still maintained a healthy balance sheet, ending the year with more than \$3 billion in cash. During the year, we also strengthened our management team and drove greater operating discipline across our company. As the economy began to turn, we took decisive action early and quickly to simplify our organization, reducing our global workforce. As a result, we entered 2009 with a more prudent cost structure.

Our actions have helped us exit 2008 a stronger company, with a more diversified portfolio than ever; more effective and diverse ways to monetize our platforms; and a proven business model that has significant growth opportunities ahead.

A strong company getting stronger

For more than 13 years, eBay has led e-commerce by connecting buyers and sellers. In the process, eBay Inc. has become a strong company with a leadership position in three of the Internet's most common activities: e-commerce, payments and Internet voice communications. Our aim is to become even stronger in 2009 and beyond.

We still have a lot of work to do in our core eBay business. Our priorities around making eBay safer and easier to use, and improving value and selection, remain consistent for 2009. We are making the necessary, albeit tough, changes, and we are doing so with focus and conviction.

At the same time, we have a powerful portfolio, one that we believe is not fully credited in the value of the company. During 2009, we expect that PayPal, advertising, classifieds, StubHub and our other businesses will continue to contribute more revenue, more earnings, and more opportunities as we grow, scale and diversify the ways in which we connect buyers and sellers and monetize traffic. We are the global e-commerce leader, and we intend to maintain and extend that position.

We expect that the macro-economic environment will continue to be extremely challenging in 2009, and so we have planned conservatively. But tough times create opportunities for strong companies to get stronger. We expect to do just that in 2009 and beyond. On behalf of our 16,200 employees worldwide, thank you for your ongoing support and belief in our future.



Pierre Omidyar
Founder and Chairman of the Board



John Donahoe
President and CEO