Paddy Power Betfair plc
Annual Report & Accounts 2018

BRINGING EXCITEMENT TO LIFE

INSIDE THIS REPORT:

The Strategic Report on pages 2 to 53 was approved by the Board of Directors on 5 March 2019

Peter Jackson
Chief Executive Officer

Jonathan Hill
Chief Financial Officer

The Group is a global sports betting and gaming operator, with leading brands bringing excitement to life for millions of bettors worldwide.

Across the world our customers benefit from fast, intuitive products that offer market-leading value, promotions and choice. These are powered by our in-house technology, trading, development and responsible gambling teams.

Together, our European, Australian and US operations employ nearly 8,000 people who share a common set of traits; competitiveness, agility, integrity and a relentless focus on delivering what the customer wants.

30 years ago, the Paddy Power journey began when three small Irish betting shop chains combined to take on the Irish retail betting market. 20 years ago, Betfair revolutionised the industry by pioneering the betting Exchange. Today, our business has grown into an online-led, international betting powerhouse with a scale that makes it a leader in our industry.

REVENUE

£1,873m
2017: £1,745m

REPORTED PROFIT BEFORE TAX

£219m
2017: £247m

UNDERLYING* EBITDA†

£451m
2017†: £473m

UNDERLYING* EPS

379p
2017: 398p

PROFITS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

£201m
2017: £218m

PROPOSED FULL-YEAR DIVIDEND PER ORDINARY SHARE**

200p
2017: 200p

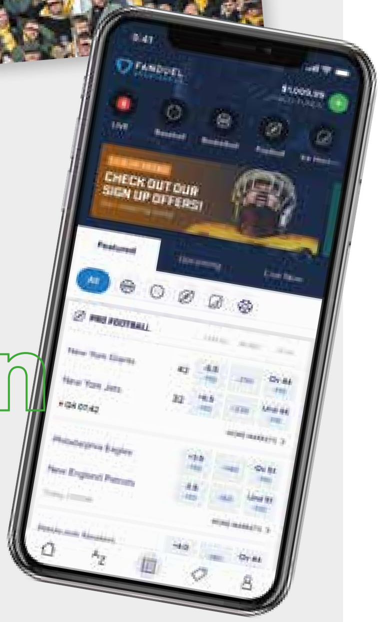
* The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (Note 4 and page 125 to the Consolidated Financial Statements).

† EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure (page 46).

** 2018 Final Dividend is subject to shareholder approval.

2018 KEY STATS

+6m
ACTIVE CUSTOMERS WORLDWIDE



+£80bn
TRADED ACROSS ALL PLATFORMS

BIGGEST PAYOUT:
WORLD CUP FINAL – CROATIA VS FRANCE
£4.5m

3bn
ONLINE TRANSACTIONS
THE EQUIVALENT OF 5,700 A MINUTE

£35m
HIGHEST TRADED SPORTSBOOK EVENT:
MELBOURNE CUP

RESPONSIBLE GAMBLING

70k
ONLINE RESPONSIBLE GAMBLING INTERACTIONS PER MONTH ACROSS THE PADDY POWER AND BETFAIR BRANDS

CHAIR'S STATEMENT

ANOTHER BUSY AND PROGRESSIVE YEAR

Dear Shareholder

I am pleased to update you on a very busy and progressive year for the Group, which now includes an expanded US sports betting operation under the exciting FanDuel brand. During Peter Jackson's first year as Chief Executive Officer, with the support of the Board, he undertook a review of our corporate strategy as well as a review of his senior management team. As further described in the Strategic Report, Peter and his team have been executing against the resultant strategic priorities across the business.

In Europe, the completion of our platform integration allowed both the Paddy Power and Betfair brands to accelerate development work allowing customers to enjoy significant product improvements. This coincided with a re-invigoration of the Paddy Power brand in the same year as it celebrated its 30th birthday. We have also commenced work to deliver platform enhancements and major improvements to the Betfair brand's product offering to provide a more tailored local product, for example increased languages and currencies, which will deliver benefits during 2019 and beyond. On 1 February 2019, we were pleased to announce the acquisition of Adjarabet, which in line with our strategy, gives the Group exposure to two new attractive, fast-growing, regulated markets.

Our Australian business, Sportsbet, continued to see strong momentum, with us investing significantly in our market-leading position to ensure we remain well placed to capitalise on current market disruption.

Our US division had a transformational year. Following the repeal of the Professional and Amateur Sports Protection Act ("PASPA") in May 2018, we completed an exciting deal to combine our pre-existing US business with that of FanDuel, a daily fantasy sports group, forming the FanDuel Group. We subsequently launched sports betting operations in New Jersey and West Virginia. Operating as FanDuel Group, the business has seen a very encouraging start to trading and we believe that we are well-positioned to take advantage of the exciting new US sports betting market.

Financially, the Group saw continued good growth with Revenue up 9%* in current currency to £1,873m and underlying† EBITDA** of £451m.

Corporate culture

Our industry is competitive and fast-moving and to be successful it is vital that we foster a culture that recruits potential, develops individuals, retains highly talented people and rewards success. In 2018, we launched a range of initiatives designed to ensure a successful and progressive working culture across each of our offices, which is aligned to our values as a business. We have made good strides promoting diversity for all of our employee population; an area where progress has historically been slow across our industry. Ensuring we have the right culture across the Group and having a diverse Board and workforce will continue to be a key focus area for the Board.

As the Group is now operating a growing number of brands and operations, the Board believe the name of the Group should be reflective of the broader business and not reference any specific brands. Therefore, we have decided to change the name of the parent company to Flutter Entertainment plc and a resolution will be put to shareholders in respect of this at the upcoming AGM.

Responsible gambling

Underpinning our business, and every element of the Group's strategy, is responsible gambling and being a responsible operator. In recent years, we have made significant progress towards making our products and services safer for customers. In 2018, we have enhanced our site tools and information to enable customers to take greater control over their betting while proactively monitoring to identify any potential signs of harm and we have an agreed programme of future work to continue to improve the protections we offer. For the majority, betting is an enjoyable activity, but for some, it can become a real problem, and unless we can safeguard all customers, we will not have a business in the long term. Our regulatory settlement with the Gambling Commission in October 2018 reflects inadequacies of the past and highlights the ongoing importance of getting this right. In recent years we have made many changes to continually enhance our approach to this fundamental aspect of our business. We also assist a range of external initiatives that support responsible gambling.

To reflect the seriousness with which the Group is addressing responsible gambling, in 2018, we appointed a Chief Risk Officer as an additional member of the Executive Committee. Part of the remit of her role is to coordinate a more strategic approach across the Group in this area and her team has made a very promising start in developing the initiatives in this area.

Board update

On 8 January 2018, Peter Jackson became Chief Executive Officer, replacing Breon Corcoran. Peter has a deep understanding of the digital consumer world and experience of engineering high-performance in a large and diverse corporate environment.

Jonathan Hill joined as Chief Financial Officer on 22 October 2018 succeeding Alex Gersh, who decided to step down from this position after six successful years with the Group. I would like to thank Alex for his significant contribution to the success of the Group and previously to Betfair Group plc and wish him well in his future endeavours. Jonathan brings significant strategic and operational finance experience in consumer businesses and we look forward to him leading the Finance function during an exciting time for the business.

Additionally, Pádraig Ó'Ríordáin retired as a Non-Executive Director in March 2018. We again thank him for his valuable contribution to the Board over his long tenure.

We continue to focus on our search for a new non-executive director who would enhance the diversity of the Board adding appropriate capabilities and experience.

Dividend and capital structure

Having considered the Group's strong cash flow generation and general capital market conditions, in May 2018, the Board announced a £500m share buyback to increase the efficiency of its capital structure. The first £200m tranche commenced on 29 May and completed on 20 August 2018 and was immediately followed by the £300m tranche which completed in February 2019. The total dividends paid in 2018 (comprising the 2017 final dividend and 2018 interim dividend) and the share buyback undertaken during 2018, equates to a cash return to shareholders in 2018 of £584m. Notwithstanding these capital returns and the ongoing investments we are making across the business, the Group finished 2018 with a net debt of £162m, equating to a net debt/underlying† EBITDA** ratio of 0.4 times. This continues to provide the business with significant strategic flexibility.

We have proposed a final dividend for 2018 of 133p per ordinary share (subject to shareholder approval), which would maintain the full-year dividend at 200p per ordinary share.

Investor engagement and remuneration

During 2018, I continued to engage with our investors and both Peter Rigby, Chair of the Remuneration Committee, and myself met with shareholders separately and together to discuss remuneration changes in the context of internal and external strategic developments, business and regulatory changes, as well as general governance matters. Our objective in our discussions was to arrive at incentives that strike a balance between compensation aligned with shareholders' interests and being able to recruit, retain and motivate quality employees in a very competitive market place. Having reviewed the feedback, the Remuneration Committee agreed changes to our long-term and short-term incentives as further described in the Directors' Remuneration Report. However, on behalf of the Board and the Remuneration Committee, I would like to highlight that one of our greatest challenges is in relation to the formulation of remuneration arrangements that facilitate retention, recruitment and motivation of key senior executive talent, whereas many of our competitors for talent operate in markets or segments that face fewer remuneration constraints than UK publicly listed companies. The Remuneration Committee intends to undertake a thorough review of the Remuneration Policy in 2019 and dependent on the outcome of this, a new Remuneration Policy may be put to shareholders for approval at the 2020 AGM.

People

Once again, I have spent time throughout 2018 visiting our offices around the globe, using the opportunity to meet our employees across the business and to experience our culture first hand. It was a pleasure to visit both the Cluj and Porto offices with the whole Board during 2018. Both of these centres play a vital role supporting the Group in its ambitions through providing superb product development and engineering capabilities. I also managed to spend time with the Sportsbet team as part of my visit to Melbourne and visited our FanDuel operations in New York, where I was able to meet our new colleagues. The entire Board will be undertaking a visit to New York during 2019.

I continue to be impressed by the quality, talent, passion and commitment of all our people and I would like to take this opportunity to thank all our colleagues for their very important contribution to the Group's success. We look forward with confidence to the coming year.

Gary McGann
Chair
5 March 2019

FURTHER INFORMATION

Our strategy and responsible gambling
pages 18 to 30

Corporate Social Responsibility
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People and culture
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Understanding and managing the Group's principal risks
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Governance
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Nomination Committee Report
pages 63 and 64

Audit Committee Report
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Risk Committee Report
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Directors' Remuneration Report
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Engaging with stakeholders
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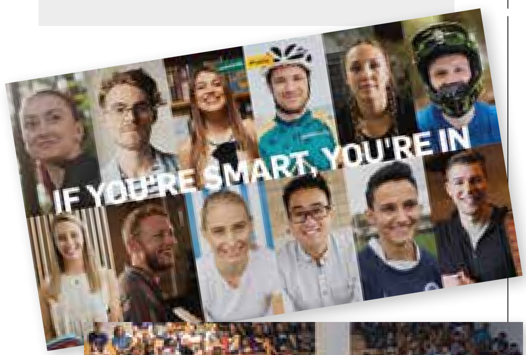


The Board's visit to our Porto office.

* Constant currency growth (page 46).

† The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (Note 4 and page 125 to the Consolidated Financial Statements).

** EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure (page 46).

ANOTHER BUSY YEAR

January

A key milestone as our European technology integration was completed, placing Paddy Power and Betfair onto the same platform. This enabled Paddy Power customers to immediately benefit from **faster, easier-to-use apps** and positions our European business well to deliver further ongoing product enhancements in the coming years.

February

We took part in the first ever Responsible Gambling Week in Ireland, running prominent messaging across all our sites and stores and taking the chance to interact with customers on **keeping their betting safe and fun**.

March

As always, the **Cheltenham Festival** took centre stage, with nearly 1m customers placing a bet over a compelling four days of National Hunt racing.

July

FanDuel Sportsbook opened at The New Meadowlands Racetrack, New Jersey. The site has quickly become one of the leading sports betting venues in the World, handling over US$1m a day in stakes.

August

Employees in the UK and Ireland took part in the **"Race to the Races"**, cycling the width of Ireland and finishing the gruelling journey at the Galway Festival, raising €10,000 for charity in the process.

September

Paddy Power celebrated its **30th Birthday** by curating a **"Museum of Mischief"** in Dublin featuring the highlights (and lowlights) of the brand's vast creative output from the past three decades.

April

All eyes turned to the **Grand National** at Aintree, where well-backed favourite Tiger Roll clung on to hand punters a payout of over £4m.

£4m

PAYOUT ON TIGER ROLL AT THE GRAND NATIONAL

May

PASPA was repealed by the US Supreme Court, giving US states the right to regulate sports betting. The Group subsequently announced a merger of its US operations with **FanDuel** that saw the Group take a 60% stake in the combined entity.

June

The **2018 FIFA World Cup** saw almost £3bn traded across the globe, with England's run to the semi-final proving popular. Paddy Power was one of the most talked about brands of the event, raising £170,000 for LGBT causes with its 'Rainbow Russians' campaign (helped by the free-scoring Russian team).

1.7m

CUSTOMERS PLACED A BET ON THE WORLD CUP

CASH4CLUBS

October

Our UK Cash4Clubs scheme celebrated its **10th anniversary** with a record £70,000 donated to grass-roots sports clubs. The UK Sutton Goalball Club received a special £10k grant to help support their development ambitions for this uniquely inclusive sport.

£70k

DONATED

November

The world-famous **Melbourne Cup** saw record activity Down Under, with a positive result for Sportsbet as European raider Cross Counter stormed home. This capped a strong Spring Carnival for Sportsbet with turnover up nearly 20%. However, customers definitely won the war in 2018 with results going the punter's way in Australia throughout the year.

December

BREXIT chaos sparked political trading on the Betfair Exchange. **£135m traded** and counting...

£135m

TRADED

AT A GLANCE*

INTERNATIONAL REACH

Across the globe we are building a winning team based around some key core principles.

362*
UK retail shops

264*
Ireland retail shops

PADDYPOWER. betfair
OFFICES* 8

FANDUEL
OFFICES* 7

sportsbet
OFFICES* 3

NUMBER OF EMPLOYEES*

PADDYPOWER. betfair	3,317
PADDYPOWER. (Retail)	3,179
sportsbet.com.au	729
FANDUEL	676

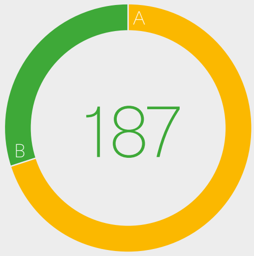
ALL EMPLOYEES*

A: Male: 4,849 (61.4%)
B: Female: 3,052 (38.6%)

BOARD OF DIRECTORS*

A: Male: 7 (77.8%)
B: Female: 2 (22.2%)

SENIOR MANAGEMENT*†



A: Male: 131 (70.05%)
B: Female: 56 (29.95%)

Senior managers are defined in legislation as including both persons responsible for planning directly or controlling the activities of the Company (or strategically part of the Company); and any other directors of undertakings included in the consolidated accounts. For reporting purposes, as at 31 December 2018, there were 41 Group subsidiary entity board directors, comprising 5 women and 36 men.

* As at 31 December 2018.

† Comprises members of the Executive Committee and their direct reports.

PEOPLE AND CULTURE

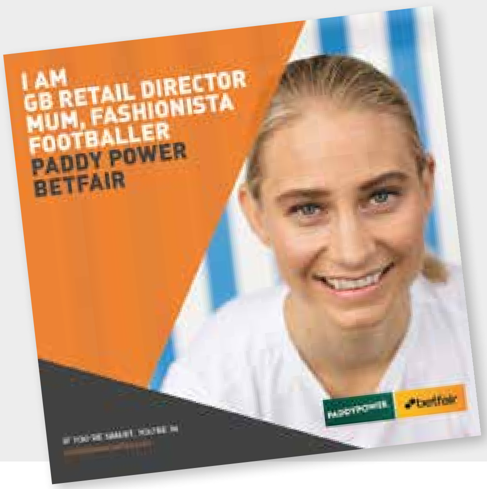
We have made some significant progress in 2018 on enhancing our working environment, with a focus on flexible ways of working, diversity and embedding an inclusive culture.

Diversity

Our industry is not well known for its diversity. But we believe that diverse teams make better decisions, drive more innovation and create a healthier working environment, not to mention drive business growth and help us to attract and retain market-leading talent.

Our efforts in the diversity space are paying off and we are seeing strong results across the globe. In Europe, the number of female hires increased 10 percentage points from 29% in Q1 2018 to 39% in Q4 2018, and in Australia there have been significant increases in the proportion of women in our team – women represent 22% of Sportsbet's top two layers, with the senior management population gender ratios seeing a positive shift from 1:12 to 4:12 (Female:Male) in 2018.

We are passionate about building a culture where everyone can come to work and be themselves. We support minority groups through mentoring opportunities with senior leaders and have also set up networks for minority groups as part of our Fair Game programme that help raise awareness of the importance of diversity and help us to develop the right behaviours to create an inclusive culture. Our efforts have translated into high levels of engagement and retention of female employees which in turn will help us to build a strong, more diverse talent pipeline for the future.



Flexibility

Our business centres around the sporting calendar which isn't always 9 to 5. We are proud of our combination of technology and top talent that together enable us to react quickly to events.

Around the world, we operate in competitive global talent pools and it's vital that we have a market-leading offer. We know that a top driver for talent in our key target markets is the ability to work flexibly, in an agile environment. That's why we focus on fostering a collaborative culture that values productivity over presenteeism and operates from a position of trust.

We aim to give employees the chance to work flexibly to balance their professional and personal lives, including encouraging working from home, sabbaticals, flexible start and finish times and part-time working, on an ongoing or an 'as needed' basis. Alongside this, we are creating great office spaces in all our locations, which means employees have the technology and environment to work effectively together.

In 2018, we launched uncapped annual leave for all corporate employees in the UK and Ireland which has been very well received. Employees are encouraged to take the leave they need to strike a healthy balance between time spent at work and their life outside work. Taking more breaks, more regularly, can only improve well-being. Healthy, happy employees are good for business and we are delighted that, on average, employees are taking more leave following the introduction of our uncapped annual leave policy.

The numbers speak for themselves. In Australia 79% of employees agreed that "I'm genuinely supported if I choose to make use of flexible working arrangements", whilst in Europe, 83% of our employees agreed that people who work flexibly at Paddy Power Betfair can perform effectively at their job.

Employee engagement

Our employees are our greatest asset, and it is vital we regularly check-in with them to find out how we're doing. We therefore conduct regular employee surveys to capture feedback, providing us with valuable insight into the level of engagement within the organisation and our culture. This, in turn, helps to inform our future people plans and priorities. We've listened to employee feedback and are delighted that, in Europe, we have above average engagement scores when benchmarked against the online sector. We are also seeing very high participation rates in our engagement surveys across locations and a general trend of improved engagement.

People and Culture:
pages 34 to 37

OUR VALUES

LEADING SPORTS BRANDS

Betfair operates globally and gives online sports betting customers an unparalleled offer with its market-leading Exchange and Sportsbook providing consistent value, choice and innovation. We are well known for our partnerships within Sport, both in the UK and Europe.

Paddy Power operates across the UK and Ireland, where we are one of the most popular sports betting brands. Our business is underpinned by its fast, easy-to-use betting app; one of the most vibrant retail estates in the sector; and a marketing operation that is globally renowned for its distinct brand of mischief making.

TVG broadcasts horseracing across the US as well as operating an online betting network active in over 30 states. We handle over US$2bn of bets every year and are driving the industry forward through innovative, high-quality broadcasting and market-leading promotional offers around US horseracing.

Sportsbet is the market-leading brand in the fast-growing Australian online sports betting market. Our leading position is underpinned by innovative products, disruptive marketing, and consistent promotional generosity around key sports events.

FanDuel has been a driving force behind the phenomenal growth in daily fantasy sports ("DFS") in the US over the past decade, with over eight million registered customers now competing against one another across a variety of sports. We are now a key player in the recently regulated US sports betting market, offering a leading online and retail proposition to sports fans in New Jersey.

Adjarabet* is the market-leading online gaming and sports brand in the fast-growing Georgian market. We combine a strong product set with some unique marketing assets including a long-term partnership with the Adjaranet media platform.

* Adjarabet was acquired on 1 February 2019 and is not included in the statistics or results in this Annual Report unless specifically stated given that this acquisition occured post year end.

OPERATING AS FOUR DIVISIONS*

Our US division, FanDuel Group, operates the FanDuel sports betting brand (retail and online) in New Jersey, and daily fantasy sports across 40 states; TVG, which broadcasts horseracing across the US and operates an online advance deposit wagering network; the Betfair New Jersey online casino; and the Betfair New Jersey horseracing betting exchange.

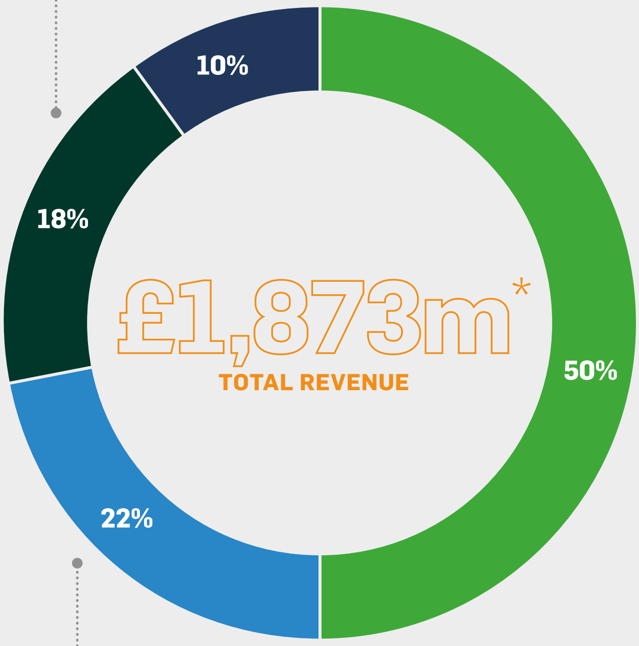
	2018 £m	2017 £m
Revenue	**191**	109
Underlying EBITDA	**(14)**	4
Underlying operating profit	**(25)**	(5)

Find out more: page 41

Our Retail division consists of 626 Paddy Power betting shops across the UK and Ireland. The estate focuses on sports betting, driven by a market-leading range of TV content and strong pricing and promotions. We also offer dynamic multichannel products, such as our PP Onside app, which bridge the gap between retail and online.

	2018 £m	2017 £m
Revenue	**331**	334
Underlying EBITDA	**72**	82
Underlying operating profit	**51**	63

Find out more: page 42



Our Australia division comprises of Sportsbet the leading online sports betting brand in the Australian market. Sportsbet combines innovative products with dynamic marketing campaigns around national sports events.

	2018 £m	2017 £m
Revenue	**403**	404
Underlying EBITDA	**137**	139
Underlying operating profit	**119**	125

Find out more: page 40

Our Online division comprises the Paddy Power and Betfair online operations in the UK and Ireland, as well as our Betfair online operations across many European and International territories. It also includes our Dial-a-Bet telephone betting service in Ireland and the UK and a range of B2B partnerships across the globe.

	2018 £m	2017 £m
Revenue	**948**	898
Underlying EBITDA	**316**	306
Underlying operating profit	**275**	268

Find out more: page 39

* As at 31 December 2018.

MOMENTUM IN CORE MARKETS; EARLY PODIUM POSITION IN THE US

Paddy Power Betfair increased revenues by 7% in 2018 to £1.9 billion as we made good progress in enhancing our competitive positioning in core markets and increased investment in new growth opportunities. The Group delivered £451m of underlying EBITDA in 2018, 5% lower than the prior year primarily as a result of investment in the nascent US sports betting market where we have secured an early podium position. During the year, we returned £584m of cash to shareholders via dividends and share buybacks.

The Group is very well positioned to deliver strong and sustainable returns for shareholders. We shall do so through a combination of continued profitable growth in our existing markets and investment in new growth opportunities. Ongoing industry evolution is increasingly advantageous to large-scale online operators. We believe our scale, in-house capabilities and focus on sustainable earnings streams will enable us to capitalise on the broad array of market opportunities available globally.

To find out more about the Group's 2018 performance and that of its operating divisions, see Operating and Financial Review: pages 38 to 49

The attractive sector investment characteristics

The global online betting and gaming market is growing at pace (CAGR of 11% in 5 years to 2018) but still has a long runway of growth ahead of it. Online spend still only represents c.11% of total gambling spend globally, with each one percentage point migration from offline to online contributing c.US$4bn growth (or 8%) to the overall online market. Even in a more mature online market such as the UK, there remains considerable opportunity to grow further as spend continues to migrate online. Recent regulatory changes in retail may even accelerate this trend in 2019 and beyond.

Further afield, the trend by national and state governments to introduce "regulate and tax" regimes is opening up additional online markets. In the last two years alone, markets with a total potential online customer base of c.350m adults have either regulated or been given the authority to do so. This equates to a potential doubling of the total addressable regulated global online market for a listed operator such as Paddy Power Betfair.

Key performance indicators ("KPIs")

REVENUE +7%

2018: £1,873m

2017: £1,745m

UNDERLYING* EBITDA† (pre-US sports betting) Flat

2018: £475m

2017: £473m

US SPORTSBOOK INVESTMENT (2018) £24m

* The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (Note 4 and page 125 to the financial statements).

† EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure (page 46).

Peter Jackson
Chief Executive Officer

WE HAVE A CLEAR, FOUR PILLAR, STRATEGY TO CAPITALISE ON THE SECTOR'S OPPORTUNITIES

While much has been made of the increasing regulatory burden facing the industry, such change re-emphasises the importance of having sustainable earnings streams, something the Group has always been committed to. Indeed, we continue to believe that such regulatory change disproportionately benefits operators with established leadership positions, making it more difficult for less established brands to achieve the necessary scale to compete.

To find out more about the global betting market and the key markets in which we operate, see Market Review: pages 16 and 17

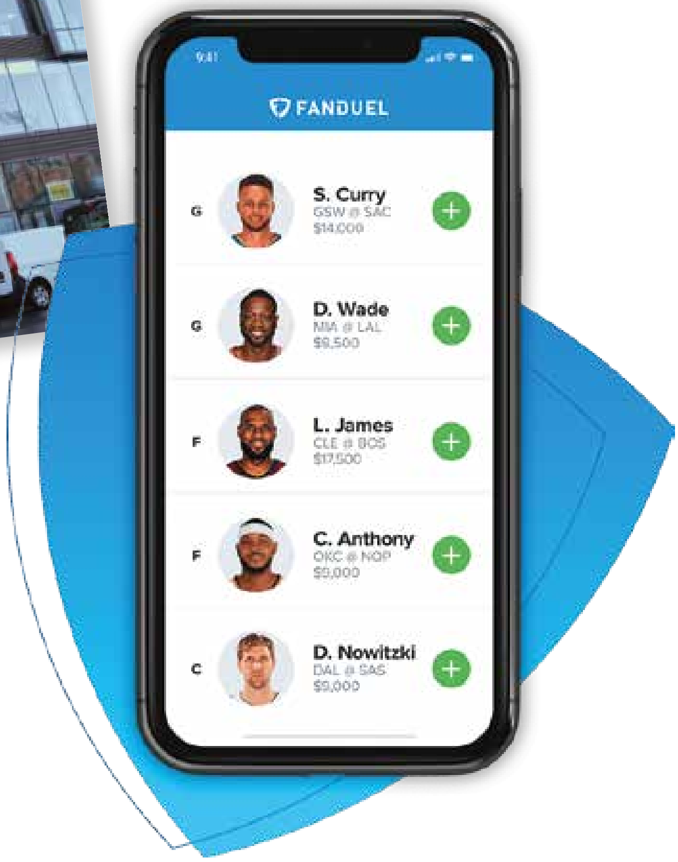
Group is positioned for success

Against this market backdrop, the Group is well positioned. We have substantial online scale and a portfolio of distinctive brands which, when combined with leading sports capabilities, provide us with important competitive advantages. These have enabled us to build leading positions in key online markets.

While we can continue to deliver profitable growth in our core online markets (UK, Australia and Ireland), it is important to note the scale of the opportunity that remains for us to expand internationally. Our core markets represented 80% of Group revenues in 2018 but account for c.22% of current global industry online gambling revenues. Accordingly, our opportunity in less mature regulated or regulating online markets is substantial. We will be selective in the markets we pursue but open to a variety of ways to enter them, from organic growth to pursuit through acquisition. In addition, we are investing in our technology to enable us to serve global customers more effectively through Betfair.

Crucially, the Group's strong balance sheet and strong ongoing cash generation within its core markets ensures that we can invest to capitalise on these substantial growth opportunities.

Paddy Power in mischievous form ahead of the recent Ireland vs England Six Nations clash.



3bn

TRANSACTIONS ACROSS OUR SITES IN 2018

Four pillar strategy to achieve success

We have a clear strategy to capitalise on the sector's opportunities, the four pillars of which are to:

MAXIMISE PROFITABLE GROWTH IN OUR CORE MARKETS

GROW BETFAIR IN THE REST OF THE WORLD

ATTAIN PODIUM POSITIONS IN ADDITIONAL REGULATED MARKETS

PURSUE THE US OPPORTUNITY RIGOROUSLY

These pillars are supported by investment in our key enablers, namely our people and technology. Our approach is underpinned by our core values; to operate responsibly and with a customer-centric focus.

To find out more information about our strategy and some examples of our strategy in action: pages 18 to 29

Operating responsibly

At Paddy Power Betfair, we want our customers to enjoy their visits to our sites, to stay in control, and to only bet what they can afford. To support our customers in this, we have robust and wide-ranging policies on responsible gambling and routinely engage with customers we think are at risk.

Whilst we have always had market-leading responsible gambling features available, we recognise that not all customers will choose to use them and the industry needs to be more proactive. During 2018, we significantly increased the size of our responsible gambling team and stepped up our proactive intervention. We monitor our customer base through a proprietary algorithm, called Customer Activity & Awareness Programme ("CAAP"), which we believe is market leading and identifies customers who may be at-risk, based on their behaviour. Using our current identification processes we interact with circa 70,000 online customers per month regarding their activity, with our specialist team making circa 1,200 responsible gambling calls, often suspending accounts if we are not satisfied a customer is in control. In 2019, we are set to deliver a refresh of CAAP which will further enhance our capabilities to identify and interact with at-risk customers. Our enhanced CAAP model will monitor over 115 customer behaviours on a daily basis and assign risk scores to each active customer.

There is no one organisation that can prevent harm alone so, alongside our own activity, we are committed to working closely with industry stakeholders to further the objective of safer gambling. In the UK, we continue to drive collaboration across the industry through our membership of the Senet Group, the Association of British Bookmakers, and the Remote Gaming Association. Key projects this year have included the launch of a multi-operator self-exclusion scheme (GAMSTOP) and a proactive pre-watershed ban on gambling advertising during televised sport which will be introduced in August 2019.

In Australia, Sportsbet, alongside our industry body, Responsible Wagering Australia ("RWA"), has worked with the Australian Government to introduce a national consumer protection framework, which includes an industry-funded self-exclusion register, a ban on sign-up offers, the introduction of account summary pages and consistent responsible gambling messaging. In Ireland, we fully support the introduction of the Gambling Control Bill, which will establish an independent regulator for the sector. We continue to provide funding to Dunlewey Addiction Services who provide resident treatment for problem gamblers. We also remain a supporter of Gambling Therapy, a European-wide responsible gambling app, which provides support in over 10 languages. The app offers self-help tutorials, mindfulness exercises and a live chat facility with access to trained counsellors.

A world-class panel provides useful insight to Betfair customers in London ahead of the 2018 FIFA World Cup.

BETFAIR'S JOINT EXCHANGE AND SPORTSBOOK PROPOSITION CAN OFFER CUSTOMERS AN UNPARALLELED SPORTS BETTING EXPERIENCE

Finally, across the Group we have dedicated resources, both internal and external, to train our staff to recognise and react to potential customer gambling issues. The training is delivered through multiple formats and more detailed training is given to customer-facing staff. We are very focused on ensuring we continue to embed a culture of operating responsibly throughout our global operations and increase the level of cross-industry collaboration.

To find out more about our responsible gambling programmes:
pages 19 and 30 to 33

Capital structure

The Group continues to target a medium-term leverage range of between 1x and 2x net debt to EBITDA. This target reflects the Group's strong cash flow generation, general capital market conditions and the need to retain strategic flexibility for continuing investment opportunities.

Over the last 12 months, the Group has progressed towards this leverage target via continued investment in our customer propositions, acquisitions for new growth opportunities and through increased shareholder returns. Our returns to shareholders in 2018 totalled £584m through dividends and share buybacks. At 28 February 2019, the Group had net debt of £310m representing 0.7 times EBITDA after completion of our share buyback programme and the acquisition of 51% of Adjarabet.

The evolution of the Group's capital structure is kept under regular review by the Board in the context of the medium-term leverage target range and prospective investment plans.

Proposed corporate name change

We will be seeking shareholder approval at our AGM in May to rename the parent company to Flutter Entertainment plc. This change will ensure our corporate name better reflects the increasing diversity of the Group, which currently consists of six consumer-facing brands (Paddy Power, Betfair, Sportsbet, FanDuel, TVG, Adjarabet) with global operations across Europe, Australia and the US.

Outlook

The new financial year has started in line with our expectations. The acquisition of Adjarabet is further evidence that we are delivering against our strategy, and whilst there will inevitably be further regulatory challenges, we are excited about the growth opportunities ahead of us.

Peter Jackson
Chief Executive Officer
5 March 2019

A member of Paddy Power retail staff demonstrates the innovative electronic self-exclusion tablet.

#1

BRAND IN THE UK ON SOCIAL IN CONNECTION WITH THE 2018 FIFA WORLD CUP (PADDY POWER)

OUR BUSINESS MODEL

BUILDING LONG-TERM VALUE

We use our unique advantages to deliver an exciting sports betting and gaming experience to our customers, while building long-term value for our stakeholders.

Competitive advantage

Global and national scale

Our strong position in the largest regulated online betting markets across the world gives us the confidence to invest in our portfolio of diverse and complimentary brands.

In-house technology

Our proprietary technology platforms and in-house product development allow us to support an array of international operations. We run specialist sports and gaming development centres in Porto, Cluj, Sofia, Edinburgh and Glasgow which develop unique and innovative content for all our brands.

Market-leading sports pricing and risk management

Our advanced in-house sportsbook pricing technology allows us to offer strong pricing and more markets across our own sites, and provide white-label services to third parties. Our Betfair Exchange supports this expertise by allowing the hedging of unwanted liabilities.

The world's largest betting Exchange

The Betfair Exchange is a unique tool that facilitates betting between customers (rather than with a bookmaker), typically resulting in better odds and enhanced trading capability. The product gives our customers more choice and powers a range of trading optionality across the Group.

Strong global expertise and talent

Our ever-growing global talent pool, comprising of industry and market specialists in technology, marketing, trading and commercial fields, enables us to operate strategically and efficiently across different time-zones. We continue to invest a significant amount in developing, retaining and rewarding our team and finding ways to benefit from collaboration across territories.

Our process

Generation of margin and commission

Sports betting

Sports betting involves customers betting on the outcome of sporting events. We have three separate operating models for sports betting:

- **Our Sportsbooks** (Paddy Power, Betfair, Sportsbet, FanDuel) are traditional bookmaking products, where we act as the bookmaker, offering odds on outcomes and taking bets from customers. The odds we offer apply an expected margin, designed to enable us to retain a net return after settlement of all bets.
- **Our Betfair Exchange** is a platform which enables customers to bet against each other. Unlike a traditional sportsbook, we do not take any risk on the outcome of the event and instead earn a commission for facilitating the matching of customer bets on the platform.
- **Our TVG business** operates an advanced deposit wagering ("ADW") service in the US. Our platform accepts wagers from customers and places them into track-based pools. We take no risk on the outcome of the event but earn commission from the pool operators on the wagers we forward.

Daily Fantasy Sports ("DFS")

Our FanDuel business operates a DFS service where customers select virtual teams of athletes to play against each other for a pre-determined prize pool.

The athletes earn points based on their real-life performances and the customer team with the highest number of points wins the contest. We take a commission from the prize pool when the contest ends. FanDuel offers two models of DFS product; the traditional 'salary cap' draft, and a 'snake' draft, giving users greater choice over how they select their team.

Gaming

Gaming involves customers betting on a range of skill-based games, games of chance and peer-to-peer games.

These include online Casino, Poker, Bingo and Games, along with machine gaming terminals in our UK retail betting shops. Some of these games involve customers betting 'against the house', with a fixed-odds margin applied, and for others, like Exchange Games or Poker, we facilitate the game between customers and take a commission.

Creating value for our stakeholders

Customers

During 2018, over six million active customers played our products online and enjoyed visiting our betting shops. They benefit from market-leading value, promotions, product choice and innovation in their betting.

6m+
Active customers during 2018

Shareholders

As a publicly listed company we have a long-standing track record of delivering strong returns to shareholders. During 2018, we returned £584m via the dividend paid (2017 final and 2018 interim dividend) and the share buyback undertaken.

Dividends:
page 46

£584m
2018 cash returns to shareholder returns (dividends & share buyback)

Employees*

At 31 December 2018, we employed 7,901 people across 18 global offices and in 626 Paddy Power betting shops. This creates significant economic benefit in the regions in which we operate.

People and culture:
pages 6, 7 and 34 to 37

7,901
Total number of global employees*

Governments and regulators

We make a significant financial contribution to the territories in which we operate, paying £393m in gaming, corporation and other taxes in 2018.

£393m
Gaming, corporation & other taxes paid in 2018

Sports

We support sports via commercial partnerships, product fees (Racing), sponsorship, betting integrity services and charitable support for grassroots sports activities.

Communities

We consider responsible gambling a key tenet of our strategy and will continue to have leading technologies and tools and fund the research, education and treatment needed to address gambling related harm. We are also committed to making a positive contribution to the communities in which we operate through our social responsibility and charity programmes.

Responsible gambling and corporate social responsibility:
pages 19 and 30 to 33

>70
Memoranda of understanding with sporting governing bodies

* As at 31 December 2018.

MARKET REVIEW*†

A WIDE RANGE OF MARKETS AND PRODUCTS

The global market

The global betting and gaming market incorporates a wide array of products and services including sports betting, lotteries, casino games, poker and bingo. These products are offered in both land-based venues (such as casinos, betting shops and race tracks) and across online/mobile/telephone channels. The total market is estimated to be worth c.£346bn.

Since the late 1990s, online channels have grown strongly (estimated CAGR of 11% in the five years to 2018) with online now representing c.11% of the total market. The growth in the online market has been driven by several key drivers, namely:

- the expansion of the overall market due to ongoing product development and innovation;
- the ongoing growth in global smartphone penetration, which has led to better availability of mobile products;
- the structural migration of customers from retail to online in many markets; and
- a continuous improvement in the quality of products available, with betting apps providing greater convenience and a better overall user experience for customers.

Notwithstanding the growth to date, we believe that the sector still has a long runway ahead of it, with each one percentage point migration from offline to online contributing c.£3bn (or 8%) to overall online market growth.

How the sector is regulated varies significantly across the world, with a spectrum from markets where gambling is explicitly prohibited, to government-owned monopolies, to licensed industries that are fully-open to commercial operators. There also remain many markets where governments are yet to legislate for online products and as such the regulatory picture in these markets remains grey.

Encouragingly, the recent trend by governments, both national and local, to introduce "regulate and tax" regimes is leading to an opening up of additional online markets. In the last two years alone, markets with a total potential online customer base of c.350m adults have either regulated, or been given the authority to do so. To put that into perspective, this equates to a potential doubling of the addressable regulated online market for a listed operator such as the Group.

As at 31 December 2018, the Group derived 95% of its revenue from regulated markets and just over 80% of its revenues from online. A summary of the key markets in which the Group operates is enclosed opposite.

c.£346bn
Global betting and gaming market

95%
The Group's revenue from regulated markets in 2018

c.11%
Online as percentage of the global betting and gaming market

* As at 31 December 2018.

† Sources: UK Gambling Commission, H2GC, Aigmeg, Internal Group analysis.

** The New Jersey market revenues are given in gross gaming revenues, which varies from the traditional net gaming revenue figures given elsewhere.

UK & Ireland

Shape and size of the market

Together, the UK and Ireland are our largest markets by revenue, representing 59% of total Group revenue. These revenues are derived from our two online brands; Paddy Power and Betfair as well as the Paddy Power retail estate of 626 betting shops, known as licensed betting offices ("LBOs").

The UK is a relatively mature gambling market. It is fully regulated and is estimated to be worth approximately £13.9bn annually (including lottery). The UK online sports and gaming market is worth c.£5.1bn with the UK retail market worth c.£3.4bn. The Irish market consists of both land-based and online channels. Unlike the UK, however, retail operations in Ireland do not offer gaming products such as fixed odds betting terminals ("FOBTs"). The Irish online sports and gaming market is worth c.€350m, slightly larger than the Irish retail market which is worth an estimated €340m.

The Group is the largest online betting operator across the UK and Ireland with an estimated 12% share of the online market, and an estimated 23% share of the online sports market. We operate approximately 6% of the LBOs across the UK and Ireland, being the largest retail betting operator in Ireland and the fifth-largest in the UK by shop number.

Gaming tax environment

The UK government levies a variety of taxes on betting and gaming products. The main ones that relate to our business are as follows:

- A general betting duty of 15% is paid on the sports-betting revenues generated from customers based in the UK across both online and retail.
- For online gaming, remote gaming duty of 15% is applied to the gross gaming revenues of gaming products from UK-based customers. This rate is increasing from 1 April 2019 to 21%.
- In retail, machine gaming revenues are taxed at a rate of 20% and 25% depending on the type of machine.

In Ireland, sports betting stakes (across all channels) are taxed at 2% (1% prior to 1 January 2019) with online betting exchanges paying a 25% charge on commission generated (15% prior to 1 January 2019). VAT of 23% is paid on online gaming revenues.

c.£5.1bn
Size of UK online sports and gaming market

c.€350m
Size of Irish online sports and gaming market

c.23%
The Group's share of UK & Ireland online sports market

Australia

Shape and size of the market

Australia is the Group's second-largest market by revenue, representing 22% of total Group revenue via our market-leading Sportsbet brand. The Group holds an estimated 26% share of the Australian online market.

The Australian sports betting market is fully regulated and is worth an estimated A$5bn, with online and mobile accounting for almost 65% of the total market. Online market growth has averaged c.15% per annum in recent years, driven by technological innovation, ongoing product development, and increased smartphone penetration. Sports betting remains dominated by horseracing, but sports such as AFL, NRL and football are increasing in popularity. Online gaming is not currently permitted in Australia.

Gaming tax environment

The tax environment in Australia continues to evolve with 2018 seeing the majority of states announce the adoption of point of consumption tax ("POCT") regimes. Sportsbet has traditionally paid Goods and Services Tax ("GST") of 9%, alongside product fees to sporting bodies, and a licensing fee to the Northern Territories. In July 2017, South Australia became the first state to introduce POCT on online revenues. Since then, others have followed suit. In summary, the rates of POCT now being applied to gross gaming revenue are as follows:

- South Australia (July 2017): 15%
- Queensland (October 2018): 15%
- Western Australia (January 2019): 15%
- Victoria (January 2019): 8%
- New South Wales (January 2019): 10%
- Australian Capital Territory (January 2019): 15%

The blended impact of these announced taxes for Sportsbet is the equivalent of approximately 11% of gross revenues (or c.13% of net revenues) in 2019. Had these charges applied during 2018, we estimate that the additional cost would have equated to approximately A$95m.

c.A$5bn
Total market size

US

Shape and size of the market

The US market represents 10% of total Group revenue. Traditionally the market has been predominantly land based, with online sports betting (horseracing) and gaming only available on a very limited basis at state level. Fantasy sports are also popular in the market with the daily fantasy sports ("DFS") market estimated to be worth approximately US$300m. The Advanced Deposit Wagering ("ADW") horseracing market is online and phone only and is estimated to be worth US$4.4bn in stakes.

The Group has held a strong position in these traditional markets, participating in the ADW market via its TVG brand (estimated 33% market share), and online gaming and exchange racing wagering in New Jersey via the Betfair brand. In May 2018, the US Supreme Court overturned the Professional and Amateur Sports Act ("PASPA"), a 1992 law which had effectively imposed a federal ban on sports betting across 46 US states. The overturning of PASPA has given each individual US state the right to regulate sports betting within their borders. The American Gaming Association estimates that the US sports betting market is worth US$150bn in stakes each year, with just a tiny fraction of that accruing to licensed operators currently. Following the repeal of PASPA, Delaware and New Jersey quickly introduced sports betting. Subsequently additional states have launched sports betting including Mississippi and West Virginia. While it is early days, sports betting has thus far proven to be extremely popular in New Jersey with a total market size of US$110m** in the first six months of operation.

Gaming tax environment

Similar to the market itself, the gaming taxes applicable continue to evolve on a state-by-state basis. The Sportsbook product offered in our Meadowlands, New Jersey retail outlet and in our partner casino (Greenbrier) in West Virginia are subject to state tax rates of 8.5% and 10% respectively. The Sportsbook also incurs an online gaming tax in New Jersey of 13% and the Betfair Casino and Exchange racing business continues to pay gaming tax at a rate of 8% in that state. All of these taxes apply to gross gaming revenues. Based on current draft legislation, it is currently anticipated that once the market in Pennsylvania goes live, that the relevant tax on gaming revenues will be 34%.

Europe & International

The Group currently has licenses to operate in several regulated European markets through the Betfair brand, including Denmark, Italy, Malta, Romania, Spain and Sweden; and in Georgia through the Adjarabet brand. In totality however, Betfair accepts bets from over 100 countries and sees good scope to grow our presence in these markets over time. Some of the bigger online markets are as follows:

- The Spanish online betting market was regulated in 2012 and is worth an estimated €520m. The Group has an estimated 4% market share.
- Italy is the largest fully-regulated continental European online betting market, worth an estimated €1bn. The Group currently has an estimated 2% market share.
- The Swedish online market regulated in 2018 and is worth an estimated €840m, with the Group having an estimated 1% market share.
- The Georgian online market is regulated and worth an estimated £180m. The Group currently has an estimated 40% market share via the Adjarabet brand.
- We estimate that we have between 2% to 4% share of the nascent online betting and gaming markets in Denmark and Romania.
- The Group also operates in several grey international markets through the Betfair brand; the most significant being Brazil where we estimate we have 2% market share currently.

OUR STRATEGY

OUR VISION

To be a global leader in online sports betting, combining a diversified portfolio of strong national brands with the world's leading betting Exchange.

We have a clear four pillar strategy to capitalise on the sector's opportunities. These are to:

(i) Maximise profitable growth in our core markets
(ii) Grow Betfair in the rest of the world
(iii) Attain podium positions in additional regulated markets
(iv) Pursue the US opportunity rigorously

OUR PURPOSE

To bring excitement to life for our customers in a safe, responsible and ultimately sustainable way.

These pillars are supported by investment in our key enablers, namely our people, products and technology.

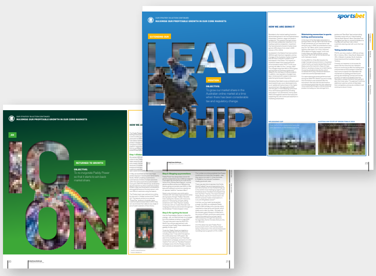
Our approach is underpinned by our core values; to operate responsibly and with a customer-centric focus.

Maximise profitable growth in core markets

In our core markets (UK, Ireland and Australia) we have market-leading positions that enable us to generate and grow our profit and cash-flow streams. We are focused on maximising both by ensuring we:

- Invest in our leading customer propositions (product, value and promotions)
- Leverage our distinct assets (brands and the world's leading betting Exchange)
- Capitalise on regulatory developments
- Focus on operating efficiently and sustainably

We are confident that successful execution against these targets will deliver market share growth, achieve positive returns on marketing investment and achieve good operating leverage on operations and technology costs.



Pages 20 to 23

Grow Betfair in the rest of the world

Betfair currently has a broad-based initial foothold in a large number of international markets, predominantly due to the brand's unique customer value proposition. This success, however, is despite the fact that our international customer proposition remains sub-optimal (versus our high standards) in many regions, with our ability to target international markets in an effective way constrained by a lack of flexibility in our technology and product. We therefore have a considerable opportunity to increase our revenues and profits from these markets by:

- Building an efficient global product that offers tailored regional customer propositions
- Investing further in regional promotional and marketing spend on a returns-based approach
- Leveraging our scale and technology platform to minimise the cost to serve global customers

Successful execution of this strategy can enable us to increase the Group's international diversification, while continuing to ensure that the Group's overall profitability is not exposed to any material concentration of revenues within particular markets. The nature of the Exchange liquidity ecosystem also means that growing international revenues can also improve the Betfair proposition within its core markets.

Pages 24 and 25

Attain podium positions in additional regulated markets

We believe that having substantial local scale and strong brand presence are advantageous to effectively compete in many online regulated markets.

Accordingly, we are looking to identify additional markets (beyond our core markets) in which to target podium positions through a combination of organic and acquisitive growth.

Successful execution of this strategy can ensure that the Group capitalises on the global trend towards online regulation, increases its diversification and ultimately expands the number of core markets that generate sustainable cash flows.

Pages 26 and 27

RESPONSIBLE GAMBLING

A CORE VALUE OF OUR STRATEGY

Responsible gambling underpins every element of the Group's strategy. Our mission is to offer our products to our customers in as safe a way as possible across all of our markets and channels.

Sports betting and gaming provide a fun, exciting experience for the majority of our customers, but research consistently shows that they can pose a real risk of harm to some. Our industry will only survive in the long term if we can protect all our customers from harm, and we will only do this if we place responsible gambling considerations at the heart of every decision, from the boardroom to the shop floor.

In recent years, we have made significant progress in making our products safer. Across the UK, Ireland, Australia and the US we have enhanced the visibility and effectiveness of the tools we offer to customers to enable them to take greater control of their betting. We continue to test and implement improvements to these customer tools, aware that our efforts to drive improvement in this area will never be complete.

Not every customer will choose to use self-help tools and therefore we have tasked our strongest data analytics talent with improving our ability to identify customers 'at risk' of harm or problem gambling. This way we can intervene early in a way that helps customers regulate their play. We continue to evaluate the effectiveness of a variety of interaction models.

Finally, we look to work with all stakeholders across our industry. We provide ongoing support to charities that play a crucial role in education and treatment initiatives to prevent problem gambling. We have also supported cross-industry initiatives in the UK which aim to simplify and unify self-exclusion across all Retail and Online sites. We will look to replicate these initiatives in other markets to ensure best practice across our global operations. We are also very supportive of future industry collaboration that aims to improve protections for vulnerable people.

What's next in Responsible Gambling?

Our work in this space is ongoing and in 2018 we both elevated and centralised our resources. Our strategy is underpinned by a programme of work to improve the protections we offer our customers and embed a model of continuous improvement in this space.

The work to uplift customer protection includes looking at how we identify 'at-risk' customers through behavioural based data analysis and implementing ongoing improvements to our industry leading models. We are also reviewing how we interact with customers at the appropriate time in their customer journey to make sure our interventions are as effective as they can be. Complementing this, we are improving and increasing the channels we use to communicate responsible gambling messages with our customers.

Our responsible gambling models are based on continuous learning, utilising the latest in automation and data analytics, because we recognise this is not an issue we will ever be finished addressing. However, by keeping this issue at the centre of our strategy, we aim to build a business that is built upon a sustainable customer base.

Find out more on our responsible gambling work:
pages 30 to 33

Pursue the US opportunity rigorously

The US Supreme Court's decision to repeal PASPA in May 2018 has opened up a very significant long-term future growth opportunity that is likely to be transformative for the sector. We believe that we have attained each of the key assets required to be successful in the US sports betting market. These are:

- **Leading brand:** FanDuel is a well-established, national sports-focused brand.
- **Market access:** We have secured market access in most of the key states, which we believe are most likely to regulate in the coming years and are confident we will secure access in further states as required.
- **Extensive customer base & distribution:** We have over eight million registered customers across the US; valuable fantasy sports customer acquisition funnel; and TV channels reaching 45 million unique households.
- **Unique cross-sell opportunity:** We have an extensive product suite with leading online and retail sports betting expertise; fantasy sports advantage; leading US racing product; and online casino.
- **Operational expertise:** We believe that our multi-year, multi-state experience (we operate in 46 states with real-money wagering in 33), including managing the various different licensing and payment processing challenges, gives us an advantage as we apply learnings to state-by-state regulation in sports betting.

By using these assets, we are confident we can deliver podium positions in key regulated states, in turn enabling us to generate sustainable positive returns on our sports betting investment.

Pages 28 and 29

MAXIMISE PROFITABLE GROWTH IN OUR CORE MARKETS

AN

RETURNED TO GROWTH

OBJECTIVE:
To re-invigorate Paddy Power so that it starts to win back market share.

HOW WE ARE DOING IT

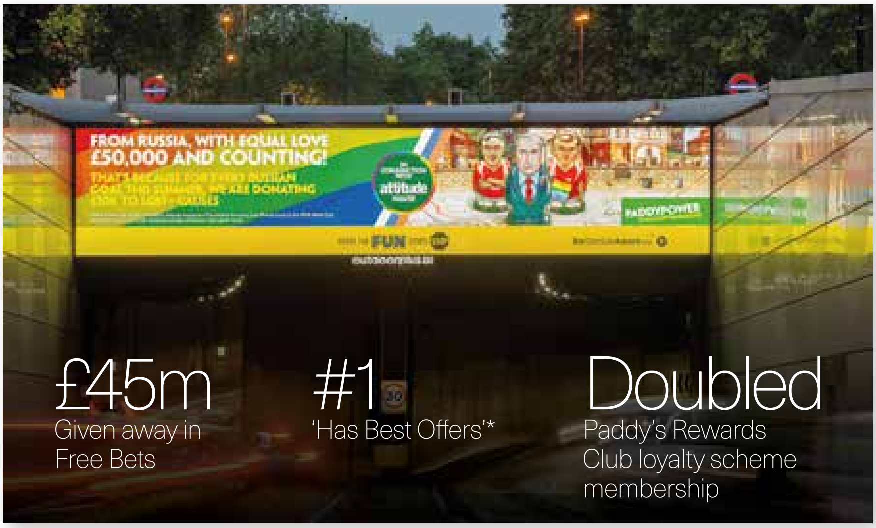
The Paddy Power brand is unique, a sports betting brand with a distinct personality that is iconic within our industry. However, in the years prior to 2018 the brand's performance had stalled, held back by a lack of new product releases in particular. Following completion of the Group's technology platform integration in early 2018, it was time to get Paddy Power back to being a powerhouse within the industry.

Step 1: Slicker product

We started 2018 with a bang by launching a brand-new Paddy Power app; providing a faster, easier-to-use sports betting experience and a vastly improved gaming site. This received immediate positive feedback, with analysis showing a significant increase in customers expressing satisfaction with the app's speed and overall experience.

In May, we launched our first new major product feature in recent years: Same Game Multis ("SGM"), enabling customers to automatically combine multiple selections within the same event into an accumulator. During the 2018 FIFA World Cup, we became the first operator to allow customers to place SGMs in-play and the product contributed to strong performance at the tournament, with over 20% of customers using the feature.

The Product team was well and truly rolling by now and in October we launched "Power Up". This feature, similar to our popular "PowerPlay" product in Australia, gives customers personalised tokens which they can use to boost their odds on any single or accumulator selection of their choice.



Step 2: Stepping up promotions

Paddy Power has always been known for generous promotions, but in 2018 we stepped it up a gear. We returned to our roots as the home of the "Money Back Special", running generous offers across over 500 sporting events, giving our punters over £45m in free bets and helping to cement our position as #1 operator rated for "has best offers".*

Never a one-trick pony we continued to innovate with new ways to give punters value; driving loyalty through 'Paddy's Rewards Club', leading the industry with most extra places on horseracing and golf, adding excitement with "Early Payouts", leading on fairness with our "Justice Refunds" and merging promotions and content through our live broadcast "Finders Keepers" show.

Step 3: Re-igniting the brand

Like the Expendables, Batman or (stop this analogy - ed)...our Mischief team re-emerged from the shadows to deliver a huge 2018. The year's key event was the 2018 FIFA World Cup, and we approached it with one goal: to get Paddy Power talked about globally. Simple, right?

To do this, Paddy Power put together a multi-pronged plan for the tournament, including a new TV ad, which focused on the controversial new VAR system. We also hit the headlines over our Polar Bear conservation campaign, and went on to troll Vladimir Putin with our "Rainbow Russians" campaign: every time the Russian national team scored, we donated to LGBT+ causes.

The number-crunchers predicted that Russia would score no more than five goals – alas, they went on to notch 11 times, and raise £170,000 for the Attitude Foundation. Vladdy good work, lads.

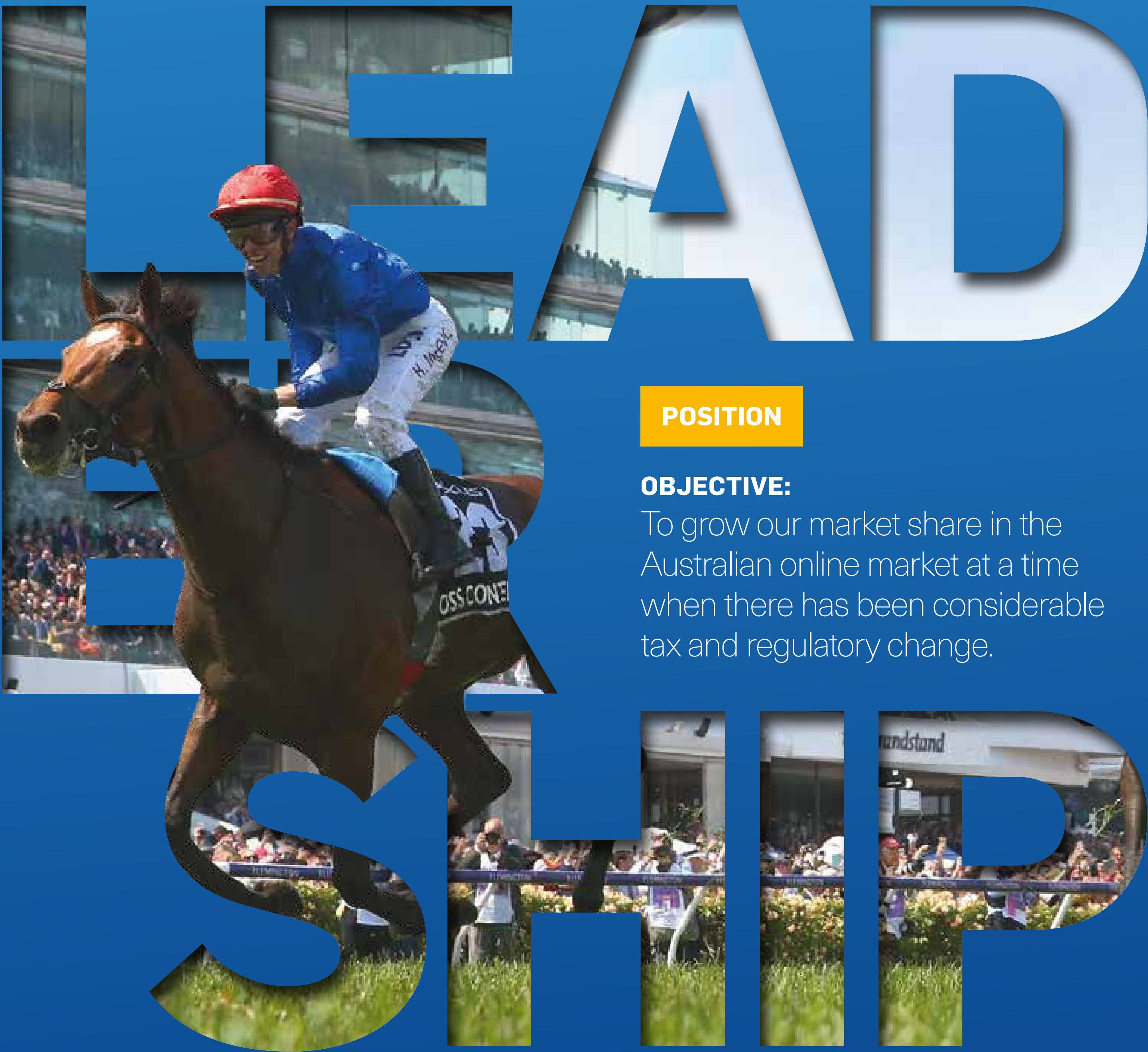
There was also time to sponsor the Conifa World Football Cup, accompanied by a five-part documentary on how football brings joy to the world's most challenging regions, and broadcast seven Facebook live programmes from the River Thames. The result of all this? Paddy Power was the #1 brand cited in UK World Cup social media conversations in June, and #6 globally overall.**

And then, as if we hadn't quite packed enough into 2018, we celebrated Paddy Power's 30th birthday with a low-key event, restricted to close family and friends, which totally went under the radar... Perhaps not! We erected a giant Museum of Mischief in the centre of Dublin and threw a party every night of the week with an all-star cast of interviewees put through their paces by the legendary Eamon Dunphy. Well you only turn 30 once!

All of the above has seen Paddy Power bounce back to form, with the brand back taking market share in the UK and Ireland and recording revenue growth of 11% in 2018.

* Source: Hall and Partners.
** Source: Mediacom.

EXTENDING OUR LEADERSHIP POSITION



OBJECTIVE:
To grow our market share in the Australian online market at a time when there has been considerable tax and regulatory change.

HOW WE ARE DOING IT

Sportsbet is the market-leading Australian sports betting brand in terms of spontaneous awareness, customer usage and product satisfaction. This position has been driven by continued, substantial investment in its leading customer proposition, investment that has delivered consistent market share gains (c.26% share of non-retail in 2018 versus c.21% in 2014).

As detailed in the Market Overview section, 2018 brought important regulatory and tax changes to the Australian market, changes that will have a long-term impact on all businesses in the sector. The majority of Australian states have introduced point of consumption taxes ("POCT") with most coming into effect on 1 January 2019. The charges range from 8% to 15% of gross gaming revenue and have significantly added to the cost base of industry players. In addition, new regulatory changes have been introduced with respect to television advertising during sporting events.

We believe Sportsbet's scale, profitability and brand position give us an ideal opportunity to win additional market share in this higher tax environment. We approached 2018 with this goal in mind; stepping up the level of our promotional generosity (including early-payout "Up" promotions, money-back offers and targeted customer bonuses) and supporting this with continued investment in marketing and product.

Maintaining momentum in sports betting and horseracing

At the heart of the Sportsbet proposition is giving punters a fair go. Sport has its fair share of ups and downs, so you need some help along the way. In 2018, we extended our early pay-out "Up" offers, which insure customers against a late shock. Our 12Up, 14Up and 24Up offers on Rugby League, Union and Aussie Rules are highly popular, and we launched "Half Time Up" for the World Cup with impressive results.

During 2018, the 12Up offer became the single most generous promotion in Australian market history, as heavily backed New South Wales came from behind in State of Origin Game 2, causing us to pay out on both teams. It's events and generosity like this which we believe form a key connection between customers and the Sportsbet brand.

Our sports betting business performed well during the 2018 FIFA World Cup, and crucially this momentum was sustained after the tournament. We have also focused hard on our horseracing business this year, attracting more customers through a mixture of strong product (including our new stronger form guides and "Best Bets" tips) and providing consistent value with our market leading "Money Back Special" offers. Sportsbet had its biggest ever day on record on Melbourne Cup day with well over half a million customers placing a bet with us on the Cup alone.

Taking market share

POCTs are now a reality; in 2019 we will pay 8% in Victoria, 10% in New South Wales and 15% in Western Australia, South Australia, Queensland and the Australian Capital Territory.

Critically, our response is not to pass the taxes onto the consumer, but instead to focus on continuing to offer the leading value and promotions that Australian customers have come to expect from Sportsbet. We maintained our leading promotions and pricing around Spring Carnival and into the summer, to make sure people know that Sportsbet is always the brand that's going to give them best value. This approach is driving additional customer activity to Sportsbet from competitors and we are confident it will continue to do so in future.

MELBOURNE CUP

Over half a million customers had a bet with Sportsbet on the Melbourne Cup

AUSTRALIAN STATE OF ORIGIN FINALS 2018

Our "12 Up" offer became the most generous promotion in Australian market history

BUILDING A GLOBAL POWERHOUSE

OBJECTIVE:

To consolidate Betfair's position in core UK & Ireland markets whilst improving our capability in international markets to support the Group's global growth.

HOW WE ARE DOING IT

Placing the Exchange at the heart of a fast-improving platform

Betfair's unique selling point has always been the Betfair Exchange. The platform enables bettors to bet against each other, rather than a bookmaker, with Betfair taking a commission from the winning side of the trade. Having pioneered this product in 2000, we now run the world's leading global betting ecosystem; seeing £70bn matched, from over 2bn separate transactions in 2018.

The Exchange enables Betfair to provide a unique experience for core bettors, and we accompany that with the Betfair Sportsbook, which continues to offer market-leading fixed-odds value and market depth. We believe that, together, our Exchange and Sportsbook provide a unique proposition for core bettors and this year we have made several changes designed to bring the products closer together, launching more integrated promotions, making navigation between the sites easier, and giving customers more choice over what pricing and promotions they receive across both products.

Alongside sports, we have significantly improved the Betfair Gaming offering this year, refreshing our Live Casino and Arcade sites, improving our headline promotions, and using the scale of the wider Group to launch higher jackpots.

Enhancing our offering for international customers

Betfair has an initial footprint in a large number of international markets, but we believe there is significant scope to improve the brand's performance by building more tailored regional customer propositions.

To achieve this, our key focus is on improving our platform capabilities. This will include expanding the number of languages and currencies offered to customers, tailoring our content to ensure customers in any specific region are presented with relevant betting content on their landing page, and introducing jurisdictional sportsbook pricing, which will enable us to offer "best odds" on the events that really matter in each market, without having to offer the same price in all regions. This development work is ongoing and will be released on a phased basis during 2019.

Evolving our brand

To support Betfair's strategy, we felt the brand needed a refresh in 2018. We wanted to bring it more into line with our target market and place the Exchange at the core of our proposition. Our Gut meets Smarts ("GmS") campaign was launched ahead of the 2018 FIFA World Cup with these goals in mind.

GmS highlights some of the key reasons to use the Betfair brand; we want customers to trust their instincts, and then make the smart call of seeking the best value, insight and functionality at Betfair. The campaign has been applied consistently across all territories, running in nine different languages and across multiple different marketing channels. It has tied naturally into a greater focus on the Exchange, with TV and digital marketing highlighting the unique opportunity to go up against another bettor, rather than the bookmaker, to win bigger.

Away from TV it's been a busy 12 months for the brand team supporting global activity. We have continued our association with Barcelona, Juventus and Arsenal, whilst starting new partnerships with Sevilla and Real Madrid Baloncesto. Our ambassador line-up continues to grow, with top-quality racing content from star trainers Gordon Elliott and Paul Nicholls, and footballers such as Dimitar Berbatov, Henrik Larsson and Michael Ballack, all of whom have added strong reach in their home markets, as well as playing well in the UK and Ireland.

£70bn
Matched on Betfair Exchange, up 9% year on year

ATTAIN PODIUM POSITIONS IN ADDITIONAL REGULATED MARKETS

OPERATING AT NATIONAL

adjarabet.com

OBJECTIVE:
To attain podium positions in fast-growing regulated markets through a combination of organic and acquisitive growth.

HOW WE ARE DOING IT

We believe that having a combination of dominant national scale and strong brand presence provides the best prospects for long-term success in regulated markets.

Accordingly, we are looking to identify additional markets (beyond our core markets) in which to target 'top three' podium positions, through a combination of both organic and acquisitive growth. In early 2019, we found one such opportunity in Georgia.

The Georgian online market is regulated and estimated to have grown at a CAGR of 40% from 2016 to 2018 to c.£180m of gross revenue*, with specific market dynamics, including the strength of the incumbent local brands; the top five operators represent over 90% of the market.

Once we established that the Georgian market was an attractive one, where we wanted to have a meaningful presence, we assessed the competitive landscape and concluded that the strength of local incumbents meant that achieving such a goal through organic means was not viable. We did, however, identify a business that we thought would be an excellent fit with our strategy and approached them to see if they would be open to becoming part of our Group. In February 2019, we acquired a controlling 51% stake in Adjarabet.

Adjarabet is the number one online betting brand in Georgia with an estimated 40% share of total online revenues and a spontaneous brand awareness that is significantly higher than competing brands. This brand presence is driven in part by the business' exclusive long-term marketing relationship with Adjaranet, the leading Georgian media website. We believe that this type of marketing asset builds a moat around the business, making it difficult for new entrants to challenge its leadership position. The business also has exposure to the nascent regulated Armenian online market, with approximately 10% market share.

The acquisition has enhanced the Group's diversification with exposure to two additional fast-growing, regulated markets. We believe that combining the Adjarabet brand's substantial local scale and brand presence, with the Group's technology and sports capabilities, positions us strongly for continued success in this market.

We will continue to scour the globe to find other opportunities for acquisitions that can advance our strategy.

£180m*
Size of the Georgian online market

40%
Growth rate for Georgian market during 2016-2018

#1
Georgian market share for Adjarabet, with 40%

10%
Share of Armenian market

* Source: Market customer deposit data.

TAKING US SPORTS BY

OBJECTIVE:

To become a market leader in the US sports betting market by leveraging the assets that the Group has to offer.

FANDUEL

HOW WE ARE DOING IT

We believe the industry currently has a once-in-a-generation opportunity in the US and are focused on establishing a leading position. Following the repeal of PASPA and the regulation of sports betting, we launched our FanDuel retail sportsbook at the New Meadowlands Racetrack in New Jersey on 14 July 2018. It has quickly become one of the biggest sports betting outlets in the world. This performance reflects the property's prominent location (approximately 10 miles from downtown Manhattan), our leading customer proposition and the strength of the FanDuel brand.

In September, ahead of the NFL season commencing, we launched our mobile and online sportsbooks in New Jersey achieving a podium market share position from month one. Since then, we have grown to become the #1 operator in the market with a c.35% share across the first five months of operation. The strategy underpinning this early success in New Jersey is as follows:

- Offering a leading customer proposition: combining generous headline promotions, competitive pricing with a market-leading app which has materially more betting markets available
- Leveraging fantasy sports: approximately half of customer activations in the first five months were from our fantasy customer base, driven by brand strength supported by attractive cross-sell promotions
- Disciplined marketing & promotional investment: encouraging customer acquisition economics to date indicate good returns on investment
- Casino cross-sell: we commenced cross-sell to the Betfair Casino in mid-December and this has contributed to accelerated Betfair casino growth

The FanDuel Sportsbook has quickly gained a leading reputation in the market; offering more innovative promotions and payouts than any other Sportsbook, including early payouts, "bad beat" relief, and "parlay insurance". More than half of our online sportsbook customers benefited from a promotional bonus in December, which we believe creates positive affiliation with the brand. FanDuel was the first Sportsbook to offer an early payout for futures bets on Alabama to win the National Championship, and we offered "bad beat" relief to our customers on the "Double Doink" field Goal in the famous Chicago Bears playoff game in January 2019.

2019 has started in a similar vein with a strong performance around the Super Bowl. We led the industry in bet-offerings – trading 533 player prop bets pre-match versus 350 by nearest competitor, and 130+ in play bets vs 100 by nearest competitor. New customers also took advantage of a great sign-up offer where FanDuel paid out US$265 on a US$5 bet with odds of 53-1 on either team. The game was a major win for customers, with 75% of the money placed on the New England Patriots, who duly triumphed to create a record payout in the market.

CORPORATE SOCIAL RESPONSIBILITY

The Group's corporate social responsibility ("CSR") strategy is focused on adding value to the communities in which we live and work. We do this through supporting four key initiatives:

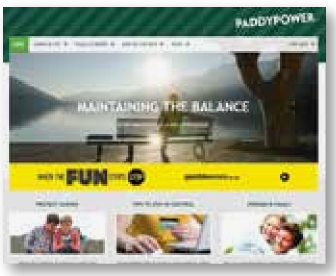
BEHAVING RESPONSIBLY

PROMOTING SPORT

EMPOWERING OUR PEOPLE

PROMOTING DIVERSITY AND EQUALITY

The CSR strategy is also strongly aligned to our core customer brands and to initiatives in other parts of the business, including health and wellbeing, employee support and volunteering.



BEHAVING RESPONSIBLY

We want our customers to enjoy their visits to our sites, to stay in control, and to only bet what they can afford. However, we do know that for a very small minority of customers, gambling stops becoming fun. Like any addictive behaviour, the effects of problem gambling often stretch beyond the individual, impacting those closest to them both financially and emotionally.

Within the UK, 0.7% of respondents to the UK Gambling Commission's 2018 gambling participation survey identified themselves as having a problem, while 3.5% of respondents were identified as low or moderate risk gamblers.

We believe that the only way to gamble is responsibly. To support our customers in this, we have robust and wide-ranging policies on responsible gambling and routinely engage with customers we think are at risk. During 2018, we have significantly increased the size of our responsible gambling team and continued to enhance our onsite responsible gambling tools and features, making them more visible and easy-to-use.

We know not all customers will choose to use our tools, so we also actively monitor our customer base via our Customer Activity and Awareness Programme ("CAAP"). CAAP is our proprietary machine learning model which identifies customers who may be 'at risk' based on their behaviour. Using our current identification processes, we make over 70,000 monthly responsible gambling awareness interactions across the Paddy Power and Betfair brands, and around 1,200 customer interaction calls per month. We are seeing significant uplifts in the number of customers using our responsible gambling tools following interactions.

A key deliverable in the first half of 2019 will be a refresh of CAAP, which will greatly enhance our capabilities for identifying potential at-risk customers early in the lifecycle and interacting with them before gambling becomes a problem. Our refreshed CAAP model will monitor over 115 customer behaviours on a daily basis and assign risk scores to each active customer. Proactive interventions will be taken on the back of customers being identified as 'at risk'.

As part of our ongoing commitment to safer gambling, our responsible gambling strategy is aimed at establishing the Group as one of the progressive voices in the industry. The strategy has received Board approval, and there is a programme of work to continue to deliver this across the wider Group in 2019. The strategy is delivering improvements in how we identify customers who may be 'at-risk' of developing a problem, interact with these customers in a way which supports them in changing their behaviour, and act in a manner which minimises harm.

Research, education and treatment

In the UK, we continue to drive collaboration across the industry through our membership of the Senet Group, the Association of British Bookmakers, and the Remote Gaming Association. Key projects in 2018 have included:

- We took part in the first joint UK and Ireland Responsible Gambling Week, which incorporated all online and retail gambling outlets across both countries. During that week, we changed all our retail marketing to responsible gambling messages, displayed responsible gambling messaging across our websites and on social media and arranged events for our corporate office employees to learn from the problem gambling charities we support and to help them identify possible signs of problem gambling.
- Having supported the UK Government in their ambition to reduce stakes on Fixed Odds Betting Terminals ("FOBTs"), we were pleased to receive the confirmed timetable with the implementation of the £2 stake in April 2019. This issue has undermined the sector as a provider of entertainment, employment and tax revenue. We look forward to growing our existing retail business with a continued focus on sports betting during 2019.

AS PART OF OUR ONGOING COMMITMENT TO SAFER GAMBLING, OUR RESPONSIBLE GAMBLING STRATEGY IS AIMED AT ESTABLISHING THE GROUP AS ONE OF THE PROGRESSIVE VOICES IN THE INDUSTRY

- In December 2018, the gambling industry also came together to agree a pre-watershed ban on gambling advertising during televised live sport in the UK. It is vital that we market responsibly, and we hope these restrictions will address understandable concerns about the proliferation of advertising whilst also retaining support for our brilliant horse and greyhound racing industries.
- Our UK business has continued to invest in responsible gambling during 2018. We have donated over 0.1% of our UK gross gaming yield to the research, education and treatment of problem gambling as encouraged by the Gambling Commission, and we would welcome the introduction of a levy to ensure all UK licensed operators do the same. During 2018, we supported the Government's nominated charity GambleAware, alongside the Young Gamblers Education Trust ("YGAM"), which aims to inform, educate and safeguard young people against problem gambling.

In Australia, Sportsbet has collaborated with other operators to establish Responsible Wagering Australia ("RWA"). The RWA has worked with the Australian Government to introduce a national consumer protection framework, which includes an industry-funded self-exclusion register, a ban on sign-up offers, and the introduction of account summary pages with more consistent responsible gambling messaging.

In Ireland, we fully support the introduction of the Gambling Control Bill, which will establish an independent regulator for the sector. We continue to provide funding to Dunlewey Addiction Services who provide resident treatment for problem gamblers.

We remain a supporter of Gambling Therapy, a European-wide responsible gambling app, which provides support in over 10 languages. The app offers self-help tutorials, mindfulness exercises and a live chat facility with access to trained counsellors.

Finally, across the Group we have dedicated resources, both internal and external, to train our employees to recognize and react to potential customer gambling issues. The training is delivered through multiple formats and more detailed training is given to customer-facing employees.

Sustainability

Environment

To reduce our carbon footprint we offset our carbon flight emissions by funding an anti-deforestation project in the Peruvian Amazon. Madre de Dios preserves 100,000 hectares of rainforest from deforestation, including the habitats of 35 endangered species and the livelihoods of indigenous communities by promoting and developing sustainable harvesting in the timber industry.

Business Improvement District Schemes

We participated and funded 74 Business Improvement District Schemes across the UK in partnership with local councils to combat anti-social behaviour and keep crime out of gambling.

Save the polar bears

Launched with a controversial, tongue-in-cheek "England 'Til I Dye" stunt advert which depicted a polar bear being spray-painted with an England flag, we donated a five-figure sum to Polar Bears International to fund a ground-breaking research project into Russian polar bears. Our support will help scientists have a better understanding of how polar bears in those areas are faring with the change in climate and ultimately find a way to protect them.

A member of Paddy Power retail staff demonstrates the innovative electronic self-exclusion tablet.

OUR CARBON FOOTPRINT

		2018			2017		
Type of Emission	Activity	Consumption	tCO_2e	% of total	Consumption	tCO_2e	% of total
Direct (Scope 1)	Natural Gas (kWh)	**6,771,949**	**1,343**	**5.1%**	5,520,467	1,101	4%
	Refrigerants (kg)	**1,458**	**3,007**	**11.3%**	1,443	2,974	12%
	Subtotal		**4,350**	**16.4%**		4,075	16%
Indirect Energy (Scope 2)	Purchased electricity (kWh)	**39,055,091**	**14,936**	**56.3%**	40,876,746	16,615	66%
	Subtotal		**14,936**	**56.3%**		16,615	66%
Indirect other (Scope 3)	Flights (km)	**18,433,202**	**7,264**		28,849,001	4,370	17%
	Subtotal		**7,264**	**27.4%**		4,370	17%
Total (tCO_2e)			**26,549**			25,061	

The above includes all of our global emissions and was calculated using assumptions, exclusions and estimations where primary data was not attainable. This footprint was calculated by EcoAct to the main requirements of the ISO14064-1 standard. Full details are available on request from csr@paddypowerbetfair.com.

PROMOTING SPORT

UK Greyhounds

This year, we recommended a mechanism for all online operators to make voluntary contributions to the British Greyhound Racing Fund ("BGRF") to ensure high standards in welfare and integrity. An agreement was signed between the BGRF and four major operators, including Paddy Power Betfair, in January 2019, and is expected to see a further £3m a year contributed to the sport by the industry.

Horseracing

In 2018, we contributed £12m to the Horseracing Betting Levy and spent £1.6m on sponsorship deals with racecourses, in addition to making charitable donations to the Injured Jockey Fund and Racing Welfare.

For the third year running we teamed up with Racing Welfare for Racing Staff Week; a week of events raising awareness and funding for stable staff, the unsung heroes who keep the sport (literally) on the road. We are cornerstone partners of this initiative which receives national media attention and raises over £30,000 for the charity.

£30k

RAISED FOR RACING WELFARE

UK Cash4Clubs

We continue to offer community sports clubs the chance to apply for grants of up to £1,000 to improve facilities, purchase new equipment or gain coaching qualifications via our Cash4Clubs scheme.

In 2018, Cash4Clubs celebrated its 10th anniversary and, to celebrate that landmark, we awarded grants to 72 sports clubs, including one enhanced sum of £10,000, which was designed to enable one club to take their operations to the next level. Croysutt Warriors Goalball Club were the selected winners for the brilliant work they do providing access to a thoroughly inclusive sport for players with visual impairments.

50% of grants in 2018 were ringfenced to give to women's teams to help further encourage the development of women's sports.

Betfair x El Deporte

Similar to our UK Cash4Clubs scheme we launched the Betfair x El Deporte programme with the endorsement of the Spanish Sport Association. The programme provides a total of €20,000 worth of grants to grassroots sports clubs in Spain.

EMPOWERING OUR PEOPLE

Volunteering

Many of our employees took part in volunteering projects in 2018, ranging from support at homeless centres to repainting projects for charities. Some of our employees from the Dublin office went even further by arranging a trip to Zambia to help build homes in association with Habitat for Humanity.

Walking Month

Our office in Cluj, Romania, created Walking Month, which sees teams of four compete to make as many steps as possible to raise money for NGOs helping people with special needs or mobility problems. Walking Month has previously won "Best Tech CSR Initiative" and "Romania CSR Award for Community Support".

New Entrepreneurs Foundation

We are a supporter and hirer of the New Entrepreneurs Foundation, a graduate scheme to create the entrepreneurs of the future. Each new entrepreneur receives advice, support, and guidance for making their bright idea into a high-growth, sustainable business.

People and culture
pages 6, 7 and 34 to 37

MANY OF OUR STAFF TOOK PART IN VOLUNTEERING PROJECTS IN 2018, RANGING FROM SUPPORT AT HOMELESS CENTRES TO REPAINTING PROJECTS FOR CHARITIES

PROMOTING DIVERSITY AND EQUALITY

From Russia With Love

For every goal scored by the hosts Russia during the 2018 FIFA World Cup, we donated £10,000 to help challenge prejudice on and off the pitch. In total, we donated £170,000 to Attitude Magazine's Foundation to fund educational programmes in schools, build support networks for players and create more LGBTQ+ grassroots teams.

Brighton and Hove Pride

The Paddy Power brand was an official partner of Brighton and Hove Pride, where we ran an "empty bus" to highlight that there isn't a single openly gay player in the Premier League despite 1 in 50 people identifying in the UK as LGBT. We also sponsored a float in the Malta Pride with colleagues from our Malta office attending to provide free Paddy Power rainbow pants to festival-goers.

#WhatIf

Betfair took headline sponsorship of Women in Football's #WhatIf campaign to empower businesses, celebrities and members of the public to identify one way that they could contribute to an improvement for women and girls within the sports industry.

£10,000

DONATED FOR EVERY GOAL SCORED BY THE HOSTS RUSSIA DURING THE WORLD CUP, TO HELP CHALLENGE PREJUDICE ON AND OFF THE PITCH

PEOPLE AND CULTURE

Diversity

Diversity is a key strategic priority to help drive business growth and our employees tell us that our focus on diversity and inclusion initiatives has had a positive impact throughout the business.

Here are just some of our 2018 highlights for Europe:

- A 2% increase in the relative number of women: in December 2018, 31% of our workforce was female, compared with 29% in May 2018.
- Applications from women have increased 4 percentage points, from 28% in 2017 to 32% in 2018 and the number of women we have hired has increased considerably; 10 percentage points from 29% in Q1 to 39% in Q4 2018.
- We are actively investing in attracting a more diverse talent pool. Take, for example, the "I am Paddy Power Betfair" external advertising campaign, showcasing the huge range of diverse talent we have working at the Group in Europe. We are also proud to partner with community organisations such as Girls in Tech, Makers Academy, Stonewall and Ladies That UX. We ensure that our job adverts are gender neutral and set rigorous targets for diverse candidates with our search partners.
- Flexible working is central to our aspiration to be a progressive technology company and is something that we promote to all our employees, so that everyone knows about the flexible working opportunities available to them.
- We are also seeing great attendance at our regular "Fair Game" events – across all our locations advocating greater diversity and inclusion.

Benefits and reward

Flexibility is something our employees love, so we have given employees the power to choose the benefits that work best for them. In 2018, we launched a new benefits programme for UK and Ireland corporate employees, called Freestyle, giving employees greater choice and flexibility around the options available to them to create their benefits package. Not everyone has the same needs and we're definitely not a 'one-size-fits-all' company, so throughout 2018 we've been embedding and developing our new reward programme so that employees understand what's on offer and can make the most of the extensive choices available. Employees also have the option to participate in the Group's Save As You Earn all-employee share scheme.

But it's not all about the money. Our employees' health and wellbeing really matters to us, which is why we provide a wide range of activities, including regular external speakers on health, nutrition, wellbeing and a large number of sporting activities in all our European offices. Across Europe, our employees enjoy regular social events hosted by the Ministry of Fun, an employee-led social committee that provides light-hearted activities tailored for each location.

Communication and clarity

We have always got something to say but communicating in a way that is right for all our employees can be tricky, particularly across different geographies and time zones. We want employees to be able to get involved in conversations, share ideas, and successes, regardless of where they are based. This is where Workplace by Facebook comes in. It has been the key to employees staying in touch and building internal networks. We spent 2018 embedding the platform into everyday life throughout the Group. More than 3,000 of our corporate employees across Europe and the US log onto Workplace every month to get the low-down on what's happening. We also like to check-in with employees face-to-face. Building relationships is key to our success, so we host regular interactive town halls, listening sessions, Q&A sessions, diversity and inclusion events, responsible gambling workshops and strategy roadshows across Europe. For Retail, we keep in touch by sending all employees a weekly newsletter called 'iPaddy', with all the need-to-know information for the week ahead.

Learning and development

Everyone wants to learn but with busy schedules, it is important that our employees have the flexibility to learn at their own pace, in their own time. Digital learning is a critical component of how our employees develop their careers. All corporate employees have access to LinkedIn Learning: an online platform with thousands of bite-size learning packages that our employees can download and watch on their desktop or smartphone.

We encourage employees to be curious and own their careers, and offer a number of initiatives that promote on-the-job learning and knowledge sharing, such as tech hackathons, our Job Swing programme and Access All Areas events. Job Swing provides opportunities to work with and find out more about other teams and functions, whilst Access All Areas events showcase the wide array of innovative and exciting customer-focused projects that our teams are working on.

Mandatory training is central to our commitment to being a responsible operator and delivering our regulatory requirements. We have a bespoke, interactive, online learning plan for our corporate and retail employees to ensure that they have the knowledge and skills on topics such as integrity, responsible gambling and anti-money laundering.

Flexible/agile working

Holidays are important to everyone, especially when you work in a fast-paced environment like Paddy Power Betfair. We wanted to make saving holidays a thing of the past by introducing uncapped annual leave for our corporate office employees. But flexibility doesn't stop there, we know that our employees play many roles in their lives from being parents, students or keen sports players. We are not a 9 to 5 business, we're always on, so we promote flexible working options to all of our corporate employees so that they can work flexibly around their hobbies, commute or studies. In our employee engagement survey in November 2018, we asked our corporate employees in Europe if they felt their work schedule is flexible enough to deal with their family or personal life and we scored 8.2 which is 0.1 above the online benchmark.

Employee engagement

We are serious about employee feedback; understanding what's working and what's not, is the key to shaping our employee experience. All our corporate employees in Europe participate in engagement surveys twice a year and in 2018, we were pleased to see a significant increase in the number of employees participating – more than 91% of our European corporate employees participated and shared what was on their minds. We have seen an increase of 11% in participation since 2017, improving engagement by 0.8 over the same period.

79%

OF OUR EMPLOYEES AGREED THAT I'M GENUINELY SUPPORTED IF I CHOOSE TO MAKE USE OF FLEXIBLE WORKING ARRANGEMENTS

Diversity

Attracting and developing talent is key to delivering on our strategy at Sportsbet. We want the best people working for us, and to ensure that's the case, we have been working on three key initiatives over the past 18 months:

1. Attracting a more diverse candidate pool by partnering and supporting Women in Technology forums, using publications and job boards targeted to females and re-writing our job adverts to ensure they reflect our inclusive culture.
2. Focusing on removing unconscious bias in selection and promotion by educating senior leaders in unconscious bias and creating accountability for diversity at a senior level.
3. Creating an inclusive culture and environment where diversity thrives.

Benefits and reward

Bringing excitement to life is our purpose and we ensure that it is at the heart of our benefits offering. We do this by providing employees with sporting tickets and studio audience tickets, tickets to the Footy Show and social nights often led by our in-house Sportsbet band. We encourage all team members to be curious, investing heavily in leadership and specialist development, as well as all team members having learning opportunities like our annual 'careerdevfest' and the chance to win tickets to leading conferences around Australia and the world as part of our Golden Ticket program. And, we want to make life as easy as possible through our generous annual and parental leave allowances, as well as smoothing the path daily with free breakfast.

Communication and clarity

Communication is a vital part of our success as a brand, but also internally. We launched Workplace by Facebook in 2017 and spent 2018 embedding it across our Sportsbet offices. We are now using Workplace to communicate with employees across the world which has improved knowledge sharing and helped us to quickly build networks and understand and support our new US business and our European brands.

In addition to Workplace, we run numerous communication initiatives to encourage two-way engagement with senior leaders including: quarterly town halls, monthly Extended Leadership Team ("ELT") customer briefings and The Friday Shout, which is hosted by a different department each month, and includes a customer story, team member recognition and Q&A with the ELT.

Learning and development

Focussing on both soft and technical skills development, we provide regular development opportunities for all Sportsbetters. In our last employee engagement survey conducted in November 2018, 72% of our employees agreed that "I have access to the learning and development I need to do my job well".

We run several initiatives to develop employees. We deliver a suite of compliance modules including responsible gambling, data privacy, anti-money laundering and workplace safety facilitated through online learning. We enable capability build through iLead Bootcamps for managers to enhance their leadership skills, Lunch and Learns, Talent Programs, Leadership Hiit (Introduction to Management) Executive and General Manager coaching and technical skills development programs. We also offer a suite of differentiated development offerings to support team member career progression through job swingers, career navigator and mentoring.

Flexible/agile working

We have the philosophy and practices in place to support our team members work in the way that is right for them and right for Sportsbet. We have a growing number of employees who work part-time which is helping improve diversity and 22% of our workforce are casuals. We have best-in-market leave entitlements which includes 26 weeks' parental leave for the primary care giver and for secondary care givers, an additional day per week of leave for 6 months. At our last employee engagement survey in November 2018, it was encouraging to hear that 79% of our employees agreed that "I'm genuinely supported if I choose to make use of flexible working arrangements".

Employee engagement

We conducted two employee engagement surveys in 2018 to check in on employee engagement. We had over 80% response rate and increased engagement from 68% in the first half to 72% in the second half of 2018. In July 2018, we launched our new Sportsbet values, which are focused on the customer. First and last.

Since launching the values we've been embedding them across the organisation, bringing the values to life in key forums like our quarterly town hall meeting and our monthly ELT customer briefing.

FANDUEL

EMPLOYEES SAID THAT THEY WOULD RECOMMEND THE FANDUEL GROUP AS A PLACE TO WORK

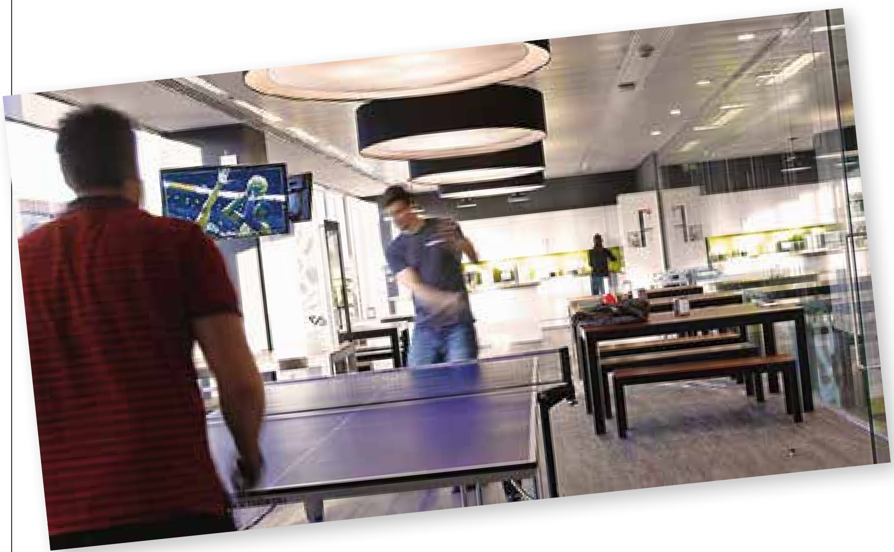
Diversity

At FanDuel, our diversity initiatives are focused on developing leading attraction and retention strategies. We want to attract diverse candidates, and do so by working with agency partners to ensure that they are aligned with our diversity goals and provide us with a diverse candidate pool in our searches. We have a pool of interval interviewers called "bar raisers". They are responsible for hiring the best candidates for our culture. We assess job descriptions to ensure that the language is gender neutral and we are building out our social media strategy to share our culture both internally and externally.

We have, and will, continue to train employees on unconscious bias, micro inequalities, equality and diversity. Our UK teams have built up strong networks in the Scottish technology community through partnerships, supporting schools, hosting events and working with the Scottish Government and Skills Development Scotland to address diversity in digital skills.

Benefits and reward

Following the FanDuel deal, we've been working on harmonising benefits across legacy parts of the US business to support the development of an integrated culture. Currently, our employees receive private medical care, flexible working (role dependent), employer pension contributions and access to an employee assistance programme. Following the merger, we're pleased to offer employees the opportunity to join the Group's Save As You Earn Scheme.



Communication and clarity

In 2018, just days after FanDuel joined the Group, we introduced Workplace by Facebook to all FanDuel employees. The Workplace platform enables corporate employees to communicate with each other and share real-time information. Workplace has been key to integrating FanDuel into the Group, helping leverage the expertise of European and Sportsbet employees, advertise internal vacancies, and a great way for all employees to keep up-to-date with the changing US sports betting market.

Additionally, we host monthly town halls, roundtables and Q&A sessions which are especially important in the context of integration and to ensure alignment around our exciting US growth plans.

Learning and development

We have a dedicated development budget that is used both for self-development initiatives and broader development programmes. Our engineering teams have the opportunity to spend time on a Friday on their own personal development. Hackathons take place a couple of times a year. Employees pitch an idea that they have and they work together with a team for a couple of days and then present back to everyone. Some of these ideas are regularly implemented into our main product.

Flexible/agile working

We have created great office spaces that encourage collaboration in our offices and we love that people are using them and working together. Not all of our roles are office based. Where the role allows it, employees have the option to work flexibly. Our focus is on productivity rather than presenteeism and we operate this from a position of trust.

Employee engagement

Following the merger, we ran our first employee engagement survey, and we were pleased with the feedback. The three highest scoring areas were:

- employees said that they would recommend the FanDuel Group as a place to work;
- employees said that they knew what was expected of them at work; and
- employees said that they believe they have freedom to decide how to do their work.

We now have work to do to integrate our new values into our ways of working.

Group Code of Ethics

Building a culture where we operate responsibly and with integrity is essential to our business. Our Code of Ethics encompasses policies on areas such as business conduct, anti-bribery and corruption, whistleblowing and equal opportunities.

Mandatory training

All corporate employees are required to undertake regular, detailed mandatory e-learning training covering a range of areas, including anti-money laundering and betting integrity, anti-bribery and corruption, information security and responsible gambling. Retail employees also have additional specific training, for example on security and customer service. Our customer-facing employees separately receive enhanced face-to-face training to enable them to monitor and recognise erratic gambling and support and manage customers showing signs of this behaviour.

Anti-bribery and corruption

The Group is committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever it does business. We do not tolerate any form of bribery or corruption and require all individuals working for us, whether employees, permanent or temporary, contractors or third parties, including associated persons that perform services on behalf of the Group, agents, intermediaries, introducers, joint ventures and partnerships to comply with anti-bribery and corruption laws and ethical standards. We have in place policies, procedures, training, management systems and internal controls to prevent bribery and corruption occurring, including requiring due diligence to be carried out on individuals or companies who will perform services for, or on behalf of, and risk assessments of new business ventures, including in the context of bribery and corruption risk. These obligations are set out in our Code of Ethics, which all employees are required to adhere to under their contract of employment/service contracts. This also includes guidance on receiving and offering gifts and hospitality, internal gifts, political donations and contributions and charitable donations. Employees must consider the appropriateness of the giving and receiving of gifts and hospitality, which is reinforced by having different approval levels. Consideration is also given as to when, and how, charitable donations may be given going some way to address issues of conflict of interest. A compulsory e-learning training module is also required to be completed by employees. We regularly monitor this area including its suitability, adequacy and effectiveness, and implement improvements as appropriate.

Equal opportunities

We're committed to equal opportunities and diversity in our workplace and will not tolerate harassment, discrimination, victimisation or bullying. We recruit, employ and promote employees based on their qualifications and abilities. Our Equal Opportunities Policy states our commitment to a policy of equality of opportunity and treatment in our employment practices. We don't discriminate on any grounds, including gender, sexual orientation, marital or civil partner status, gender reassignment, race, religion or belief, colour nationality, ethnic or national origin, disability or age, pregnancy, trade union membership, or part-time or fixed-term status and take appropriate steps to accommodate the requirements of an individual's religions, cultures and domestic responsibilities.

Modern Slavery Statement

The Group and its subsidiaries are committed to preventing slavery and human trafficking. We expect the same commitment from all our employees, contractors, suppliers and other business partners.

Our Modern Slavery Statement:
paddypowerbetfair.com

Human Rights

We support the United Nations' Universal Declaration of Human Rights. We do not consider it necessary for the Group to have a specific human rights policy at the moment as our policies already require employees to behave ethically and to respect human rights of our employees and other stakeholders in the business.

Health and safety

The Group recognises the importance of health and safety. We are committed to ensuring the wellbeing and safety of our employees and customers in all our corporate offices and retail betting shops and continue to ensure that our policies and procedures comply with relevant local safety, health and welfare at work legislation, as appropriate.

Non-financial information statement

As per the requirements of the non-financial reporting regulations, which were set out in the Companies Act 2014 and Regulation 21 of SI 255/2006 'European Communities' (Takeover Bids Directive (2004/25/EC) Regulations 2006' and SI 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2017' and SI 360/2017 European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulation 2017:

Environmental matters and policies:
Corporate Social Responsibility section: pages 30 to 33 and our website: paddypowerbetfair.com/behaving-responsibly

Employee matters and policies, including diversity:
People and Culture: pages 6, 7 and 34 to 37 and our website: paddypowerbetfair.com/our-business/people

Respect for human rights:
Modern Slavery Statement section and our website: paddypowerbetfair.com/behaving-responsibly/modern-slavery-statement

Social matters:
Corporate Social Responsibility section on pages 9, 30 to 33

Anti-bribery and anti-corruption matters and policies:
Group Code of Ethics section

Description of the business model:
pages 14 and 15

Principal risks:
pages 50 to 53

Key performance indicators:
page 10

OPERATING AND FINANCIAL REVIEW

Jonathan Hill
Chief Financial Officer

"Revenue grew 7% to £1.9bn benefitting from the FanDuel acquisition in July 2018."

£451m
Underlying EBITDA[1,2]

200p
per ordinary share proposed full year dividend*

Revenue grew 7% to £1.9 billion, benefitting from the FanDuel acquisition in July 2018. On a proforma[4], constant currency ("cc"[3]) basis, Group revenue growth was 6%, with sports up 5% and gaming up 11%.

Within sports, sportsbook revenue growth was adversely affected by less favourable sports results in 2018 compared to 2017 (reflected in the 40-basis point year-on-year decrease in the net revenue margin). That said, sports results were marginally ahead of our normal expectations in 2018 with a gross benefit to revenues of c.£11m, before any impact on customer re-cycling of winnings. This compared with a c.£40m gross benefit in 2017 (driven by a particularly favourable Q4).

Cost of sales were adversely affected by approximately £15m from the annualisation of changes to betting taxes and levies implemented during 2017 and the introduction of point of consumption tax in Queensland in Q4 2018. Total operating costs increased by 10%, or by 4% on a constant currency, proforma[4] basis. Within this, sales and marketing spend increased by 7%cc and other operating costs increased by 2%cc.

Underlying EBITDA at £451m was down 5% or flat year-on-year on a constant currency, proforma[4] basis (with losses from the FanDuel fantasy sports business prior to acquisition included in both years). EBITDA losses from US sports betting in 2018 were £24m. Excluding these investment losses and the impact of the increased betting taxes, proforma[4] underlying EBITDA was up 9% on a constant currency basis.

After separately disclosed items, which do not relate to the usual business activity of the Group and therefore are excluded from underlying profits, the Group recorded a profit before tax of £219m (2017: £247m). The Group's underlying effective tax rate in 2018 was 14.9% (2017: 13.5%). After adjusting for the 42% equity interest held by third parties in FanDuel Group, the profit after tax attributable to equity holders of the Group reduced by 7% to £201m (2017: £218m). As a result of the share buy-back programme, the reduction in underlying EPS was 5%.

Group[1]	**2018 £m**	2017 £m	Change %	Constant currency change[3] %	Proforma[4] CC[3] change %
Sports revenue	**1,474**	1,385	+6%	+8%	+5%
Gaming revenue	**399**	360	+11%	+11%	+11%
Total revenue	**1,873**	**1,745**	**+7%**	**+9%**	**+6%**
Cost of sales	**(470)**	(405)	+16%	+18%	+16%
Gross profit	**1,403**	**1,340**	**+5%**	**+6%**	**+3%**
Gross profit margin %	***74.9%***	*76.8%*	*-1.9%*	*-1.9%*	*-2.1%*
Sales and marketing	**(406)**	(346)	+17%	+19%	+7%
Product and technology	**(144)**	(137)	+5%	+6%	-1%
Operations	**(343)**	(326)	+5%	+6%	+4%
Central costs	**(59)**	(58)	+3%	+2%	+2%
Total operating costs	**(953)**	(867)	+10%	+11%	+4%
Underlying EBITDA[1,2]	**451**	**473**	**-5%**	**-3%**	**Flat**
Underlying EBITDA margin %	***24.1%***	*27.1%*	*-3.0%*	*-2.9%*	*-1.4%*
Depreciation and amortisation	**(90)**	(81)	+11%	+13%	+11%
Underlying[1] operating profit	**360**	**392**	**-8%**	**-6%**	**-3%**
Underlying net interest expense	**(4)**	(3)	+4%		
Separately disclosed items	**(138)**	(142)	-3%		
Profit before tax	**219**	**247**	**-11%**		
Underlying[1] earnings per share	**379p**	**398p**	**-5%**		
Dividends per share	**200p**	**200p**	**Flat**		
Net (debt)/cash at year end[5]	**(£162)m**	**£244m**			

* Subject to shareholder approval.

** Footnotes detailed on page 46.

1. The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (Note 4 and page 125 to the Financial Statements).
2. EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure (page 46).

The Online division's 2018 results included the online brands of Paddy Power and Betfair, the Paddy Power telephone based sportsbook, as well as a number of B2B partnerships. In 2019, the division will also incorporate Adjarabet which the Group acquired an initial 51% controlling stake in on 1 February 2019.

Revenue increased by 5% to £948m. Both brands contributed to the revenue growth with Paddy Power revenue, excluding Italy where the brand ceased operating in Q4 2017, up 11% and Betfair revenue up 4%. The performance of Paddy Power was a significant turnaround on 2017 (when revenue, excluding Italy, increased 1%) as the brand, re-invigorated with an enhanced customer proposition and better marketing execution, began to once again win market share in the UK.

Sports revenue was up 3% with sportbook revenue (62% of total) up 6% and exchange and B2B revenue (38% of total) down 2%. In sportsbook, the impact of sports results on the year-on-year growth across the full year was immaterial, with more bookmaker friendly results in H1 2018 offsetting tough comparatives in Q4 2017. Accordingly, the increased sportsbook net revenue margin reflected an underlying increase in the average expected margin, which was partially offset by decreased stakes. This trend in part reflected reduced recycling of customer winnings in Q1, but also reflected an increased strategic focus on profitable revenue growth, rather than volume.

Key sportsbook product initiatives in 2018 included the enhanced speed of the new Paddy Power app; our market-leading *'Same Game Multis'* feature which is driving increased usage of accumulator bets; innovative promotional products such as *'Beat the Drop'*, and the ability to offer customers personalised price boosts with *'Power Up'*. These releases are being supported by marketing campaigns that highlight the product enhancements and by increased promotional generosity to reward loyalty.

Exchange revenue decreased by 2% across the full year. Q1 revenues, which declined 7%, were significantly affected by a high number of weather-related horse-racing fixture cancellations. Revenues from Q2 to Q4 in total were flat year-on-year (Q2 -1%, Q3 +1% and Q4 -1%), not dissimilar from the 1% revenue growth delivered in 2017. While this trend reflects the products maturity, the exchange remains a key differentiated product for Betfair and, when combined with our sportsbook, offers customers an unparalleled sports-betting experience. The combined Betfair proposition positions us well in the UK and is a key differentiator when targeting international markets.

Gaming revenue was up 13%. The significant turnaround in gaming performance (revenue declined by 2% in 2017) was primarily driven by strong acceleration on Paddy Power, driven by a three-percentage point increase in cross-sell rates. Key product improvements included the release of new gaming apps following the completion of the post-merger platform migration and significant enhancement of the gaming product embedded within our sports apps. The latter releases also benefitted gaming revenue growth on Betfair which also improved on the prior year.

Cost of sales were adversely affected by approximately £7m from the annualisation of the extension of the UK Horserace Betting Levy to online (from April 2017) and changes to the treatment of free bets for online gaming point of consumption tax (applying from Q4 2017). Total operating costs increased by 2%, with 8% growth in sales and marketing investment partially offset by operating efficiencies in other operating costs. Underlying EBITDA for the division increased by 3% to £316m.

While not included in the 2018 results, Adjarabet revenues (unaudited) were up 37% in local currency to £64m as the business maintained its 40%[9] market share of the Georgian market and increased its presence in the regulated Armenian market where it currently has c.10%[10] market share. Adjarabet generated £20m of EBITDA (unaudited) in 2018.

ONLINE

BRANDS OPERATING:

PADDYPOWER. betfair

	2018 £m	2017 £m	Change %
Sportsbook stakes	**5,453**	**5,633**	**-3%**
Sportsbook net revenue %	***7.7%***	*7.0%*	*+0.7%*
Sports revenue	**678**	660	+3%
Gaming revenue	**270**	238	+13%
Total revenue	**948**	**898**	**+5%**
Cost of sales	**(231)**	(199)	+16%
Gross profit	**717**	700	+2%
Sales and marketing	**(242)**	(223)	+8%
Product and technology	**(95)**	(98)	-4%
Operations	**(64)**	(72)	-11%
Total operating costs	**(401)**	**(394)**	**+2%**
Underlying EBITDA[1,2]	**316**	306	+3%
Depreciation and amortisation	**(42)**	(39)	+8%
Underlying[1] operating profit	**275**	**268**	**+3%**

£948m
Revenue +5% (2017: £898m)

£316m
Underlying EBITDA[1,2] +3% (2017: £306m)

£275m
Underlying[1] operating profit +3% (2017: £268m)

* Footnotes detailed on page 46.

1. The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (see Note 4 and page 125 to the Financial Statements).
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AUSTRALIA[6]

BRANDS OPERATING:

£403m
Revenue +6%†
(2017: £404m)

£137m
Underlying EBITDA[1,2] +4%†
(2017: £139m)

£119m
Underlying[1] operating profit +1%†
(2017: £125m)

	2018 £m	2017 £m	Change % £	Change % A$
Sportsbook stakes	**4,308**	**3,708**	**+16%**	**+23%**
Sportsbook net revenue %	***9.4%***	*10.9%*	*-1.5%*	*-1.5%*
Revenue	**403**	**404**	**Flat**	**+6%**
Cost of sales	**(121)**	(111)	+9%	+16%
Gross profit	**282**	292	-4%	+2%
Sales and marketing	**(82)**	(82)	+1%	+8%
Product and technology	**(20)**	(24)	-17%	-12%
Operations	**(42)**	(47)	-10%	-5%
Total operating costs	**(145)**	**(153)**	**-5%**	**+1%**
Underlying EBITDA[1,2]	**137**	139	-2%	+4%
Depreciation and amortisation	**(18)**	(15)	+19%	+27%
Underlying[1] operating profit	**119**	**125**	**-4%**	**+1%**

The Australia division operates the online betting brand Sportsbet.

In constant currency terms, revenue increased by 6% to £403m with 23% stakes growth partially offset by a 150 basis point decrease in the net revenue margin, which reflected less favourable sports results (approximately half of the year-on-year margin impact) and a significant investment in promotional generosity.

This deliberate investment in enhanced customer value, including early-payout *'Up'* promotions on key sports codes, extensive racing money-back offers and targeted customer bonuses and *'Powerplay'* odds boosts, is consolidating our market leading customer proposition and driving increased customer activity. The objective of this strategic investment is to win further market share and we are encouraged by the initial returns we have seen.

This increased promotional generosity was supported by additional investment in marketing, with sales and marketing spend increasing by 8%. Total operating costs were up 1%, with other operating costs decreasing by 7%, reflecting continued operating efficiencies. As a result, notwithstanding the adverse sports results and an £8m adverse impact on cost of sales due to additional point of consumption taxes and increased product fees, underlying EBITDA increased by 4% to £137m.

* See footnotes detailed on page 46.

1. The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (see Note 4 and page 125 to the Financial Statements).
2. EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure (see page 46).

† Growth rate shown in local currency.

US[6]

BRANDS OPERATING:

TVG
betfair
FANDUEL

£236m

Proforma revenue +18%[†]
(2017: £205m)

£10m

Proforma underlying EBITDA[1,2]
(pre-US sports betting)
(2017: £(9m))

£24m

Investment in US sports betting in 2018

Kentucky Derby was highest traded event for TVG in 2018.

	Reported		Proforma[4] basis			
	2018 £m	2017 £m	**2018 £m**	2017 £m	Change % £	Change % US$
Sportsbook stakes	**423**	**–**	**423**	–		
Sportsbook net revenue %	***2.6%***	**–**	***2.6%***	–		
Sports revenue	**172**	94	**216**	190	+14%	+17%
Gaming revenue	**20**	16	**20**	16	+26%	+31%
Total revenue	**191**	**109**	**236**	**205**	**+15%**	**+18%**
Cost of sales	**(45)**	(25)	**(50)**	(37)	+34%	+38%
Gross profit	**147**	**85**	**186**	**168**	**+10%**	**+14%**
Sales and marketing	**(75)**	(34)	**(95)**	(91)	+4%	+6%
Product and technology	**(23)**	(9)	**(32)**	(29)	+12%	+16%
Operations	**(63)**	(37)	**(73)**	(57)	+28%	+32%
Total operating costs	**(161)**	**(81)**	**(200)**	**(177)**	**+13%**	**+16%**
Underlying EBITDA[1,2]	**(14)**	**4**	**(15)**	**(9)**	**n/a**	**n/a**
Depreciation and amortisation	**(11)**	(9)	**(13)**	(12)	+3%	+7%
Underlying[1] operating loss	**(25)**	**(5)**	**(27)**	**(21)**	**n/a**	**n/a**

Following the merger of Betfair US with FanDuel (completed 10 July 2018) and subsequent sport betting launch, our US business now comprises revenues from the following: FanDuel fantasy sports (across 41 states); TVG horseracing (across 33 states); the FanDuel sportsbook (currently operating in New Jersey and West Virginia); and the Betfair Casino and Exchange in New Jersey.

Proforma[4] revenue was up 18%, with good underlying growth in each of our existing businesses supplemented by £11m of sports betting net revenue. Excluding sports betting, revenue was up 13%.

TVG increased its market share in racing wagering with strong growth in active customers driven by product enhancements, including a new app with embedded streaming, and by promotions including headline 'Money Back Specials'. The fantasy sports performance has also been driven by product enhancements and increased promotions. These include new game formats and retention promotions to drive additional growth with core fantasy players and initiatives to expand the recreational player base (including free-to-play content and single-entry contests).

The launch of the FanDuel sportsbook in New Jersey has proved very successful with the brand achieving a 35% online market share[11] across the first 5 months of full operations (September to January are key trading months in the US as they correspond to the NFL season). During 2018, US sports betting EBITDA losses incurred were £24m reflecting high levels of promotional activity. In the early stage evolution of a betting market, a large amount of customer acquisition is derived from marketing promotions and free bets. This acts to depress net revenue margins in the short-term.

Proforma[4] underlying EBITDA for the division excluding sports betting was £10m. This compared to a proforma[4] £9m loss in 2017. The turnaround was driven by continued profit growth at TVG and the Betfair Casino together with significantly reduced losses from the combined FanDuel and DRAFT fantasy sports businesses.

* See footnotes detailed on page 46.

1. The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (see Note 4 and page 125 to the Financial Statements).
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† Growth rate shown in local currency

RETAIL

BRANDS OPERATING:

PADDYPOWER.

£331m

Revenue -1%*
(2017: £334m)

£72m

Underlying EBITDA[1,2] -12%
(2017: £82m)

£51m

Underlying[1] operating profit -19% (2017: £63m)

	2018 £m	2017 £m	Change %
Sportsbook stakes	**1,779**	**1,835**	**-3%**
Sportsbook net revenue %	***12.5%***	*12.4%*	*+0.1%*
Sports revenue	**222**	228	-3%
Machine gaming revenue	**110**	106	+3%
Total revenue	**331**	**334**	**-1%**
Cost of sales	**(73)**	(71)	+4%
Gross profit	**258**	263	-2%
Sales and marketing	**(7)**	(7)	+1%
Product and technology	**(6)**	(6)	+3%
Operations	**(174)**	(169)	+3%
Total operating costs	**(187)**	**(182)**	**+3%**
Underlying EBITDA[1,2]	**72**	82	-12%
Depreciation and amortisation	**(21)**	(19)	+9%
Underlying[1] operating profit	**51**	**63**	**-19%**
Shops at year end	**626**	**626**	**Flat**

The Retail division operates Paddy Power betting shops across the UK (362 shops) and Ireland (264 shops). The business has consistently outperformed its competitors with a market-leading sports-led proposition built upon ongoing investment in value, content, locations and staff.

Revenue from UK shops increased by 1% while Irish shop revenue decreased by 4% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like[7] revenue decreased by 2% and operating costs increased by 2%. The like-for-like[7] revenue growth was comprised of a 4% decrease in sportsbook revenues, driven by a 5% decline in stakes, and machine gaming growth of 2%.

The weakness in sports staking was driven by racing in the first half of the year, which was affected by a large number of weather-related cancellations, partially offset by good growth in self-service betting terminals ("SSBTs") and football staking.

The decline in sports revenues resulted in a 12% decrease in underlying EBITDA for the division to £72m.

The new £2 stake limit for gaming machines, which will apply from 1 April 2019, will not have a material impact on our sports-led retail strategy and we are continuing to invest in extending our leadership position. Investments in 2018 included 'Same Game Multis' on SSBTs, the addition of a third in-house TV channel providing coverage of an extra 59 races per day and the rollout of enhanced TV displays across our estate. We have also recently updated our shop till system to ensure we can continue to accelerate our omni-channel offering. We recently extended our SSBT partnership with BGT Sports so that we can more efficiently benefit from increased customer usage of SSBTs.

During the year, the overall estate size remained unchanged as we opened six shops, three in both the UK and Ireland, and closed four in the UK and two in Ireland.

* See footnotes detailed on page 46.

1. The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (see Note 4 and page 125 to the Financial Statements).
2. EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure (see page 46).

Overview

US financial guidance

In 2018 our US division incurred an EBITDA loss of £15m on a proforma basis. Our fantasy, TVG and Casino businesses generated a combined £10m in EBITDA which was more than offset by a £24m loss in our sportsbook. The table below details the components of EBITDA between the two parts of the business.

£m 2018 Proforma[†4]	Fantasy, TVG & Casino businesses	Sportsbook	Total	Notes
Revenue	**224**	**11**	**236**	Revenue is net of promotional spend (e.g. free bets) which are high in sportsbook given the high proportion of new customers (reflected in 2018 sportsbook net rev % of 2.6%)
Cost of sales			(50)	Variables costs including taxes, supplier revenue shares, data fees & payment processing costs
Gross profit			186	
Marketing			(95)	Costs incurred to acquire and retain customers
Contribution	**100**	**(9)**	**91**	Negative contribution from sportsbook reflects high levels of promotional and marketing spend in acquiring new customers
Other operating costs	(91)	(15)	(106)	Includes product & technology and operations costs which are shared across businesses. From 2019 we will not split out costs between businesses
EBITDA	**10**	**(24)**	**(15)**	

† Any differences due to rounding.

Key guidance to consider

Fantasy, TVG & Casino businesses contribution

Businesses have good momentum into 2019 driven by investment in promotions and product. We will continue to invest to grow the customer base and generate positive contributions.

Overall sportsbook contribution

Quantum of investment losses will depend on the level of market growth in New Jersey; FanDuel's performance in New Jersey; and the timing of regulation/launch in additional states. Contribution from newly launched online states will remain negative while the proportion of newly acquired customers remains high (due to high levels of promotional and marketing spend in acquiring customers).

New Jersey sportsbook contribution

£9m negative contribution in 2018, reflecting the first four months of online operations. Strong market growth and our own strong acquisition momentum means we intend to continue to invest heavily in customer acquisition, with prospective expected returns significantly outweighing acquisition cost. As such we would expect that our contribution in New Jersey will remain negative throughout 2019. Our current expectation is that the New Jersey sportsbook will generate a positive contribution 18 to 30 months post-launch.

Other states sportsbook contribution

Factors influencing timeframe to achieve positive contribution include the potential market size, tax rates, competitive environment (including number of skins permitted), market-access costs and availability of casino cross-sell.

Other operating costs

We will continue to invest in our resources to ensure they are capable of serving our existing businesses and our expanding sports betting operations. We currently expect our total operating costs (excluding marketing) in the US to increase from £106m to between £145m and £155m in 2019, reflecting both the annualisation of investments made during 2018 and additional 2019 investment.

Current trading and Group guidance

The new financial year has started in line with our expectations. The acquisition of Adjarabet is further evidence that we are delivering against our strategy, and whilst there will inevitably be further regulatory challenges, we are excited about the growth opportunities ahead of us.

REGULATORY UPDATE

During 2018 there were significant regulatory developments across all of our key markets. Some developments have created new market opportunities, such as the opening up of the US sports betting market, while others will result in significant additional regulatory and tax headwinds in our key established markets. We estimate that the gross impact on EBITDA from the combination of regulatory, tax and product fee changes in our regulated markets would have been approximately £118m had they applied for the full year 2018 (representing c.26% of Group EBITDA).

These regulatory developments reaffirm our long-held view that scale and market-leading positions are advantageous in achieving success in regulated online markets. Accordingly, we believe we are positioned relatively well to respond to these regulatory developments.

UK

In May 2018, the UK Government published its Review of Gaming Machines and Social Responsibility Measures, which included a proposal to implement a new stake limit for gaming machines of £2. In October 2018, they also confirmed that the rate of remote gaming duty (payable on gross online gaming revenues from UK customers) will increase from the current rate of 15% to 21%. In November they announced that both measures will apply from 1 April 2019.

We estimate that the direct, pre-mitigation, impact of the new stake limit would be a 33% to 43% decrease in our total retail machine gaming revenue. In 2018, this would have equated to a £36m to £47m revenue impact, representing 1.9% to 2.5% of Group revenue. Potential mitigation factors include reduced direct variable costs, product development, substitution to other betting products and market consolidation. For the Group, the increase in remote gaming duty, based on 2018 gaming revenues, would result in an additional £16m of duty being payable on an annualised basis.

On 16 October 2018, we confirmed that we had entered into a regulatory settlement with the UK Gambling Commission regarding five cases from 2016, where previous policies were not sufficiently effective in addressing responsible gambling and anti-money laundering requirements. As part of the settlement, we are returning £0.5m to the affected parties and will make a £1.7 million payment to GambleAware, the independent charity which commissions research, education and treatment services to reduce gambling related harm in Great Britain. In recent years, we have invested in an extensive programme of work to strengthen our resources and systems in responsible gambling and customer protection. This work is continuous and we are committed to working in partnership with other operators, and with the Gambling Commission, to become better at protecting customers.

In December 2018, The Industry Group for Responsible Gambling announced a 'whistle to whistle' ban on all TV betting adverts during pre-watershed live sport, starting five minutes before the event begins, and ending five minutes after it finishes. Additional measures include an end to betting adverts around highlight shows and re-runs, and an end to pre-watershed bookmaker sponsorship of sports programmes. The measures will come into effect from 1 August 2019 and exclude horse and greyhound racing programmes.

Australia

Throughout 2018, various state Governments announced details of their point of consumption tax regimes with additional taxes coming into effect from 1 October 2018 in Queensland and from 1 January 2019 in New South Wales, Victoria, Western Australia and Australian Capital Territory. The overall impact of these taxes for the Group, including the South Australia tax which has been payable since July 2017, is a blended tax rate equivalent to 11% of gross revenues (or c.13% of net revenues). If all of the taxes had been in effect throughout 2018, we would have paid an additional A$83m (£46m), on top of the $13m (£8m) in point of consumption tax actually paid.

In June 2018, Racing Victoria Limited and Racing and Wagering Western Australia announced changes to the structure of their racefield fees (product fees payable on races in their states) applying from 1 July 2018. In December 2018, Racing Queensland also announced changes to their racefield fees, applying from 1 February 2019. The net impact of these changes, applied to Sportsbet's 2018 revenue level and mix would be approximately A$6m (£3m) adverse.

The National Consumer Protection Framework for online wagering, commenced from November 2018 with consumer protection measures being progressively introduced over 18 months, including reduced times for customer verification, a ban on sign-up offers and a national self-exclusion register.

Ireland

In October 2018, the Irish Government announced that it is increasing the rate of betting duty payable, with effect from 1 January 2019. The rate increased from 1% to 2% of sports betting stakes from Irish customers (applies to all channels) and from 15% to 25% of betting exchange revenues from Irish customers. If these increased rates had applied to the Group's Irish sportsbook stakes and exchange revenues in 2018 we would have paid an additional £20m of betting duty. These increases, which have now come into effect, are subject to a secondary review by Government though no timeline has been confirmed for when this review will take place.

The Government is continuing to work towards introducing the Gambling Control Bill. The bill seeks, among other matters, to establish a dedicated regulator of the gambling sector in Ireland. We remain supportive of the bill and its aim to introduce into Irish legislation, regulation in line with international best practice.

Other regulated markets

In Italy, the Government in July 2018 introduced a ban on all gambling-related advertising and sports sponsorship that will take effect from July 2019. In December, the Government announced that from 1 January 2019 the online tax on sports betting would increase from 22% to 24% and from 20% to 25% on online gaming.

In Spain, the Government reduced the tax rate on online betting and gaming from 25% to 20%, effective from 1 July 2018.

In Sweden, the online market became regulated with effect from 1 January 2019 with an 18% gambling tax. The Group obtained an operating license, and Betfair.se went live in January 2019.

In Romania, the Government introduced a new 2% tax on deposits to online accounts effective from 1 January 2019. This tax is in addition to the 16% online revenue tax already payable.

The combined net impact of these changes in other regulated markets, based on 2018 activity levels, is approximately £2m adverse.

Other tax matters

In February 2019, the Hessen Fiscal Court in Germany provided us with its decision relating to the Group's appeal of a 2012 tax assessment relating to the Betfair Exchange, which operated in Germany until November 2012. The Court found against the Group and deemed that a tax liability of approximately €40m (£36m) is payable (including accrued interest). This represents a multiple of revenues generated by the Exchange during the period.

On 31 December 2018, the Group was issued with a Greek tax assessment for financial years 2012, 2013 and 2014, relating to paddypower.com's Greek interim licence. This assessment concluded that the Group is liable to pay €15m (£13m) in taxes including penalties and interest. This is substantially higher (by multiples) than the total cumulative revenues ever generated by paddypower.com in Greece.

The Group strongly disputes the basis of these assessments, and in line with the legal and tax advice we have received, is confident in our grounds to appeal. We therefore intend to do so. Accordingly, we have not provided for these amounts in our financial statements. Pending the outcome of these appeals, we paid the total Greek liability in January 2019 while we await clarity with respect to the timing of any cash payment in Germany.

Separately disclosed items

Separately disclosed items do not relate to the usual business activity of the Group and therefore are excluded from underlying profits. In 2018, these included £101m of amortisation of acquired intangible assets recognised on accounting for the 2016 merger of Paddy Power and Betfair and the 2018 combination of the Group's US assets with FanDuel. Following this US transaction, we also reviewed the carrying value of assets and contingent consideration relating to the Group's existing US daily fantasy sports business, DRAFT, which resulted in a net non-cash write-off to the income statement of £16m in 2018.

Costs relating to restructuring and strategic initiatives totalling £28m were incurred in 2018. These were primarily transaction costs arising as a result of the combination of Betfair US with FanDuel as well as operational and strategic changes made following the appointment of a new CEO.

In February, the Group disposed of its remaining stake in LMAX Exchange Group for £22m, with a £7m profit on this disposal recognised within financial income. The 31.4% stake was previously held as an available-for-sale financial asset and accordingly no contribution from the business was included in the Group's income statement.

	2018 £m	2017 £m
Non-cash acquisition related items:		
Amortisation on acquired intangible assets	**(101)**	(135)
Fair value adjustment for replacement share-based payment awards	**–**	(7)
Non-cash items relating to the DRAFT business:		
Impairment of goodwill & intangible assets	**(27)**	–
Gain on contingent consideration	**11**	–
Restructuring and strategic initiatives	**(28)**	–
Profit on sale of investment	**7**	–
Total separately disclosed items	**(138)**	(142)

Chief Risk Officer, Tanya Horgan, delivers speech in parliament in support of Betfair and Women In Football campaign #WhatIf.

Cash flow and financial position

As at 31 December 2018, the Group had net debt of £162m, excluding customer balances.

	2018 £m	2017 £m
Underlying EBITDA[1,2]	**451**	473
Capex	**(107)**	(89)
Working capital	**(38)**	55
Corporation tax	**(60)**	(45)
Underlying free cash flow	**247**	395
Cash flow from separately disclosed items	**(1)**	(12)
Free cash flow	**246**	383
Dividends paid	**(169)**	(149)
Share buyback	**(415)**	–
FanDuel acquisition (2017: DRAFT acquisition)	**(71)**	(14)
Interest and other borrowing costs	**(4)**	(0)
Net proceeds from issue of shares	**10**	3
Net (decrease)/ increase in cash	**(403)**	222
Net cash at start of year	**244**	36
Foreign currency exchange translation	**(2)**	(14)
Net (debt)/cash at year end[5]	**(162)**	244

The Group had £107m of capital expenditure in 2018 (2017: £89m). Approximately 19% of the expenditure related to our retail business, 24% to our US business with the remainder relating to technology projects, and product development in our European and Australian online businesses.

Working capital in 2018 was adversely affected by both the timing of some Q4 2017 costs paid in Q1 2018 (c.£20m) and material prepayments in relation to European marketing assets and US sports betting assets (c.£30m).

The increased corporation tax payment in 2018 reflected changes in the profitability mix of the group and the timing of tax payments.

During the year, £584m was returned to shareholders via dividends and share buybacks. Cash flow from separately disclosed items includes the receipt of £22m for the disposal of the Group's remaining stake in LMAX Exchange Group in February 2018.

Since the year end, the Group completed its £500m share buyback programme and the £101m acquisition of an initial 51% controlling stake in Adjarabet. At 28 February 2019 the Group had net debt of £310m, representing 0.7 times EBITDA.

Dividend

The Board has proposed a final divided of 133p per share, taking the full year dividend for 2018 to 200p (2017: 200p), which represents 53% of underlying earnings per share. The ex-dividend date will be 11 April 2019, the record date will be 12 April 2019 and payment will be on 21 May 2019.

Footnotes to the Operating and Financial Review

1. The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (note 4 and page 125 to the Financial Statements) .
2. EBITDA is profit before interest, tax, depreciation, amortisation and impairment expenses and is a non-GAAP measure. It is defined as profit for the year before depreciation and amortisation, financial income, financial expense and tax expense/credit. The Group uses EBITDA, Underlying EBITDA and Underlying operating profit to comment on its financial performance. These measures are used internally to evaluate performance, to establish strategic goals and to allocate resources. The Directors also consider that these are commonly reported and widely used by investors as an indicator of operating performance and ability to incur and service debt, and as a valuation metric. These are non-GAAP financial measures and are not prepared in accordance with IFRS and, as not uniformly defined terms, these may not be comparable with measures used by other companies to the extent they do not follow the same methodology used by the Group. Non-GAAP measures should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. All of the adjustments shown have been taken from the audited Financial Statements.
3. Constant currency ("cc") growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2017 at 2018 exchange rates (Appendix 4 on page 49)
4. The FanDuel transaction completed on 10 July 2018 and therefore the reported results for 2018 only include the FanDuel fantasy sports business from that date and do not include the business within the comparative period. The 'Proforma' results include the FanDuel fantasy sports business as if it always had been part of the Group, incorporating in addition to the reported results, results from 1 January to 9 July within the 2018 results and trading for the full year within the comparative period (Appendix 2 on page 48).
5. Net debt at 31 December 2018 is comprised of gross cash excluding customer balances of £123.7m and gross borrowings of £285.4m. The comparative balance shown as at 31 December 2017 is comprised of gross cash excluding customer balances of £307m and borrowings of £62m (Appendix 3 on page 48).
6. Growth rates in the commentary are in local currency.
7. Like-for-like growth rates are in constant currency[3] and are calculated by only including in the 2018 results, financial results from shops open prior to 2017 plus the financial results from shops opened during 2017 only from the anniversary of their opening date.
8. Based on competitor public filings and internal management estimates.
9. Based on market customer deposit data.
10. Internal management estimates.
11. Based on New Jersey Division of Gaming Enforcement industry reports.

Appendix 1: Divisional Key Performance Indicators

£m	Online 2018	Online 2017	Online % Change	Australia 2018	Australia 2017	Australia % Change	Australia A$ % Change	Retail 2018	Retail 2017	Retail % Change	US 2018	US 2017	US % Change	US US$ % Change	Group 2018	Group 2019	Group % Change	Group CC[1]% Change
Sportsbook stakes	**5,453**	5,633	-3%	**4,308**	3,708	+16%	+23%	**1,779**	1,835	-3%	**423**	–			**11,962**	11,176	+7%	+9%
Sportsbook net rev %	***7.7%***	*7.0%*	*+0.7%*	***9.4%***	*10.9%*	*-1.5%*	*-1.5%*	***12.5%***	*12.4%*	*+0.1%*	**2.6%**	–			***8.8%***	*9.2%*	*-0.4%*	*-0.4%*
Sports revenue	**678**	660	+3%	**403**	404	Flat	+6%	**222**	228	-3%	**172**	94	+83%	+89%	**1,474**	1,385	+6%	+8%
Gaming revenue	**270**	238	+13%	**–**	–	–	–	**110**	106	+3%	**20**	16	+26%	+31%	**399**	360	+11%	+11%
Total revenue	**948**	898	+5%	**403**	404	Flat	+6%	**331**	334	-1%	**191**	109	+75%	+81%	**1,873**	1,745	+7%	+9%
Cost of sales	**(231)**	(199)	+16%	**(121)**	(111)	+9%	+16%	**(73)**	(71)	+4%	**(45)**	(25)	+80%	+85%	**(470)**	(405)	+16%	+18%
Gross Profit	**717**	700	+2%	**282**	292	-4%	+2%	**258**	263	-2%	**147**	85	+74%	+80%	**1,403**	1,340	+5%	+6%
Sales & marketing	**(242)**	(223)	+8%	**(82)**	(82)	+1%	+8%	**(7)**	(7)	+1%	**(75)**	(34)	+120%	+124%	**(406)**	(346)	+17%	+19%
Product & technology	**(95)**	(98)	-4%	**(20)**	(24)	-17%	-12%	**(6)**	(6)	+3%	**(23)**	(9)	+148%	+157%	**(144)**	(137)	+5%	+6%
Operations	**(64)**	(72)	-11%	**(42)**	(47)	-10%	-5%	**(174)**	(169)	+3%	**(63)**	(37)	+68%	+74%	**(343)**	(326)	+5%	+6%
Unallocated central costs															**(59)**	(58)	+3%	+2%
Operating costs	**(401)**	(394)	+2%	**(145)**	(153)	-5%	+1%	**(187)**	(182)	+3%	**(161)**	(81)	+99%	+104%	**(953)**	(867)	+10%	+11%
Underlying EBITDA	**316**	306	+3%	**137**	139	-2%	+4%	**72**	82	-12%	**(14)**	4	n/a	n/a	**451**	473	-5%	-3%
Depreciation & amortisation	**(42)**	(39)	+8%	**(18)**	(15)	+19%	+27%	**(21)**	(19)	+9%	**(11)**	(9)	+17%	+22%	**(90)**	(81)	+11%	+13%
Underlying operating profit/(loss)	**275**	268	+3%	**119**	125	-4%	+1%	**51**	63	-19%	**(25)**	(5)	n/a	n/a	**360**	392	-8%	-6%

Proforma[4] Basis

£m	US 2018	US 2017	US % Change	US US$ % change	Group 2018	Group 2017	Group % change	Group CC[1]% change
Sports net revenue	**216**	190	+14%	+17%	**1,518**	1,481	+3%	+5%
Gaming net revenue	**20**	16	+26%	+31%	**399**	360	+11%	+11%
Total revenue	**236**	**205**	**+15%**	**+18%**	**1,918**	**1,841**	**+4%**	**+6%**
Cost of sales	**(50)**	(37)	+34%	+38%	**(475)**	(418)	+14%	+16%
Gross Profit	**186**	**168**	**+10%**	**+14%**	**1,442**	**1,424**	**+1%**	**+3%**
Sales & marketing	**(95)**	(91)	+4%	+6%	**(426)**	(402)	+6%	+7%
Product & technology	**(32)**	(29)	+12%	+16%	**(153)**	(157)	-3%	-1%
Operations	**(73)**	(57)	+28%	+32%	**(354)**	(346)	+2%	+4%
Unallocated central costs					**(59)**	(58)	+3%	+2%
Operating costs	**(200)**	**(177)**	**+13%**	**+16%**	**(992)**	**(963)**	**+3%**	**+4%**
Underlying EBITDA	**(15)**	**(9)**	**n/a**	**n/a**	**451**	**461**	**-2%**	**Flat**
Depreciation & amortisation	**(13)**	(12)	+3%	+7%	**(92)**	(84)	+10%	+11%
Underlying operating profit	**(27)**	**(21)**	**n/a**	**n/a**	**358**	**376**	**-5%**	**-3%**

1. Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2017 at 2018 exchange rates (see Appendix 4 on page 49).

Half-yearly and quarterly divisional key performance indicators are available on our corporate website: www.paddypowerbetfair.com/investor-relations.

Appendix 2: Reconciliation of reported revenue and underlying EBITDA to proforma adjusted EBITDA

	Revenue				Underlying EBITDA			
£m	2018	2017	YoY %	CC YoY %	2018	2017	YoY %	CC YoY %
Reported	**1,873**	1,745	+7%	+9%	**451**	473	-5%	-3%
Inclusion of pre-acquisition FanDuel results	**44**	96			**(0)**	(13)		
Proforma	**1,918**	**1,841**	**+4%**	**+6%**	**451**	**461**	**-2%**	**Flat**
YoY adjustments:								
Exclude US sports betting EBITDA losses					**24**	–		
Include YoY betting tax & product fees changes					**–**	(15)		
Proforma EBITDA adjusted for US sports betting & tax changes					**475**	**446**	**+7%**	**+9%**

Appendix 3: Reconciliation of Presented cash flow to Reported statutory cash flow

In the Operating and Financial Review the cash flow has been presented on a net cash basis. The difference between this and the reported statutory cash flow is the inclusion of borrowings to determine a net cash position, as reconciled in the table below.

	Presented cash flow		Adjustment to include borrowings		Reported cash flow	
£m	2018	2017	2018	2017	2018	2017
Underlying EBITDA[1]	**451**	473	**–**	–	**451**	473
Capex[2]	**(107)**	(89)	**–**	–	**(107)**	(89)
Working capital[3]	**(38)**	55	**–**	–	**(38)**	55
Corporation tax	**(60)**	(45)	**–**	–	**(60)**	(45)
Underlying free cash flow	**247**	395	**–**	–	**247**	395
Cash flow from separately disclosed items[4]	**(1)**	(12)	**–**	–	**(1)**	(12)
Free cash flow	**246**	383	**–**	–	**246**	383
Dividends paid	**(169)**	(149)	**–**	–	**(169)**	(149)
Share buyback	**(415)**	–	**–**	–	**(415)**	–
FanDuel acquisition (2017: DRAFT acquisition)	**(71)**	(14)	**–**	–	**(71)**	(14)
Interest and other borrowing costs[5]	**(4)**	(0)	**–**	–	**(4)**	(0)
Net proceeds from issue of new shares[6]	**10**	3	**–**	–	**10**	3
Net amounts drawn down/(repaid) on borrowings	**–**	–	**223**	(158)	**223**	(158)
Net (decrease)/increase in cash	**(403)**	222	**223**	(158)	**(180)**	65
Net cash at start of the year	**244**	36	**62**	214	**307**	250
Foreign currency exchange translation	**(2)**	(14)	**(1)**	6	**(3)**	(8)
Net (debt)/cash at year end	**(162)**	244	**284**	62	**124**	307

1. Underlying EBITDA includes the following line items in the statutory cash flow: Profit for the year, separately disclosed items, tax expense before separately disclosed items, financial income, financial expense, and depreciation and amortisation before separately disclosed items.
2. Capex includes (profit)/loss on disposal of property, plant and equipment and intangible assets, purchase of property, plant and equipment, purchase of intangible assets, purchase of businesses net of cash acquired (excluding FanDuel and DRAFT acquisitions shown separately in presented cash flow), capitalised internal development expenditure and payment of contingent deferred consideration.
3. Working capital includes (increase)/decrease in trade and other receivables, (decrease)/increase in trade, other payables and provisions, employee equity-settled share based payments expense before separately disclosed items, and foreign currency exchange (gain) /loss.
4. Cash flow from separately disclosed items includes proceeds from the disposal of investment & restructuring and strategic initiative costs paid.
5. Interest and other borrowing costs includes interest paid, interest received and fees in respect of borrowings facility.
6. Net proceeds from issue of new shares includes proceeds from issue of new shares and purchase of shares by employee benefit trust.

Appendix 4: Reconciliation of growth rates to constant currency growth rates

Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2017 at 2018 exchange rates as per the table below.

£m	2018	2017	% Change	2017 FX impact	2017 cc	cc% change
Sports net revenue	**1,474**	1,385	+6%	(25)	1,360	+8%
Gaming net revenue	**399**	360	+11%	0	360	+11%
Total net revenue	**1,873**	**1,745**	**+7%**	**(25)**	**1,720**	**+9%**
Cost of sales	**(470)**	(405)	+16%	7	(399)	+18%
Gross Profit	**1,403**	**1,340**	+5%	(19)	1,321	+6%
Sales & marketing	**(406)**	(346)	+17%	5	(341)	+19%
Product & technology	**(144)**	(137)	+5%	1	(136)	+6%
Operations	**(343)**	(326)	+5%	3	(323)	+6%
Unallocated central costs	**(59)**	(58)	+3%	0	(58)	+2%
Operating costs	**(953)**	**(867)**	**+10%**	**10**	**(857)**	**+11%**
Underlying EBITDA	**451**	473	-5%	(9)	464	-3%
Depreciation & amortisation	**(90)**	(81)	+11%	1	(80)	+13%
Underlying operating profit	**360**	**392**	**-8%**	**(8)**	**383**	**-6%**
Revenue by division						
Online	**948**	898	+5%	1	899	+5%
Australia	**403**	404	Flat	(24)	380	+6%
Retail	**331**	334	-1%	1	335	-1%
US	**191**	109	+75%	(3)	106	+81%
Underlying EBITDA by division						
Online	**316**	306	+3%	(1)	305	+4%
Australia	**137**	139	-2%	(8)	131	+4%
Retail	**72**	82	-12%	0	82	-13%
US	**(14)**	4	n/a	(1)	3	n/a
Unallocated central costs	**(59)**	(58)	+3%	0	(58)	+2%

UNDERSTANDING AND MANAGING THE GROUP'S PRINCIPAL RISKS

RISK GOVERNANCE AND RESPONSIBILITIES

The Board's responsibility:

- overall responsibility for overseeing the Group's internal control and risk management process ensuring appropriate and robust systems of internal control and risk management are in place to identify, manage and mitigate the risks to the overall viability of the Group.

The Audit Committee's responsibilities:

- ensuring the integrity of the Group's financial reporting and internal controls and risk management systems and whistleblowing; and
- reviewing the work of the Internal Audit function and the reports presented by the External Auditor.

The Risk Committee's responsibilities:

- ensuring Management and the second line risk functions are performing their roles in managing risk;
- reviewing responsible gambling and compliance;
- ensuring the Group Risk Registers are properly maintained;
- ensuring material risks are being properly addressed; and
- ensuring emerging risks are identified, measured and monitored.

The Executive Committee's responsibilities:

- identifying, assessing, monitoring, managing and mitigating risks and taking advantage of opportunities;
- embedding risk management as business as usual;
- ensuring appropriate internal controls are in place; and
- identifying all key risks and ensuring actions to mitigate risks are implemented.

Risk Management Process

1. IDENTIFY RISKS

A robust methodology is used to identify principal risks across the Group.

2. ASSESS AND QUANTIFY RISKS

Analyse risks and controls and evaluate to establish root causes, financial and other impacts and the likelihood of occurrence.

3. DEVELOP ACTION PLANS TO MANAGE AND MITIGATE RISK

Assess effectiveness and adequacy of controls. If additional controls are required, these are identified and responsibilities assigned.

4. MONITOR AND REASSESS RISK POST MITIGATION AND REPORT

Management is responsible for monitoring progress of actions to treat principal risks and is supported through the Group's internal audit programme which evaluates the design and effectiveness of controls. The risk management process is continuous; principal risks are reported to the Risk and Audit Committees.

Line of defence and responsibilities

FIRST LINE

Executive Committee

Business operations:

- Management & Chief Risk Officer
- Establish and develop the risk and control environment
- Primary responsibility for day-to-day risk management
- Proactive management of continuous business process improvement

SECOND LINE

Risk Committee

Oversight functions:

- Risk Management, Finance, HR, Legal, Compliance, & Information Security
- Establish Group policies and procedures within risk appetite
- Provide guidance and direction for their implementation
- Monitor the appropriate execution and application of policies and procedures

THIRD LINE

Audit Committee

Independent assurance:

- Internal/External Audit
- Provide independent challenge and assurance that risk is appropriately managed
- Systematic evaluation and monitoring of controls
- Identify efficiencies and process improvement opportunities

IDENTIFYING, MANAGING AND MITIGATING OUR PRINCIPAL RISKS

Identifying our principal risks

The principal risks and uncertainties which are considered to have a material impact on the Group's long-term performance and achievement of strategy are set out on the following pages. External and internal risk factors are considered.

This is not intended to be an exhaustive and extensive analysis of all risks which may affect the Group. Additional risks and uncertainties not presently known to Management, or currently deemed to be less material, may also have an adverse effect on the business.

RISK ASSESSMENT KEY

How the inherent risk (before taking into account controls in place to mitigate it by the business) has changed over the past year:

Increased risk — No change in risk — Decreased risk

Impact:
Impact on the business if the risk materialises

Likelihood:
Likelihood of occurrence of the risk in the next three years before taking into account mitigation activities by the business

Principal risk/ uncertainty	Why we need to manage this	Impact/ Likelihood	How we manage and mitigate the risk
Regulation and licensing and Regulatory compliance Risk category: • Commercial • Financial • Legal and Regulatory • Reputational Change in risk: Increased	The regulatory, taxation, or legislative environment, including interpretations or practices, applicable to the Group's activities in the various markets in which it operates, can make it commercially challenging for us to operate or restrict our ability to grow the business in such markets. This includes those markets where no regulatory framework exists. This industry is continually subjected to adverse regulatory headwinds. Breaches of regulations damage our reputation as well as leading to fines and investigations and can impact future growth.	Impact: • High Likelihood: • High	• We have dedicated internal and external Legal, Compliance and Tax teams for all regions with responsibility for advising business units in these matters and working with the business to set appropriate policies, processes and controls. For jurisdictions in which we hold a licence, the relevant Compliance teams monitor compliance with the regulatory framework and licence requirements in place. • Our dedicated Regulatory Affairs and Compliance teams work with regulators and governments in relation to proportionate and reasonable regulation. • As the first line, Management has ultimate accountability for compliance; training and communication strategies have focused on ensuring appropriate awareness of requirements. A risk-based approach is taken to key areas and there are appropriate second line functions in the business who test the systems for compliance. • Management report periodically to the Audit Committee and the Risk Committee (as applicable) on the application of various laws and regulations by the relevant jurisdiction to ensure that they are appropriately understood and managed. • The Group's internal and external auditors report the findings of their audit procedures to the Audit Committee on relevant compliance matters.
Data management and cyber security Risk category: • Legal and Regulatory • Reputational • Technology Change in risk: No change	The inability to adequately protect customer and other key data and information could result in formal investigations and/or possible litigation resulting in prosecution and damage to our brands. This is even more material since the introduction of the EU-wide General Data Protection Regulations ("GDPR") in May 2018.	Impact: • High Likelihood: • Medium	• The Group invests significantly in IT security resources and works with a variety of external security specialists to ensure security arrangements and systems are up-to-date with emerging threats. The Group's Information Security team continuously assesses the risks and controls around security and IT operations. • We have in place a number of data protection policies in order to protect the privacy rights of individuals in accordance with the relevant local data protection and privacy legislation and with GDPR. These are monitored by the Legal and Data Protection teams to ensure that the business is aware of, and adheres to, industry best practice standards and relevant laws.

UNDERSTANDING AND MANAGING THE GROUP'S PRINCIPAL RISKS CONTINUED

Principal risk/ uncertainty	Why we need to manage this	Impact/ Likelihood	How we manage and mitigate the risk
Reliance on third parties and key supplier relationships Risk category: • Commercial • Strategic Change in risk:	We rely on third parties across our business. Managing relationships with, and performance by, key suppliers, particularly those supplying software platforms, payment processing and data to support the Group's products is key to the Group's strategic objectives.	Impact: • High Likelihood: • Medium	• Where possible, we limit reliance on a single supplier to reduce potential single points of failure. • The Group has strong commercial relationships with its key suppliers. Contracts and service level agreements are in place with third parties and are subject to regular review. Proposed new contracts are passed through a procurement process to ensure adequate protection for the Group. • The Group monitors the performance of third-party suppliers in order to ensure the efficiency and quality of contract performance.
Technology infrastructure, systems stability and availability Risk category: • Commercial • Reputational • Technology Change in risk:	Our operations are dependent on technology and advanced IT systems and any damage or failure to these could reduce revenue and harm our business reputation. Reduced availability of our products arising from software, infrastructure and system issues could result in a poor customer experience and may have an impact on customer loyalty affecting our ability to grow the business.	Impact: • High Likelihood: • Medium	• We continuously invest in a cost-effective technology platform to ensure stability and availability, to eliminate single points of failure and improve performance. • In Europe, our single technology platform means customers are interfaced onto a single platform, which has increased resilience. • Key metrics are in place to monitor key systems and platforms globally and identify potential emerging issues for all regions. There is a formal incident management process for identifying, escalating and resolving issues and a post incident process to ensure that similar issues cannot happen again. • Robust development and change management processes help reduce the risk of unplanned outages.
Business continuity planning and disaster recovery Risk category: • Commercial • Technology Change in risk:	The ability of the Group to recover from severe disruption to our technology systems and business operations is paramount. A significant disruption to one of our data centres or offices can cause reduction in revenue and loss of customers. Delays in restoring services following a major disruption could result in loss of customers and reputational damage.	Impact: • High Likelihood: • Low	• We regularly review our Business Continuity Plans and IT Disaster Recovery capability and have in place service level agreements with third parties. Where possible, we have failover solutions available and seek to limit single points of failure. • The increase in extreme weather events across the Group's locations have increased the need to better manage this risk but we have in place continuity plans to manage such events and these have been successfully tested.

Principal risk/ uncertainty	Why we need to manage this	Impact/ Likelihood	How we manage and mitigate the risk
Market restrictions Risk category: • Commercial • Financial • Legal and Regulatory • Strategic Change in risk: • New risk	Restrictions on new or existing markets such as advertising bans or material taxation changes can impact growth plans.	Impact: • Medium Likelihood: • Medium	• Potential changes in regulatory environments are monitored on an ongoing basis with a view to managing any changes appropriately and cost efficiently. • The Group continues to promote transparent and effective regulations in all markets that create a level playing field. • A product prioritisation process ensures any new regulations are complied with in a timely manner.
Key employees recruitment and retention Risk category: • Commercial • Strategic Change in risk:	Continued success and growth is dependent on the performance of Executive Directors, senior management and other key employees. Retention and recruitment of these individuals is a key component in securing the ability to grow and develop the business. The Group's ability to continue to attract, retain and motivate passionate and highly skilled employees in an intensely competitive environment is key.	Impact: • Medium Likelihood: • Medium	• Through the Nomination and Remuneration Committee, the Board reviews key positions (namely the Executive Directors and senior management), succession and the remuneration and incentives in place. The overall remuneration structure in place for all employees is also reviewed by the Remuneration Committee. • Our HR function actively manages succession planning and the processes that are in place throughout the business to identify key roles and conduct regular appraisals, succession and talent reviews and engagement surveys as well as career development opportunities. • All employees are subject to regular salary reviews, a comprehensive benefit package and are able to join our all-employee Save As You Earn Share scheme (Sharesave) (subject to local jurisdictional requirements), which provides an opportunity for them to participate in the Group's performance.
BREXIT Risk category: • Financial • Legal and Regulatory Change in risk:	The high degree of uncertainty around the terms of the UK's departure from the EU as a consequence of the BREXIT referendum has resulted in business risk.	Impact: • Medium Likelihood: • High	• The potential implications of different BREXIT outcomes continue to be monitored by members of senior management and internal and external advisors. • The Board continues to monitor BREXIT-related developments particularly in the event of continued uncertainty and the possibility of a "no deal" BREXIT, as we approach the deadline on 29 March 2019. Specific impacted areas considered include legislation and regulation, people, data protection and tax. However, we are a global business, geographically and product diversified, and licensed country-by-country. This is a distinct advantage should data protection conditions in one market change.
Health and safety Risk category: • Commercial • Financial • Legal and Regulatory • Reputational Change in risk:	A major health and safety incident in our retail betting shops (for the UK and Ireland) would have a material impact upon employees and customers and could lead to significant reputational damage as well as fines and regulatory action.	Impact: • High Likelihood: • Low	• There are processes in place to manage the risks in our retail betting shops, including health and safety structures, single manning processes and loss prevention and security measures. We have also materially increased the headcount in our health and safety team. • There are a number of risk assessments conducted in our retail betting shops at various stages of their lifecycle. In addition, a formal incident management process and follow-up procedures reduce the likelihood of repeat issues.

CHAIR'S GOVERNANCE STATEMENT

"The Board sets the tone for the Group's culture, values and behaviours and keeps the Group's stakeholders at the heart of our decision-making process. Our focus is the long-term sustainable success of the business, which should in turn deliver greater cumulating shareholder value over time."

Dear Shareholder

Strong corporate culture and shared values drive the right behaviours throughout the Group and play an important part in delivering a sustainable successful business in the long term. Our corporate reputation is an important element of delivering on our Vision of being a global leader in online sports betting, combining a diversified portfolio of strong national brands with the world's leading betting Exchange. We also appreciate the constant need to consider the impact we can have on a wider group of stakeholders beyond investors and the need to strive to achieve positive outcomes in all respects.

Our approach to governance

The Board is responsible for the stewardship of the Group, establishing the Group's purpose, values and strategy and satisfying itself that these are aligned to the culture of the organisation. As part of our decision-making process, due regard is given to the interests of all of the Group's stakeholders with the goal of achieving long-term sustainable success for the business. This in turn should deliver consistently strong shareholder value. The Board, its four principal Committees and Management, working together, and using our governance principles, provide a clear and robust framework within which decisions are made. This report summarises our approach to ensuring effective governance and oversight of the business and the work undertaken during 2018.

The Board

Peter Jackson joined as Chief Executive Officer on 8 January 2018 and Jonathan Hill became Chief Financial Officer on 22 October 2018 further to our announcement earlier in the year that Alex Gersh had tendered his resignation. Pádraig Ó'Ríordáin also stepped down as a Non-Executive Director in March 2018 having served over nine years as a Non-Executive Director. Accordingly, in 2018, succession planning for the Board was a key priority of the Nomination Committee and the Board and this will continue in 2019 as we progress our search for a new Non-Executive Director who will enhance the diversity and range of skills and competencies of the Board.

As part of ensuring the Board's effectiveness, we again decided to undertake an internal performance evaluation of the Board and its Committees, which confirmed that they continue to operate effectively and work cohesively, providing the necessary challenge to Management. The process and agreed actions for 2019 are set out on page 64.

Remuneration changes

Further to changes in our strategy, the combination of our existing US business with that of FanDuel and changes in the external regulatory environment, we have made changes to both our long term and short term incentive plans. These are further detailed in the Directors' Remuneration Report and are the outcome of a dialogue with a number of our largest shareholders during 2018.

Reputation and risk

Our reputation continues to be of vital importance to the Group and its various constituents. The Risk Committee focuses on the reputational impact of the Group's activities and how these are being managed, particularly in relation to responsible gambling. Both it and the Audit Committee strive to ensure that the Group's risk management processes and risk appetite are aligned to the culture of the organisation.

Stakeholder engagement

The Board has always had regard to wider stakeholders beyond shareholders and in particular, our employees. I spend a fair amount of time engaging with employees through visiting our operations worldwide whilst also encouraging all of Board members to do the same. In 2018, the Board undertook visits to our offices in Cluj and Porto. Emer Timmons, one of our Non-Executive Directors, also held a diversity workshop for our corporate senior management employees in UK and Ireland sharing her insights in this area. Committee Chairs also spend time outside of formal meetings conducting more widespread discussions with a broad range of our people.

Both Peter Rigby (as Chair of the Remuneration Committee) and I held meetings with investors on general governance and remuneration matters during the year and details of these are discussed within this report.

Further, to the requirements under the 2018 UK Code, the Board has decided to appoint two Non-Executive Directors, Peter Rigby and Emer Timmons, to be the formal representatives for the Board in relation to appropriate engagement with our global employees building on the current positive processes we already have in place. This is being implemented in 2019 and will be reported in next year's Annual Report.

Objectives for 2019

During 2018, the Board and its Committees spent time considering the draft and the final 2018 UK Code and how we would continue to ensure compliance. This Annual Report continues to report against the 2016 UK Code.

The Board's objectives for 2019 are to continue to support the Executive Directors with the execution of our strategy, to focus on talent recruitment and retention, succession planning, on increasing the diversity of the organisation and on enhancing our governance practices, to remain aware and informed of cyber risks and mitigation and to ensure that we continue to have regard to the interests of all of our stakeholders, in line with directors' duties.

We look forward to meeting our shareholders at our Annual General Meeting, which will be held on 15 May 2019 at 11.00am at our head office in Clonskeagh, Dublin.

Gary McGann
Chair
5 March 2019

Statement of compliance

As a dual listed company with a premium listing on the London Stock Exchange and a secondary listing on Euronext Dublin, on behalf of the Board, I am pleased to confirm that we have fully complied with both the UK Corporate Governance Code 2016 (the "UK Code") and the Irish Corporate Governance Annex (the "Irish Annex") for the year ended 31 December 2018.

The UK Code is available from the Financial Reporting Council's website: frc.org.uk

The Irish Annex is available from Euronext Dublin's website: ise.ie

Fair, balanced and understandable

The Board believes that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Audit Committee assisted the Board with this assessment as explained on page 66. The Statement of Directors' Responsibilities appears on page 101.

ALIGNMENT WITH THE 2016 UK CODE:

Leadership
pages 56 to 61

Effectiveness
pages 62 to 64

Accountability
pages 65 to 71

Remuneration
pages 74 to 95

Engagement
pages 72 and 73

BOARD OF DIRECTORS

Gary McGann (age 68)
Chair – Independent on appointment

Appointed to this position: 1 July 2015*

Key strengths and experience:
- Extensive board experience in both the private and public sector
- Significant number of years' experience in senior finance, operations roles and general management

Gary was previously a Non-Executive Director of Smurfit Kappa Group, having been Group Chief Executive prior to this and having previously held a number of senior roles including President and Chief Operations Officer. Prior to this, he was Chief Executive of Gilbeys of Ireland and Aer Lingus Group. Gary holds BA and MSc Management degrees and is a qualified accountant.

Other current appointments: Chair of Aryzta AG and Non-Executive Director and Chair of Nomination and Remuneration Committees of Green REIT plc

* Became a Non-Executive Director: Nov 2014.

Peter Jackson (age 43)
Chief Executive Officer

Appointed to this position: 8 January 2018*

Key strengths and experience:
- Extensive experience in leading consumer businesses with international reach within a highly regulated industry
- Technology and digital consumer sector expertise

Prior to becoming Chief Executive Officer, Peter was Chief Executive Officer of Worldpay UK, an operating division of Worldpay Group plc. He was formerly Chief Executive Officer of Travelex Group. He then joined Santander as Head of Global Innovation at Banco Santander and a Director of Santander UK Group Holdings plc. Peter's previous experience includes senior positions at Lloyds and Halifax Bank of Scotland, as well as time at McKinsey & Company. He holds an MEng degree.

Other current appointments: None

* Non-Executive Director of Betfair Group plc: Apr 2013 and Paddy Power Betfair plc: Feb 2016.

Jonathan Hill (age 50)
Chief Financial Officer

Appointed to this position: 22 October 2018

Key strengths and experience:
- Significant financial and operational experience across various industry sectors and at listed companies
- Strong knowledge in strategic planning and development of large corporate projects

Jonathan was previously the Group Chief Financial Officer at Saga plc. Prior to that, he held various senior roles within TUI Travel plc and Centrica plc and was the Group Finance Director at Bovis Homes Group plc. He is a qualified chartered accountant and spent his early career at Price Waterhouse in London.

Other current appointments: None

Jan Bolz (age 58)
Independent Non-Executive Director

Appointed to this position: 6 September 2017

Key strengths and experience:
- Extensive senior management experience across marketing, sales and finance functions
- A wealth of global experience across the gambling and gaming industry

Jan was most recently the Chief Executive Officer of Tipico, a German sports betting business. Prior to this, Jan held several senior executive roles with Electronic Arts, including that of Vice President of Marketing and Sales for International, and Bertelsmann Music Group as Managing Director of BMG Ariloa Munich.

Other current appointments: None

Zillah Byng-Thorne (age 44)
Independent Non-Executive Director

Appointed to this position: 2 February 2016*

Key strengths and experience:
- A number of years' financial and operational experience
- Strong insight into retail trends, consumer behaviour, brands and the digital and technology sector having led a consumer-facing digital business

Zillah joined Future plc in November 2013 as Chief Financial Officer and Company Secretary and was appointed as the Chief Executive in April 2014. Prior to this, she was Chief Financial Officer of Trader Media Group, Fitness First Group Ltd and Thresher Group. She is a chartered management accountant and a qualified treasurer, and holds an MA in Management Studies and an MSc in Behavioural Change.

Other current appointments: Chief Executive of Future plc and Non-Executive Director and Chair of Audit and Risk Committee of Gocompare.com Group plc

* Non-Executive Director of Betfair Group plc: Sept 2013.

Michael Cawley (age 64)
Independent Non-Executive Director

Appointed to this position: 17 July 2013

Key strengths and experience:
- Significant experience in senior finance, leadership and operational roles
- Extensive regulated industry experience

Michael previously held a number of senior positions at Ryanair, including Deputy Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Commercial Director. Prior to that, Michael was Group Finance Director of Gowan Group Limited, Flybondi Limited, Linked P2P Limited and Meadowbrook Heights Unlimited. He is a qualified chartered accountant and holds a Bachelors of Commerce degree.

Other current appointments: Chair of Hostelworld Group plc and Fáilte Ireland and Non-Executive Director of Kingspan Group plc and Ryanair Holdings plc

Ian Dyson (age 56)
Senior Independent Director

Appointed to this position: 2 February 2016*

Key strengths and experience:
- Has held various senior financial and operational roles and extensive listed board experience
- Vast knowledge of regulated businesses and the gambling and gaming sector

Ian was formerly a Non-Executive Director of Punch Taverns plc, having previously been Chief Executive. Other previous positions held by him include Finance & Operations Director at Marks and Spencer Group plc, Finance Director at The Rank Group plc, Group Financial Controller of Hilton Group plc and Finance Director at Le Meridien. His early career was spent with Arthur Andersen, where he was also Partner. Ian is a qualified chartered accountant.

Other current appointments: Non-Executive Director and Chair of the Audit Committee of InterContinental Hotels Group PLC and SSP Group plc and Senior Independent Director and Chair of the Audit Committee of ASOS plc

* Non-Executive Director of Betfair Group plc: Feb 2010.

Peter Rigby (age 63)
Independent Non-Executive Director

Appointed to this position: 2 February 2016*

Key strengths and experience:
- Significant experience in operations management, brands and mergers and acquisitions
- A number of years' experience in senior finance roles and leading a highly digitalised business

Peter was previously Chief Executive and, prior to that, Finance Director, of Informa Plc from 1983 to 2013. Prior to this, he held the role of Finance Director for Stonehart Publications. He holds a BA in Economics and is a qualified accountant.

Other current appointments: None

* Non-Executive Director of Betfair Group plc: Apr 2014.

Emer Timmons (age 50)
Independent Non-Executive Director

Appointed to this position: 17 May 2017

Key strengths and experience:
- A wealth of global experience in sales, retail, distribution and operations
- International experience in sales and marketing and commercial strategy

Emer is Chief Marketing Officer and President of Strategic Sales for Brightstar Corporation. Previously, Emer held several senior executive roles at BT, including President of BT Group Strategic Deals and Customer Engagement, as well as leading BT's Global Services UK business. She holds a degree in Maths and Economics.

Other current appointments: Chief Marketing Officer and President of Strategic Sales for Brightstar Corporation

KEY

Committee membership:

- A Audit Committee
- N Nomination Committee
- Re Remuneration Committee
- Ri Risk Committee
- Committee Chair

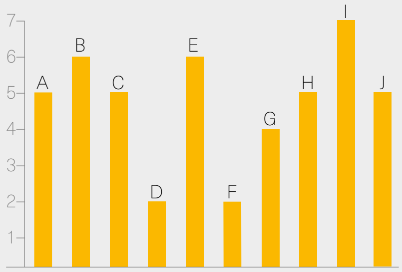
Flag denotes nationality:

- UK
- Ireland
- Canada
- Germany

As at 5 March 2019:

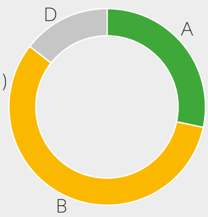
NON-EXCUTIVE DIRECTORS' SKILLS

A: Regulation and regulatory environment: 5
B: Finance: 6
C: Retail/Consumer: 5
D: Gambling/Gaming: 2
E: Digital: 6
F: Technology systems: 2
G: Marketing: 4
H: Brands: 5
I: Operations: 7
J: FTSE 250 listed board experience: 5



LENGTH OF TENURE (NON-EXECUTIVE DIRECTORS)*

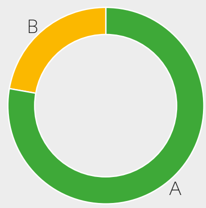
A: 0-3 years: 28.6% (2)
B: 3-6 years: 57.1% (4)
C: 6-9 years: 0% (0)
D: Over 9 years: 14.3% (1)



* Includes tenure as a Non-Executive Director of Betfair Group plc or Paddy Power plc (pre-Merger) where applicable.

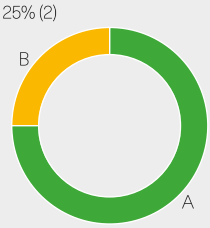
GENDER

A: Male: 77.8% (7)
B: Female: 22.2% (2)



BALANCE OF INDEPENDENCE

Non-Executive Chair*
A: Independent Non-Executive Directors: 75%** (6)
B: Executive Directors: 25% (2)



* Independent on appointment.
** Excluding Chair.

CORPORATE GOVERNANCE FRAMEWORK, ROLES AND RESPONSIBILITIES

Board

Nomination Committee

Ian Dyson (Chair)
Michael Cawley
Gary McGann
Emer Timmons

Considers the structure, size and composition of the Board and its Committees and advises on succession planning for the Board and the Executive Committee and ensuring that the Board retains an appropriate mix of skills, experience, knowledge and diversity, in line with our business.

Committee Report: pages 63 and 64

Audit Committee

Michael Cawley (Chair)
Jan Bolz
Zillah Byng-Thorne
Ian Dyson
Emer Timmons

Provides governance and oversight over the integrity of the Group's financial reporting and the Group's internal controls and risk management systems and also monitors the performance of internal and external audit.

Committee Report: pages 65 to 69

Risk Committee

Zillah Byng-Thorne (Chair)
Michael Cawley
Gary McGann
Peter Rigby

Reviews the reputational impact of the Group's activities and how these are being managed, the Group's responsible gambling strategy and objectives, the Group's corporate social responsibility strategy and objectives and our risk management activities for assurance that these are appropriate and in line with the risk appetite of the Group.

Committee Report: pages 70 and 71

Remuneration Committee

Peter Rigby (Chair)
Jan Bolz
Ian Dyson
Gary McGann
Emer Timmons

Reviews all aspects of Executive remuneration, reviewing trends across the industry and setting the Directors' Remuneration Policy, which is designed to incentivise and retain talent to support the delivery of the Group's long-term strategy. It also sets the remuneration of the Chair, the Executive Committee and the Company Secretary and reviews the structure in place for wider workforce remuneration.

Committee Report: pages 74 to 95

Disclosure Committee

Responsible for overseeing the disclosure of information by the Company to meet its obligations under the EU Market Abuse Regulation and the Central Bank of Ireland's laws and regulations and the Financial Conduct Authority's Listing Rules and Disclosure Guidance and Transparency Rules.

Executive Committee

Day-to-day management of the business and operations.

Execution of the strategy is delegated to the Chief Executive Officer and the Executive Committee.

Chief Executive Officer

Each Committee Chair formally reports to the Board following their meetings and makes any recommendations to the Board in line with their Terms of Reference. Papers and minutes for all meetings are circulated to all Board members unless they contain anything which may be deemed to have a potential conflict of interest for a Director.

Terms of Reference:
paddypowerbetfair.com/investor-relations

Board of Directors

- Responsible for the stewardship of the Group, overseeing its conduct and affairs to create long-term sustainable success in order to generate greater cumulative value for shareholders and understand the views of the stakeholder group
- Responsible for establishing the Group's purpose, values and strategy and satisfying itself that these are aligned to the culture
- Responsible for the Group's strategic direction, long-term objectives and development
- Discharges some of its responsibilities directly and others through its Committees and Management
- Approves strategic plans and annual budgets and ensures that the necessary financial and human resources are in place for the Group to meet its objectives
- Maintains an oversight of the Group's operations, financial performance and governance and oversees our compliance with statutory and regulatory obligations
- Determines the Group's risk appetite and ensures that we have in place a robust system of internal controls and risk management, including ensuring that material risks are being properly addressed and emerging risks are identified, measured and monitored
- Responsible for ensuring that the Group has the necessary leadership team in place to efficiently execute its strategy
- Determines the remuneration for the Non-Executive Directors

Non-Executive Directors
(all independent)

- Bring a strong external perspective, advice and judgement to the Group, acting independently and constructively challenging decisions
- Bring varied industry and professional backgrounds, experience, skills and expertise aligned to the needs of the Group's business and long-term strategic objectives

Chair
Gary McGann

- Responsible for the leadership and effectiveness of the Board, including overseeing corporate governance matters and undertaking the evaluation of the Board, its Committees and the Directors
- With the Board, ensures that the Group's culture is aligned with the Group's purpose, values and strategy
- Sets and manages the Board's agenda ensuring that Directors receive timely, accurate and clear information on the Group's business and that they are fully informed of relevant matters, thereby promoting effective and constructive debate and supporting a sound decision-making process
- Oversees the Board's consideration of the Group's strategy and the strategic issues facing the Group
- Responsible for ensuring that the appropriate leadership team is in place
- Ensures that adequate time is available for discussion and consideration of the Group's principal risks and their management
- Ensures that there is effective stakeholder engagement and the Board is kept aware of their views, in particular those of shareholders

Senior Independent Director
Ian Dyson

- Available to liaise with shareholders in exceptional circumstances when they have concerns that have not been addressed by the Chair, the Chief Executive Officer or the Chief Financial Officer
- Leads the annual performance review of the Chair and assists the Chair with the annual Board evaluation
- Provides advice and support to the Chair, and serves as an intermediary for other Directors if necessary

Chief Executive Officer
Peter Jackson

- Overall responsibility for the Group's performance and the delivery of the Group's strategy in consultation with the Board
- Builds and leads an effective Executive Committee and oversees the Group's business operations and management of its risks
- Ensures that appropriate consideration is given to the Group's responsibilities to all stakeholders including its shareholders, customers and employees

There is a clear division of responsibilities between the Chair and the Chief Executive Officer with no one individual having unfettered decision-making powers.

Chief Financial Officer
Jonathan Hill

- Manages the Group's financial affairs, including the Finance, Tax, Investor Relations and Property and Procurement functions, as well as communication with capital markets
- Supports the Chief Executive Officer in the implementation and achievement of the Group's strategic objectives

Company Secretary
Edward Traynor

- Ensures a good flow of timely information within the Board and its Committees and between senior management and the Non-Executive Directors
- Advises the Board on legal and governance matters and ensures compliance with Board procedures
- Facilitates new Director inductions, arranges Board ongoing training and assists with professional development as required
- With the Chair and the Senior Independent Director, reviews the governance processes, including the Board and Committee evaluation, in terms of being fit for purpose and the consideration of any improvements to be made
- Also as General Counsel oversees the Legal and Regulatory Affairs teams

2018 BOARD ACTIVITIES

2018 BOARD MEETING ATTENDANCE

Board Directors	Meetings attended/ Eligible to attend	% of meetings attended
Gary McGann	9/9	100%
Peter Jackson	9/9	100%
Jonathan Hill[1]	1/1	100%
Jan Bolz	9/9	100%
Zillah Byng-Thorne	9/9	100%
Michael Cawley	9/9	100%
Ian Dyson	9/9	100%
Peter Rigby	9/9	100%
Emer Timmons[2]	8/9	89%
Previous Directors[3]		
Alex Gersh[1]	8/8	100%
Pádraig Ó'Ríordáin[4]	2/2	100%

1. Alex Gersh ceased being Chief Financial Officer on 21 October 2018 and was succeeded by Jonathan Hill on 22 October 2018.
2. Emer Timmons missed one meeting due to a prior commitment notified to the Chair in advance of joining the Board as a Director.
3. Breon Corcoran ceased being Chief Executive Officer on 7 January 2018 and no meetings were held during 2018 for which he was required to attend.
4. Pádraig Ó'Ríordáin retired from the Board on 2 March 2018.

Board meetings

Nine scheduled Board meetings were held in 2018. At each meeting, standing agenda items were updates by the Chair, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. Each Committee Chair also provided an update on their respective Committee meetings and copies of each Committee's minutes (to the extent that they contain no items which would be a potential conflict for other Directors) are circulated to the Board. Non-Executive Directors' only meetings were also held in 2018.

Board and Committee members are provided with papers in a timely manner in advance of each meeting on a secure electronic portal. Each Director ensures that they have reviewed papers in advance of the meeting. Exceptionally, if a Director is unable to attend, comments are provided to the Chair or the relevant Committee Chair beforehand. If any Director has unresolved concerns about the Group or a proposed action, these are recorded in the minutes of the meeting. There were no such occasions in 2018.

GOVERNANCE IN ACTION

Responsible gambling

The Board places responsible gambling at the forefront of its governance and long-term strategic agenda. It believes that responding appropriately to this challenge is imperative for the Group and that if the Group were to fail to act responsibly, its long-term sustainability would be put in jeopardy due to the potential impact on our relationships with all of our stakeholders. An update on responsible gambling is a standing item as part of the Chief Executive Officer's update at each Board meeting and detailed updates on this including strategy and progress against objectives is discussed at Risk Committee meetings. As can be seen on pages 18 and 19, this underpins our strategy.

Combination of Betfair US with FanDuel

The Board considers merger and acquisition opportunities that are aligned to the Group's strategic priorities. As a result, the Board approved a definitive agreement to combine our US business with FanDuel, a daily fantasy sports operator. The Board considered how the transaction would strengthen the Group's opportunity to target the prospective US sports betting market through the addition of a strong brand, large existing customer base and talented team, and concluded that the scale of the combined business would ensure that we were well positioned to take advantage of the US opportunity.

GOVERNANCE IN ACTION

Board visits: Cluj and Porto

In June 2018, the Board visited the Group's technology software development operations in Cluj, Romania. During the visit, the Board received presentations from the product design teams, the platform development team and gained insights into the mobile and data warehouse operation. The Board also participated in a town hall meeting attended by the Cluj employees and had the opportunity to meet with Romanian public stakeholders during the visit.

In September 2018, the Board visited the Group's operations known as 'Blip' in Porto, Portugal. This visit afforded the Board the opportunity of engaging with the web applications team across customer services, risk and trading and gaming.

Key activities of the Board in 2018

Strategic and operational matters	Through the Chief Executive Officer, updated on operational, business and strategic matters, including responsible gambling as well as competitor analysis
	Dedicated strategy sessions were held to consider the Group's strategic opportunities and challenges and as a result, the updated strategy for the Group, as set out on pages 18 and 19, was approved by the Board
	Various presentations on regional and functional updates and developments by Executive Committee members and other members of senior management including actions, progress and risks in relation to the strategic priorities
	Approved the combination of the Betfair US business with that of FanDuel and were provided with updates on progress of the combined business and continued to monitor other opportunities for mergers and acquisitions as part of strategic growth opportunities
	Consideration of the various changes in regulation and regulatory headwinds across our markets and the impact on our business, including the US further to the Supreme Court's decision in relation to the overturning of PASPA; Australia in relation to the confirmed POCT rates; the UK in relation to FOBT and Remote Gaming Tax; and Ireland with respect to the increase in Irish betting taxes
	Updated on material communications with regulators and other regulatory and legislative bodies and discussion of the settlement with the UK Gambling Commission
Finance and investor relations	Through the Chief Financial Officer, updated on financial performance
	Consideration of the 2018/19 budget in the context of the three-year plan
	Reviewed and approved the results announcements and trading updates
	Updated on investor views and shareholder relations, analysts' reports and media updates, share register movements and share price performance, as well as engagement with investors
	Reviewed and approved the going concern and viability statements
	Reviewed the Group's financing and capital structure, and approved our dividend policy and the return to investors by way of a £500m share buyback. The interim and final proposed dividends for 2018 were specifically reviewed in the context of the Company's distributable reserves (see Note 13 to the Company Financial Statements on page 178)
	Annual review of the Group's Tax Strategy and approval and publication on our website
Governance, risk and governance obligations	Reviewed developments in corporate governance and legal and regulatory updates, including the FRC's UK Corporate Governance Code 2018 ("2018 UK Code") and The Companies (Miscellaneous Reporting) Regulations 2018, and considered enhancements to current practices to meet the obligations therein
	Undertook a fair, balanced and understandable review of the Annual Report and Accounts
	Received updates on our internal controls and risk management systems through reports from the Audit Committee and Risk Committee Chairs
	Agreed the process and actions from the Internal Board and Committee effectiveness evaluation
	Updated on engagement with investors on governance and remuneration matters and feedback on voting in relation to AGM 2018 matters
	Reviewed and approved updated the Matters Reserved for the Board and each Committee's terms of reference
	Discussed the composition of the Board and its Committees, including succession planning and approved the appointment of the new Chief Financial Officer
	Approved the Group's updated Modern Slavery Statement for publication on our website
People and culture	Updated on employee strategy, engagement, succession planning and talent management and diversity, particularly at senior management level
	Updated on employee remuneration structure and proposed changes to 2018 and 2019 long-term and short-term incentive plans via the Remuneration Committee Chair further to discussions at that Committee

EFFECTIVENESS

Director induction and development

On joining the Board, all new Directors undertake an induction programme. For Non-Executive Directors this is managed by the Chair and Company Secretary over the first few months after appointment and for Executive Directors, this is managed by the Chief Executive Officer and the HR function. The primary purpose is to familiarise them with the Group's operations and business, the regulatory environment, our stakeholders, as well as directors' duties and our governance practices. Non-Executive Directors are encouraged to visit our offices to gain a first-hand understanding of the culture. While there is an overall induction programme in place, this is tailored to take into account a Director's previous experience, their responsibilities and for Non-Executive Directors, specific Committee responsibilities. This is then discussed with the Director themselves.

GOVERNANCE IN ACTION

Induction: Jonathan Hill

- Met with all members of the Board and the Executive Committee and other functional leads from across the business
- Received presentations on strategy, the industry, our competitors and the external regulatory environment
- Detailed review of the Group's financial structure with key Finance team members to maximise the learnings from the handover with the outgoing Chief Financial Officer
- Received information on our corporate governance framework
- Meetings with other key third party advisers including our corporate brokers, as well as our major investors

Ongoing training and development and advice

The Chair and Company Secretary keep under review the knowledge of each Director and their understanding of the Group to fulfil their roles on the Board and its Committees. All Directors are encouraged to request further information and support they consider necessary to fulfil their role. As part of ongoing development, legal and regulatory updates are provided as necessary for the Board and each Committee by internal and external advisers. We recognise that our Directors have a diverse range of experience, and we accordingly encourage them to attend external seminars and briefings that will assist them individually, particularly in the case of Committee Chairs. Additional knowledge is also gained via updates and briefings covering relevant areas for the business and the Group. For example, in 2018, this included a roundtable discussion on the draft 2018 UK Code and a cyber security workshop delivered by an external cyber expert.

Each Director may obtain independent professional advice at the Company's expense in the furtherance of their duties as a Director. Each Committee is supported by the Company Secretary and his Deputy. In addition, each Committee seeks independent professional advice as required.

Time commitment

On appointment, Directors are advised of, and required to make, the necessary time commitment to discharge their responsibilities effectively. No precise timings are given as this will vary from year-to-year depending on activities. The Chair keeps under continual review the time each Non-Executive Director has dedicated to the Group and his own time commitment is kept under review by himself in conjunction with the Nomination Committee. This was also considered as part of the internal Board evaluation. The majority of Directors are experienced board directors of public companies and all have an understanding of the time and intellectual commitment that is necessary to fulfil their commitments to the Group. Although Zillah Byng-Thorne has both an executive and a non-executive director position in addition to her being a Non-Executive Director with the Group, the Chair and the Board consider that she is able to provide sufficient time to her responsibilities. Like all our Chairs, she spends the appropriate amount of time outside of meetings preparing and meeting with key internal stakeholders.

For any Director who hasn't previously been a director of a public company, time expectations are highlighted on appointment. The Board recognises the UK Code's guidance and investors' expectations that Directors give sufficient time to discharge their responsibilities. Attendance at Board and Committee meetings is a priority. In addition to the formal scheduled meetings, there is significant other engagement by Directors. This includes private individual meetings with the Chair, the Chief Executive Officer and other Directors, as necessary.

As part of enhancing business knowledge and insight, Non-Executive Directors, in particular Committee Chairs, had meetings with other members of senior management throughout 2018. Site visits are actively encouraged and in 2018, the whole Board visited both Cluj and Porto, which not only helped facilitate knowledge of the operations in these offices, but also provided the Board with visibility of talent at different levels and insight into the culture within the broader business first hand. The Chair also spent time visiting our operations in Hammersmith, Australia and New York.

In respect of all Directors, the Chair is satisfied that their other duties and time commitments do not conflict with those as Directors of the Group and their involvement and commitment is more than sufficient to meet their Board obligations and responsibilities.

Executive Directors may hold one external non-executive directorship (but not a chairmanship) of a large public listed company (or its equivalent) but must obtain the prior consent of the Chair before accepting it. Executive Directors may retain the fees from any such directorship. This is considered helpful to broaden and deepen their skills, knowledge and experience. Alex Gersh, the previous Chief Financial Officer, served as a Non-Executive Director of Moss Bros Group plc and received total fees of £45,450 from January to October 2018 in respect of that role.

Conflicts of interest

The Board has formal procedures in place for managing conflicts of interest, which includes an annual confirmation by all Directors. Directors are required to give advance notice of any actual or potential conflicts of interest to the Company Secretary and the Board should it arise, which the Board approves if appropriate to do so. In the case of a conflict, the relevant Director would be excluded from the quorum and vote in respect of any matters in which they have an interest. These are annually formally considered on an annual basis by the Board alongside any other appointments held by Directors.

Election/Re-election of Directors

As part of the recommendation to shareholders for the election/annual re-election of individual Directors, the skills and experience each Director brings as well as their time commitment, tenure and independence is considered by the Nomination Committee. The performance review and evaluation also feed into this.

The Board recommends the election of Jonathan Hill and, for all other current Directors, recommends each's re-election to shareholders at our upcoming AGM.

NOMINATION COMMITTEE REPORT

Ian Dyson
Nomination Committee Chair

"The focus during 2018 was succession planning for the Chief Financial Officer and the search for a new Non-Executive Director."

2018 MEETINGS ATTENDANCE

Committee members[1]	Date appointed	Attended/ Eligible to attend
Ian Dyson (Chair)	Feb 2016	3/3
Michael Cawley	Mar 2018	2/2
Gary McGann	Jul 2015	3/3
Emer Timmons	Aug 2018	2/2
Previous member		
Pádraig Ó'Ríordáin[2]	Dec 2016	1/1

1. All members are independent Non-Executive Directors and the Chair of the Board was independent on appointment to that role.
2. Pádraig Ó'Ríordáin ceased being a member on 2 March 2018.

OTHER ATTENDEES

Other Directors, including the Chief Executive Officer and Committee Chairs, are invited to attend meetings as appropriate in order to provide relevant input.

The Company Secretary or his Deputy acts as secretary to the Committee and provides support to it as necessary.

Role and responsibilities

The Committee considers the structure, size and composition of the Board and its Committees, advising on succession planning and making appropriate recommendations to ensure that the Board retains an appropriate mix of skills, experience, knowledge and diversity, in line with our business.

Committee's Terms of Reference: paddypowerbetfair.com/investor-relations
Directors' biographies: pages 56 and 57

Key activities undertaken in 2018

Chief Financial Officer succession

During 2018, the Committee led a thorough succession planning process for the new Chief Financial Officer having appointed Spencer Stuart (an independent external agency) to conduct the search. A role and person profile was created with the necessary requirements and the desired skill-set that a potential successor would need. The resultant pool of candidates was reduced to a shortlist who were interviewed. Jonathan Hill was unanimously appointed by the Board of Directors. The Board's selection of Jonathan reflects his experience as a proven chief financial officer and his substantial strategic and operational finance experience in consumer businesses. The Board is confident he will make a significant contribution to the Group's future success.

Board composition and balance

We aim to have a Board that is well balanced and has the appropriate skills, knowledge, experience and diversity for the current and future needs of the business. Whilst the tenure of individual Directors is taken into account, we are keen to strike a balance between continuity and succession for the Board as a whole. Longer-serving Directors bring valuable experience and working in conjunction with newer appointees, it is believed that the Board has an appropriate balance, a reasonable level of diversity and continues to operate effectively.

Skills and experience

For balanced and effective decision-making, it is important that the Board has a broad range of skills and experience. Our skills matrix is based on annual self-assessment by each Director of their experience and skills, which is kept under review by the Committee. This allows the mapping of the Board's skills, as a whole, against the evolving needs of the business and ensures that any future search for Directors is focused. This assists in defining the attributes required as part of the search for new Non-Executive Directors.

New Non-Executive Director search

We have engaged an independent external agency to conduct a search for a new Non-Executive Director with a particular focus on candidates with digital and brand experience, enhancing the Board's collective skills and diversity in line with the strategic needs of the business.

Diversity

Our approach to diversity at the Board level is set out in our Board Diversity Policy. We are mindful of the reviews in this area including the Davies Review, the Parker Review and Hampton-Alexander Review. We appoint based on merit and consider diversity in its widest sense to include age, experience, sex, ethnicity, professional background, skills and international experience.

Progress against our Board Diversity Policy objectives in 2018:

- as at 5 March 2019, 22.2% of our Directors are female; our target continues to be to have at least 33% female Directors by 2020. As part of searching for a new Non-Executive Director, diversity of gender continues to be an important consideration but appointments are based on merit;
- the external search agency assisting with any search is requested to produce a long list of candidates from a broad and diverse global pool giving sufficient consideration to female representation including candidates from within and outside of FTSE250 companies; and
- any external search agency used is a signatory of the Voluntary Code of Conduct for Executive Search Firms.

Ensuring diversity throughout the organisation is a focus for the Board and the gender diversity of the Executive Committee and their direct reports was kept under review during 2018. From 2019, this Committee will also be updated on the broader diversity initiatives in place for all employees and the progress being made.

Information on our diversity initiatives and gender diversity statistics: pages 6, 7 and 34 to 37

Tenure and independence

The Board is committed to ensuring that it continues to comprise a majority of independent Non-Executive Directors who objectively challenge Management. The Committee and the Board keep this under review and are of the opinion that all current Non-Executive Directors remain independent within the definition of the UK Code.

Taking into account my own tenure on both the Board of Betfair Group plc and the Company cumulatively, as of February 2019, I will have been a Non-Executive Director for nine years. Accordingly, a rigorous review of my independence was undertaken (in my absence) by the Committee (with Gary McGann as Chair) and the Board.

NOMINATION COMMITTEE REPORT CONTINUED

Consideration was given to my short concurrent tenure with current Management, my long-standing experience as a director of public companies and the diversity of perspective, skills and tenure of the Board as a whole. It was felt that I continue to be an independent Non-Executive Director who makes a very valuable contribution. This matter continues to be kept under review.

Effectiveness of the Committee

This is monitored by me and was also specifically reviewed as part of the internal Board and Committee evaluation process. It was considered that the Committee was operating effectively and focusing on the key areas within its remit.

Focus for 2019

During 2019, the Committee will continue to focus on a search for a new Non-Executive Director and succession planning for the Board in general. In line with the 2018 UK Code, the Committee will also focus on succession planning at the Executive Committee level and oversee diversity initiatives and progress throughout the organisation.

Ian Dyson
Nomination Committee Chair
5 March 2019

Board and Committee evaluation

The Board agreed that an internally facilitated process would again be undertaken for 2018. Given the last externally facilitated evaluation was in 2016, in line with the UK Code, the 2019 evaluation will be externally facilitated. The Nomination Committee considers the progress made against the actions from the previous evaluation and recommends the actions from the current evaluation.

2017 Board and Committee internal evaluation: Actions and progress

The actions from the 2017 evaluation and progress against these are summarised below:

2017 Evaluation Actions	Progress
With the change in Chief Executive Officer and structure of his management team, the Board will continue to provide oversight and support to them in reviewing and executing the strategy	The Board agreed the updated strategy for the Group (see the Strategic Report) and provided oversight for the execution of this during the year. It also continued to support the Chief Executive Officer given the changes to the Executive Committee
To increase the amount of time at Board-level allocated to risks and challenges that could impact the business	The Risk Committee reviewed its remit in 2018 and will continue to spend time focusing on this during 2019. Updates are provided to the Board via the Chair of the Risk Committee
As part of increasing the knowledge of Directors especially in light of external industry and regulatory changes, the Board will have further internal and external presentations	There has been a broad spectrum of Board presentations both from within the business and by external advisors and experts, focusing on increasing the understanding of the Directors on our industry and the broader environment, for example capital markets and investor perceptions of the business, a detailed cyber security session and broader commercial presentations
The Board will continue to focus on Board composition and succession planning with an emphasis on diversity	Nomination Committee meetings have focused on succession planning for the Chief Financial Officer and Non-Executive Directors

2018 Board and Committee internal evaluation

Questionnaire

Each Director completed a questionnaire covering the following themes:

- composition and quality of the Board
- the Board's understanding of the business (including applicable risks)
- the process and procedures in relation to the Board
- ethics and compliance and monitoring activities
- individual Committee effectiveness

Follow-up discussions were had with each Director as required

Director performance

- Chair:
  The Senior Independent Director had individual meetings with all Directors as part of the review of the Chair's performance. This was then discussed with the Directors and feedback provided to the Chair
- Non-Executive Directors:
  Throughout 2018, the Chair kept under review the performance of all Non-Executive Directors, having individual meetings and providing continual feedback as appropriate. As part of the internal evaluation, performance was also discussed with each Director
- Chief Executive Officer:
  The Chair discussed this with the Chief Executive Officer
- Chief Financial Officer:
  The Chief Executive Officer provided feedback having also discussed with the other Directors

Results

- The results were collated by the Company Secretary's office and a report prepared summarising the feedback and highlighting themes. This was discussed with the Chair of the Board and Chair of the Nomination Committee and presented to the Board
- Actions for 2019 were discussed and agreed with the Board and progress against these will be monitored by the Nomination Committee and the Company Secretary during 2019
- Each Committee Chair also received feedback on their respective Committee in order to continue to improve its effectiveness

Conclusion

- Overall, it was concluded that the Board functions well and each of its Committees were effective with strong engagement, allowing adequate time to discuss areas within their remit
- There is a strong cohesive relationship between Directors and debate is appropriate. All Board members are considered to be making an effective contribution to their roles, bringing relevant knowledge, diversity of perspective, and an ability and willingness to challenge
- There is a positive and supportive culture of openness which is facilitated by the Chair. The Chair continues to perform very effectively, both in respect of Board matters and in relation to other aspects of his role as Chair taking into account the benefit of all stakeholders, including shareholders

Focus Areas for 2019

- To maximise the amount of time at Board meetings allocated to discussing key business/market developments, risks and challenges
- As part of the ongoing education and training programme for Directors, have more internal and externally facilitated presentations giving particular consideration to external industry and regulatory changes and disruptive technology risks
- Continue to review the relevance and conciseness of Board and Committee papers whilst ensuring sufficient depth of information
- To continue to focus on Board composition and succession planning with an emphasis on diversity of gender, ethnicity, skills and experience, to enable a continuingly effective Board capable of supporting the business in the near and long-term

ACCOUNTABILITY

AUDIT COMMITTEE REPORT

Michael Cawley
Audit Committee Chair

"In 2018, the Committee continued to ensure appropriate governance and oversight over the integrity of the Group's financial reporting and the Group's internal controls and risk management frameworks."

2018 MEETINGS ATTENDANCE

Committee members[1]	Date appointed	Attended/ Eligible to attend[2]
Michael Cawley (Chair)	Jul 2014 (Member: Jul 2013)	6/6
Jan Bolz	Oct 2017	6/6
Zillah Byng-Thorne[3]	Feb 2016	5/6
Ian Dyson[4]	Feb 2016	5/6
Emer Timmons	May 2017	6/6

1. All members are independent Non-Executive Directors.
2. In addition, the Committee also met with the Risk Committee members for an annual joint Audit and Risk Committee meeting.
3. Zillah Byng-Thorne was unable to attend one meeting due to illness.
4. Ian Dyson was unable to attend one meeting due to a prior commitment which was notified in advance.

OTHER ATTENDEES

Only members of the Committee have a right to attend Committee meetings. Regular attendees who attend all meetings by invitation include the Chief Executive Officer, Chief Financial Officer, the Group Director of Internal Audit, the Group Director of Finance and Corporate Controller and KPMG (as the External Auditor).

The Company Secretary or his Deputy acts as secretary to the Committee and provides support as required.

In addition to the Group Director of Internal Audit, who presents at every meeting, and the Chief Financial Officer, who updates the Committee on key financial matters, in 2018 other presentees, included:

- Chief Technology Officer
- Director of Technology – Security
- Group Director of Finance and Corporate Controller
- Director of Tax
- Group Head of Treasury & Client Funds
- Chief People Officer
- Chief Information Officer, Sportsbet

Role and responsibilities

The primary role of the Committee is to provide governance and oversight over the integrity of the Group's financial reporting and the Group's internal controls and risk management frameworks. It also monitors the performance of internal and external audit.

Committee's Terms of Reference: paddypowerbetfair.com/investor-relations

To discharge its responsibilities effectively, the Committee has unrestricted access to the Group's External Auditor, KPMG, and the Internal Audit function, with whom it meets throughout the year with, and without, Management, as appropriate. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the Internal or External Auditor might not wish to raise in the presence of Management.

The Committee may obtain, at the Group's expense, outside legal or other professional advice needed to perform its duties.

As Chair of the Committee, I report to the Board on the key outcomes from each meeting and on how the Committee has discharged its duties. The minutes of all Committee meetings are circulated to the Board for information.

Michael Cawley, Zillah Byng-Thorne and Ian Dyson all have 'recent and relevant financial experience' as required under the UK Code. All members are independent Non-Executive Directors with financial and commercial experience relevant to either the digital and/or consumer industry and the broader commercial environment within which we operate. Therefore, the Committee, the Nomination Committee and the Board are satisfied that the Committee, as a whole, has competence relevant to the sector in which the Group operates.

Directors' biographies: pages 56 and 57

Fair, balanced and understandable

The Board is responsible for ensuring that the Annual Report and Accounts, as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. At the Board's request, the Committee assisted it with this review. In its opinion, it considered this to be the case.

As part of this review, the Committee:

- reviewed a draft of the whole Annual Report and Accounts at a meeting in advance of giving its final opinion and ahead of final approval by the Board. The Committee was provided with all relevant information, received briefings from Management on how specific issues are managed and challenged Management as required;
- received confirmation that each Committee had signed off on each of their respective Committee reports and also reviewed other sections for which they have responsibility under its terms of reference;
- was provided with a confirmation by Management that they were not aware of any material misstatements in the Financial Statements made intentionally to achieve a particular presentation; and
- was provided with findings from KPMG that it had found no material audit misstatements that would impact the unqualified audit opinion during the course of its work. The Committee confirms that it is satisfied that KPMG, as the External Auditor, has fulfilled its responsibilities with diligence and professional scepticism. After reviewing the presentations and reporting from Management and consulting where necessary with KPMG, the Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates (both in respect of the amounts reported and the disclosures).

Key activities undertaken in 2018

The Committee met six times in 2018. In addition, the members of both the Audit Committee and the Risk Committee met together for the annual joint Audit and Risk Committee meeting. Meetings are generally scheduled around the financial reporting cycle to allow the Committee to discharge its duties in relation to the financial statements. The Committee's activities in 2018 included:

Financial reporting

- Monitoring the integrity of the financial statements and the formal announcements relating to the Group's financial performance
- Reviewing significant financial reporting judgements
- Assessing and reporting on the Group's viability in line with the UK Code requirements and the appropriateness of the going concern basis
- Considering the report of the External Auditor on the financial statements and the year-end audit
- Ensuring compliance with relevant regulations for financial reporting and the UK Code

Reporting and governance

- Advising the Board as to whether, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the necessary information to shareholders to assess the Group's position and performance, business model and strategy
- Reviewing the Committee's Terms of Reference and making amendments in line with changes to the 2018 UK Code
- Reviewing the Committee's schedule of proposed matters for its 2019 meetings

Internal Audit

- Monitoring and reviewing the effectiveness of the Group's Internal Audit function
- Considering the results of internal audits undertaken and Management's responses to the findings, including updates on actions identified
- Approving any changes to the Internal Audit Plan for 2018 and approval of the Internal Audit Plan for 2019
- Reviewing and approving amendments to the Internal Audit Charter

Risk management and internal controls

- Assessing the appropriateness of the Group's overall risk management and internal control framework
- Ensuring that there is a robust process in place to monitor and evaluate the principal risks to which the Group is exposed, including those that would threaten its business model, future performance, solvency or liquidity
- Reviewing other Group's whistleblowing arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and any outputs therefrom
- Reviewing processes for detecting fraud, misconduct and control weaknesses and considering responses to any such occurrence

External Auditor

- Reviewing and making a recommendation to the Board in relation to the continued appointment of KPMG as the External Auditor and, as a Committee, approving KPMG's remuneration and terms of engagement for the 2018 financial year
- Reviewing and approving the External Audit Plan for 2018 presented by KPMG, including consideration of its key areas of risk and the audit approach applied by KPMG, the proposed areas of coverage of KPMG's audit and any changes thereto during the year
- Considering KPMG's updates during 2018 in relation to the External Audit Plan and related actions
- Evaluating the performance of KPMG, including its independence and objectivity and monitoring any non-audit services provided by KPMG
- Reviewing and approving the Group's Non-Audit Policy and, in advance, approving any non-audit services and related fees to be provided by KPMG during 2018

Financial reporting and significant financial issues

The role of the Committee in relation to financial reporting is to monitor the integrity of the financial statements at half year and at year end as well as formal announcements relating to the Group's financial performance. The Committee has considered whether accounting standards are consistently applied across the Group and whether disclosures in the financial statements are appropriate and sufficient. Following discussions with Management and KPMG, the Committee has determined that the key risks of misstatement of the Group's Financial Statements are in relation to the following:

Matter considered	Action
Revenue The Group has a number of income streams across its online and retail operations with a high prevalence of cash and credit and/or debit card transactions. Effective operational and fraud-related controls from both an IT systems and financial control perspective assist in ensuring the accuracy and completeness of these income streams.	The Committee gained comfort over this area through discussion with the Chief Financial Officer and the Group Director of Finance and Corporate Controller in relation to the operation of key financial controls such as cash and revenue reconciliations. The Group Head of Treasury & Client Funds presented to the Committee on treasury and banking controls in operation, which ensure the accuracy and integrity of funds held in the Group's bank accounts and client funds accounts. The Committee also gained an understanding of, and challenged, the work performed by KPMG, including its assessment of the key IT controls in operation in relation to the Group's IT systems. As a result of the above procedures the Committee is satisfied that there are appropriate controls and processes in place across the Group to ensure the completeness and accuracy of reported income.
Tax provisioning The Group operates in a heavily regulated industry across a number of geographical jurisdictions. Regulation and compliance continues to evolve in all of our markets. Compliance with the laws and regulations in each jurisdiction that could have a direct effect on material amounts reported and disclosed in the Group's Financial Statements is a key risk area considered by the Committee. This includes matters such as tax, where judgement and estimation are required to interpret international tax laws relating to gaming, transfer pricing as well as point of consumption taxes, and the way these taxes interact within other legislation in each jurisdiction, in order to identify and value provisions in relation to gaming and other taxes as applicable.	The Directors keep abreast of all known or potential regulatory, tax or legal claims against the Group that may arise from the Group's operations. The Chief Risk Officer reports to the Risk Committee on the processes in place to ensure compliance with laws and regulations in relation to gambling and gaming licences. I am a member of the Risk Committee and the Risk Committee Chair is a member of this Committee and she also provides an update to the entire Board on the discussions at the previous Risk Committee meeting with minutes circulated to all Directors. Accordingly, this Committee is kept fully appraised of any engagements with regulatory authorities. Internal Audit reports covering compliance with laws and regulations are reviewed by this Committee. There is at least an annual update to the Committee from the Group's Director of Tax in relation to the Group's tax compliance with further updates on specific matters by him or the Chief Financial Officer as necessary. The Group also engages PricewaterhouseCoopers ("PwC") as our main external tax advisor. The combination of independent advice, our in-house expertise and the procedures and reporting provided by KPMG assisted in providing assurance to the Committee that the processes, assumptions and methodologies used by the Group in relation to taxation amounts reported and disclosed in the Group's Financial Statements are appropriate. In addition, KPMG reported to the Committee on the results of its procedures which are designed to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the Financial Statements. The above procedures provided the Committee with assurance that sufficiently robust policies and procedures are in place to prevent and detect instances of non-compliance with laws and regulations that could have a material impact on the amounts reported in the Group's Financial Statements.

Internal Audit

Internal Audit is an independent assurance function for the Group whose remit is to provide independent and objective assurance that the key risks to the Group are appropriately identified and managed and that key controls are operating as expected. It reports directly into the Committee. The Committee also annually approves the Internal Audit Charter.

The Group Director of Internal Audit attends and reports at every Committee meeting. She has direct access to all Committee members and the Committee Chair also met with her outside of Committee meetings throughout 2018. The Committee approved the 2018 Internal Audit Plan in December 2017 and this was assessed by the Committee to ensure it provided adequate coverage across the Group and was risk-based in its approach. Changes are made to this plan based on emerging risks or changes in the business during the year; any changes are reviewed and agreed by the Committee.

Progress against the Internal Audit Plan was reported to the Committee throughout 2018, and is considered in detail at the half year and after the year end. The Committee also reviewed the specifics of audit findings and the progress of the business in addressing audit recommendations. Internal Audit regularly reported to the Committee on key risk themes, methodology enhancements and on the overall risk management frameworks in the business.

A strategic review of the Internal Audit function was also performed in 2018 by a third party and the Committee made independent enquiries of KPMG and of senior management as to the performance of Internal Audit.

Taking into consideration all of these, the Committee is satisfied as to the Internal Audit function's performance.

Risk management

In accordance with the UK Code, the Board is required to describe the principal risks to which the business is exposed and the activities undertaken to mitigate against them. The Board must also confirm that it has carried out a robust assessment of the principal risks facing the Group, including those that would threaten the business model, future performance, solvency or liquidity of the business.

It is required to explain how it has assessed the prospects of the Group, over what period it has done so, why this period is considered appropriate and whether the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities if they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary. The Board has reported on these requirements on page 99.

This Committee and the Risk Committee together, support the Board in relation to monitoring the adequacy and effectiveness of the risk management systems. During 2018, this Committee oversaw the third line function and reviewed the output of both the Internal Audit function and the work completed by KPMG, as the External Auditor, as well as the management of financial risks. The Risk Committee, reviewed the work of the second line functions and ongoing operational risk management. To ensure that there is a full review of the risk management process as a whole, I am a member of the Risk Committee and the Chair of the Risk Committee is also a member of this Committee. We also have an annual joint meeting of the Audit and Risk Committee members at which a review of the risk management process, as a whole, is undertaken, for its appropriateness and effectiveness in identifying the principal risks and reviewing how those risks are being managed and mitigated. The Committees also rely on the work of internal and external audit to ensure that appropriate measures are taken to address risks as they are identified or as their risk profile changes.

As part of the overall risk management framework, Management maintains regional Risk Registers. This Committee and the Risk Committee, together, at their annual joint meeting, formally consider these and the appropriateness of Management's risk appetite.

Understanding and managing the Group's principal risks: pages 50 to 53
Risk Committee Report: pages 70 and 71

Code of Ethics, Anti-bribery and Whistleblowing

Our Code of Ethics sets out the standard of conduct and behaviour expected of our employees throughout the organisation. We have in place policies, procedures, management systems and internal controls to prevent bribery and corruption occurring, including policies on whistleblowing, gifts and hospitality and anti-bribery and corruption. The formalised whistleblowing policy and procedure encourages employees to raise issues regarding possible improprieties in matters of financial reporting or other matters on a confidential basis. This Committee monitors its effectiveness and is advised of notifications made. The Committee is satisfied that the whistleblowing process is working appropriately.

Group Code of Ethics: page 37

External Auditor: KPMG

There are a number of areas which the Committee considers in relation to KPMG as the External Auditor – its performance, reappointment, independence and objectivity and remuneration.

Performance

In April 2018, KPMG presented its 2018 audit plan to the Committee. This plan provided detail on the proposed audit approach and methodology, the materiality level intended to be used during the audit and highlighted the areas considered as having a higher risk due to the level of judgement involved and the potential impact of a misstatement on the Group Financial Statements. The areas of highest risk were considered to be revenue and tax provisioning. In addition, KPMG highlighted management override of controls as a significant audit risk, as required by Auditing Standards. The Committee reviewed and appropriately challenged the conclusions reached by KPMG before agreeing its proposed audit plan's scope and approach.

In relation to the 2018 financial year, KPMG presented at each meeting and presented specific detailed reports to the Committee on:

- its 2018 half-year review in August 2018;
- its 2018 IT audit in December 2018; and
- its 2018 financial year audit in February 2019.

The Committee provided appropriate challenge to the work performed, assumptions made and conclusions drawn – particularly in relation to the higher risk areas identified above.

The Committee meets privately with KPMG at least annually without any members of Management or the Executive Directors being present.

The Committee took into account the following factors in assessing the performance of KPMG and further to this was satisfied with its performance:

- the quality and content of the deliverables presented to the Committee;
- the ability of KPMG to respond appropriately to challenges raised by the Committee;
- the progress achieved against the agreed audit plan, and the communication of any changes to the plan in respect of matters such as emerging risks;
- the competence with which it handled key accounting and audit judgements and the manner in which it communicated the same;
- the outcome from an internal management review of its performance;
- its compliance with relevant ethical and professional guidance on the rotation of audit partners; and
- its qualifications, expertise and resources.

Reappointment and length of service

The Committee is responsible for making recommendations on the appointment, reappointment and removal of the External Auditor to the Board. It also keeps under review whether the External Auditor is, and remains, objective and independent. The Committee reviewed the performance and effectiveness of KPMG and concluded that it continues to provide an effective audit service and that there are no compelling reasons for change. The Committee is mindful of the requirements of the EU Directive on audit reform. Under the Directive's transitional arrangements, KPMG can continue to act as the Group's External Auditor for the period up to 31 December 2023 at which point the Committee will need to recommend the appointment of a different audit firm. Having reviewed the effectiveness of KPMG, the Committee concluded that it was not in the best interests of the Group to undertake an external audit tender at this time, but we will continue to monitor the performance of KPMG and a tender will be undertaken when appropriate and, in any event, as required under the current legislation.

Accordingly, the Committee recommended the reappointment of KPMG to the Board (which was accepted) for the 2019 financial year. Cliona Mullen is the current lead audit partner and 2018 was her first year in this role.

Independence and the provision of non-audit services

The Committee is responsible for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group. In recognition of the fact that the perceived independence and objectivity of the External Auditor may be compromised where it receives fees for non-audit services, a policy operated during 2018 formalising the process to be followed when considering whether to engage the External Auditor for non-audit services (the "Non-Audit Policy"). Any engagement of the External Auditor for non-audit work must satisfy applicable rules and legislation, including Statutory Instrument SI 312 and the IAASA Ethical Standard for Auditors (Ireland).

KPMG is accordingly precluded from engaging in non-audit services that would compromise its independence, would violate any laws or regulations affecting its appointment as the External Auditor, or would lead a reasonable third party to regard the objectives of the proposed non-audit service as being inconsistent with the external audit. The Non-Audit Policy specifically calls out services that the External Auditor cannot provide to the Group. No approval is given by the Committee for the provision of prohibited services. Beyond this all engagements of KPMG are formally approved by the Committee in advance.

Since 2017, the total fees for non-audit services to the Group shall be limited to no more than 70% of the average of the fees paid for the last three consecutive years for statutory audit work for the Group. During 2018, the Committee monitored the extent to which KPMG was engaged to provide non-audit services and considered and approved the engagement as required under the Non-Audit Policy. An analysis of the non-audit fees provided by KPMG during 2018 is set out in Note 7 to the Consolidated Financial Statements out on page 127. For 2018, non-audit fees paid to KPMG amounted to 37% of audit-related fees paid to the Irish firm and overseas offices (2017: 74%). The Committee is satisfied that the non-audit services provided and fees paid in relation to these do not impair KPMG's independence and objectivity and there are sufficient safeguards in place in respect of this.

Hiring of former employees of the External Auditor

In order to ensure the independence and objectivity of KPMG, any offer of employment to a former employee of the audit firm, within two years of the employee leaving the audit firm, must be pre-approved by the Committee where the offer is made in respect of a senior executive position. Key audit partners will not be offered employment by the Group within two years of undertaking any role on the audit. Other key team members will not be offered employment by the Group within six months of undertaking any role on the audit. Other employees of KPMG, who accept employment by the Group must cease any activity on the Group's audit immediately when they tender their resignation to KPMG. In order to ensure objectivity, any partner previously involved in the audit of the Group's parent company or its subsidiaries shall not be recruited in the Group Finance function.

The Committee is satisfied with, the independence, objectivity and effectiveness of KPMG as the External Auditor, and with the external audit process as a whole.

Effectiveness of the Committee

This is monitored by me and was also specifically reviewed as part of the internal evaluation process (see page 64). It was concluded that the Committee is operating effectively.

Focus for 2019

The Committee will continue to monitor governance and ensure adequate oversight over the integrity of the Group's financial reporting and the Group's internal controls and risk management frameworks as well as the Internal Audit function and KPMG as the External Auditor.

Michael Cawley
Audit Committee Chair
5 March 2019

RISK COMMITTEE REPORT

Zillah Byng-Thorne
Risk Committee Chair

"In 2018, the Committee focused on our responsible gambling strategy and progress, as well as the management of risks impacting our reputation."

Role and responsibilities

The Committee is responsible for reviewing the reputational impact of the Group's activities and how these are being managed; the Group's responsible gambling strategy and objectives; the Group's corporate social responsibility strategy and objectives; the Group's risk management activities for assurance that these are appropriate and in line with the risk appetite of the Group; and the Group Risk Register (together with the Audit Committee).

Committee's Terms of Reference: paddypowerbetfair.com/investor-relations

2018 MEETINGS ATTENDANCE

Committee members[1]	Date appointed	Attended/ Eligible to attend[2]
Zillah Byng-Thorne (Chair)	Jan 2018	5/5
Michael Cawley	Feb 2016	5/5
Gary McGann[3]	Jul 2015	4/5
Peter Rigby	Feb 2016	5/5
Previous member		
Pádraig Ó'Ríordáin[4]	Dec 2011	1/1

1. All members are independent Non-Executive Directors and the Chair of the Board, was independent on appointment to that role.
2. In addition, the Committee also met with the Audit Committee members for an annual joint Audit and Risk Committee meeting.
3. Gary McGann missed one meeting due to illness.
4. Pádraig Ó'Ríordáin ceased to be a member on 2 March 2018.

OTHER ATTENDEES

Only members of the Committee have a right to attend Committee meetings. Regular attendees who attend all meetings by invitation include the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer.

The Company Secretary or his Deputy acts as secretary to the Committee and provide support as required.

In 2018, presentees included:

- Chief Risk Officer
- Chief Technology Officer
- Director of Security – Technology
- General Counsel and Company Secretary
- European Data Protection Officer
- Head of Financial Crime and Integrity Compliance
- Chief Executive Officer, FanDuel
- Chief Financial Officer, FanDuel
- Managing Director of Exchange & Sportsbook Trading
- Managing Director, Customer Operations

The Committee's focus in 2018

The key areas of focus included monitoring and reviewing the Group's:

- risk management activities and each of the Group's regional Risk Registers;
- compliance activities;
- bookmaking risk limits and policy and risk and trading activities;
- responsible gambling strategy and the progress in the execution of this;
- corporate social responsibility strategy and progress; and
- Annual Assurance Statement for the Gambling Commission, ahead of recommendation to the Board.

Key activities undertaken in 2018

Compliance

The Committee regularly received updates in relation to the Group's ongoing compliance with its regulatory licences and considered the processes in place to manage and mitigate the risks related to operational matters, including anti-money laundering, anti-bribery, betting integrity and data protection and privacy and upcoming legislative and regulatory changes in these areas. This included reports from the Money Laundering Reporting Officer, as well as the the European Data Protection Officer on the Group's implementation project in relation to compliance with the EU-wide General Data Protection Regulation and post coming into force, an update on this area. It also received updates on the Group's compliance with legal and regulatory marketing requirements.

The Committee is kept informed of substantive communications with regulators and management of such relationships. In 2018, the Committee and the Board was kept updated, and discussed the investigation by the UK Gambling Commission, which led to the regulatory settlement and public statement issued in October 2018.

Together with the Audit Committee, the Committee was updated on the Group's Code of Ethics and related standards and policies, including those in relation to whistleblowing, gifts and hospitality, anti-bribery and corruption and business conduct and how this is communicated to all employees, including mandatory training.

Group Code of Ethics: page 37

GOVERNANCE IN ACTION

Consideration and management of cyber risks

Cyber threats continue to be a feature of operating e-commerce businesses and the Board is acutely aware of these risks. Therefore, time continued to be spent in 2018 discussing and monitoring cyber risks and security, and the progress in mitigating these risks and preventing any possible attacks or related material adverse incidents. Business presentations from the Chief Technology Officer and the Director of Technology Security were provided. Management of cyber risks includes:

- a highly skilled and diverse team of over 50 individuals dedicated to protecting the Group from security threats;
- an in-house 'always on' security monitoring capability to detect and react to any security threat or incident;
- a dedicated cyber threat capability set up to identify the immediate and future cyber threats facing the Group;
- an in-house 'ethical hacking' team that tests our sites and products in the same way as hackers would;
- defensive measures, procedures and teams to protect from malicious distributed denial of service ("DDOS") attacks;
- processes in place to ensure security is built in to product development;
- tools and processes in place to ensure the Group is protected against insider threat including data leakage;
- sharing of proactive threat intelligence as part of industry reviews and discussions;
- a formal technology risk management function overseen by the Chief Technology Officer to ensure that risks are being appropriately managed;
- significant annual investment in people, process and technology to stay ahead of threats;
- the Security function and associated controls are certified to ISO27001:2013 standard; and
- an emphasis on employee awareness, education and testing.

Responsible gambling

The Board consider responsible gambling to be an essential part of behaving responsibly as a business and we have in place, and continue to enhance, wide-ranging policies and tools and support mechanisms to help our customers manage their gambling. Therefore, it continues to be a key focus area of the Board. In addition to responsible gambling being a standing agenda item as part of the Chief Executive Officer's update at Board meetings, this Committee spends considerable time reviewing the strategic objectives and priorities for the Group and the progress being made in relation to agreed actions and workstreams, as well as monitoring of risks. Related presentations provide the opportunity to receive updates on the progress being made, for example on responsible gambling operating controls and the continual improvements being made in relation to interactions with customers.

Responsible Gambling and Corporate Social Responsibility: pages 19 and 30 to 33

Corporate Social Responsibility

The Committee was also updated on the objectives and strategy in respect of corporate social responsibility and the progress in the delivery of agreed actions. As detailed in the Strategic Report, our corporate social responsibility is categorised into four pillars: behaving responsibly; promoting sport; empowering our people; and promoting diversity and equality.

Risk management

This Committee, alongside the Audit Committee, supports the Board in monitoring the Group's risk management processes for their appropriateness and effectiveness in identifying the principal risks. As part of the overall risk management framework, Management maintains individual regional risk registers for each of Paddy Power Betfair Europe, FanDuel and Sportsbet. These detail the significant risks facing the business and consider the potential likelihood and impact of these risks materialising once the existence of controls and mitigating factors are considered.

Understanding and managing the Group's principal risks: pages 50 to 53

The Committee reviews how our risks are being managed and mitigated and has oversight of the second line functions such as Risk Management, Compliance and Information Security. During 2018, the Committee met with, and received, detailed presentations from various key functions to assess the management of the main operational risks, including specific updates in relation to the FanDuel and Sportsbet operations, as well as updates on IT-related risks, commercial risks and operator risks among others. The Audit Committee has oversight of the third line function (see the Audit Committee Report). The Executive Committee manages the specific risks associated with its areas of responsibility and is supported by the second and third line functions.

To ensure that there is a full review of the risk management process as a whole, I am a member of the Audit Committee and Michael Cawley (Audit Committee Chair) is a member of this Committee and updates are provided by each Committee Chair at the next Board meeting. We also hold at least one joint meeting of the Audit and Risk Committees annually at which we specifically review the risk management process, as a whole, for its appropriateness and effectiveness in identifying the principal risks and how those risks are being managed and mitigated, the Group's Risk Registers, and the appropriateness of Management's risk appetite. This is then reported to the Board in order to assist with Board's assessment and approval.

Audit Committee Report: pages 65 to 69

Effectiveness of the Committee

This is monitored by me and was also specifically reviewed as part of the internal evaluation process (see page 64). All feedback received is used to improve the Committee's effectiveness particularly as the scope and remit of the Committee evolves in a very dynamic market.

Focus for 2019

During 2019, the Committee will continue to focus on the Group's management of key strategic risks. This includes, for example, progress against its responsible gambling strategy, cyber and other technology risks and the regulatory environment and related risks. The Committee will also undertake a detailed review of the robustness of our risk management processes for current and emerging risks.

Zillah Byng-Thorne
Risk Committee Chair
5 March 2019

ENGAGING WITH STAKEHOLDERS

The Board recognises that we have a number of stakeholders including investors, customers, employees, governments and regulators, and the communities in which we operate. The Board is cognisant of its responsibility to understand each of their views and does this through a variety of methods. Updates are provided and discussed at Board and relevant Committee meetings. Throughout this Annual Report, we have provided information on some of the initiatives and approaches undertaken in relation to stakeholder engagement by the Group during 2018.

Shareholders

The Board is committed to maintaining constructive dialogue with shareholders and ensuring that it has a deep understanding of their views. It also recognises that shareholders consider a range of environmental, social and governance matters. The Chair, on behalf of the Board, meets shareholders without Management present and reports to the Board on these discussions. All Directors are also available to meet institutional investors on request. The Board receives updates on the shareholder engagement and analyst commentary and in 2018 also received presentations from corporate brokers on investor perceptions and generally in relation to capital markets.

Some of the activities undertaken during 2018 are summarised below:

- roadshows, meetings, consultation and engagement;
- the Executive Directors presented to, and met with, our largest shareholders, as well as sell-side analysts following the full and half year results and trading updates and also attended a number of investor conferences and roadshows;
- a full programme of engagement with shareholders, potential shareholders and analysts, across the UK, Ireland, USA and overseas, was undertaken by the Chief Executive Officer, the Chief Financial Officer and the Investor Relations team (including post-results roadshows, attendance at investor conferences and ad-hoc meetings);
- the Chair engaged with proxy advisory agencies on corporate governance matters;
- the Chair and Remuneration Committee Chair held a number of meetings with our larger investors on remuneration related matters (see page 75), as well as on corporate governance topics in general, including talent retention and succession planning at both Board and Executive Committee level, our risks and responsible gambling; and
- private individual shareholders were communicated with via the Company Secretary's office.

Current substantial shareholders: page 97

AGM

All of our Directors attended the 2018 AGM and an average of 74.28% of the total issued share capital was voted across all resolutions.

Our 2019 AGM will be held on Wednesday, 15 May 2019 at 11.00am at the Company's headquarters at Belfield Office Park, Clonskeagh, Dublin, Ireland. A letter from the Chair and the notice convening the AGM will be sent to shareholders and is available at:

paddypowerbetfair.com/investor-relations

All Directors attend the AGM with the Chair and each Committee Chair making themselves available to take questions from shareholders. Separate resolutions are proposed on each item of business.

Website and shareholder communications

Further details on the Group, our business and key financial dates can be found on our corporate website:

paddypowerbetfair.com/investor-relations

Sports and Communities

Our corporate social responsibility strategy is focused on adding value to the communities in which we live and work. Detailed updates are provided to, and discussed by, the Risk Committee and the Board as necessary.

Corporate Social Responsibility: pages 30 to 33

Employees

The Board gains an understanding of the views of our employees and the culture of the organisation through visits to our offices, one-to-one meetings, Board presentations and via the Executive Directors. Further, to the requirements under the 2018 UK Code, the Board has decided to appoint two Non-Executive Directors (Peter Rigby and Emer Timmons) to be the formal representatives for the Board in relation to engagement with our employees to build on the current processes we have in place. This is being implemented in 2019 and will be reported in next year's Annual Report.

People and culture: pages 6, 7 and 34 to 37

Governments and Regulators

As set out in the Risk Committee Report, substantive communications with regulators are updated to Directors via that Committee. Any relevant substantive communications from financial regulators and tax authorities are discussed by the Audit Committee in line with its responsibilities. The Chief Executive Officer and the Chief Financial Officer also update the Board on other key matters as relevant.

Audit Committee and Risk Committee reports: pages 65 to 71

Customers

We engage with our customers in a number of ways and use this as part of research and insight into building a comprehensive understanding of our customer needs, which is used to make decisions in relation to our products and services. Examples include social media, brand websites, focus groups, our retail shops and Paddy Power TV, customer feedback, complaints and customer service centres, as well as marketing and advertising. Updates are provided to the Board by the Chief Executive Officer as well as Board and Committee presentations from other members of senior management.

Our Strategy: pages 18 to 29

Suppliers

Our Procurement Policy includes a commitment to sustainable procurement and mitigation against the risk of modern slavery, anti-bribery and corruption and data protection/privacy breaches across our supply chain. We aim to operate to the highest professional standards, treating our suppliers in a fair and reasonable manner and settling invoices promptly.

Key investor events in 2018

JAN

FEB

MAR

2017 Preliminary Results

- Analyst and investor presentation followed by an investor roadshow
- Attendance at investor conferences
- Corporate governance calls with proxy advisory agencies

APR

Attendance at investor conferences

MAY

Q1 2018 Trading update

AGM 2018

Combination of Betfair US and FanDuel

- Analyst and investor conference calls
- Private wealth managers' lunch with the Chief Financial Officer
- Attendance at investor conferences

JUN

Attendance at investor conferences

JUL

AUG

2018 Half-Year Results

- Analyst and investor presentation followed by an investor roadshow

SEPT

Investor roadshows

OCT

Attendance at investor conferences

- Analyst and investor conference calls
- Corporate governance meetings with shareholders and proxy advisory agencies

NOV

Q3 2018 Trading update

DEC

Attendance at investor conferences

REMUNERATION COMMITTEE CHAIR'S STATEMENT

Peter Rigby
Chair of the Remuneration Committee

"The Committee's work during 2018 focused on the remuneration implications of significant changes both within our business and in the external environment more broadly."

2018 COMMITTEE MEETINGS ATTENDANCE

Committee members[1]	Date appointed	Attended/ Eligible to attend
Peter Rigby (Chair)	Jan 2018 (Member: Feb 2016)	8/8
Jan Bolz	Oct 2017	8/8
Ian Dyson[2]	Jan 2018	7/8[2]
Gary McGann[3]	Jul 2015	7/8[3]
Emer Timmons	Jan 2018	8/8

1. All members are independent Non-Executive Directors and the Chair of the Board was independent on appointment to that role.
2. Ian Dyson missed one meeting due to a prior commitment notified in advance.
3. Gary McGann missed one meeting due to illness.

The Committee's Terms of Reference are reviewed annually and available at: paddypowerbetfair.com/investor-relations

As an Irish-incorporated company Paddy Power Betfair plc is not subject to the UK's remuneration reporting requirements, however our preference is for our remuneration policies, practices and reporting to reflect best practice corporate governance for a FTSE100 company. Accordingly, since 2015 the Committee complies with the reporting regulations on a voluntary basis.

Directors' Remuneration Report structure:

Remuneration Committee Chair's Statement: See pages 74 to 77

Annual Report on Remuneration:
See pages 78 to 93
Annual Report on Remuneration, which focuses on the remuneration arrangements and outcomes for the year under review, and how the Committee intends to implement the Remuneration Policy in 2019.

Summary of the Remuneration Policy:
See pages 94 and 95
Summary of the Remuneration Policy (this is included for information only and is not subject to shareholder vote at the 2019 AGM).

For clarity, remuneration is reported in Pound Sterling (except where an individual's remuneration is denominated in another currency), in line with the Group's reporting currency. Historical remuneration is converted to Pound Sterling from Euros, to simplify reporting.

OTHER REGULAR ATTENDEES

The Chief Executive Officer, Chief People Officer, Reward Director and PricewaterhouseCoopers ("PwC") (Remuneration Advisors) attended the meetings by invitation but are not members. Individuals are not present when their own remuneration is discussed.

As with other Board Committees, the Company Secretary or his Deputy acts as secretary to the Committee and provides support to it.

Overview

The Committee's work during 2018 focused on the remuneration implications of significant changes both within our business and in the external environment more broadly. Overall, in large part because of regulatory changes affecting our industry, this has been a year in which it has been particularly difficult to meet the expectations of investors while ensuring that we treat our key executives fairly. This will continue to be a difficult balance to strike. The Group operates in an industry and environment where change is bringing significant challenge as well as opportunity, and where pressures from across the wider employment market are intense. We operate in a cutting edge digital industry, and the Committee sees, as one of its greatest challenges, the formulation of remuneration arrangements that facilitate retention, recruitment and motivation of excellent senior executive talent, where many of our competitors for talent operate in markets or segments that face fewer remuneration constraints than UK publicly listed companies. The Committee has sought to fulfil its duties in a transparent way, in full dialogue with shareholders, and will continue to seek to apply strong governance standards.

In this context, the three main areas of focus during the year were:

- Adapting our incentive measures to reflect the FanDuel transaction (the "FanDuel Deal") and the US opportunity. The FanDuel Deal positions the Group well to take advantage of the US Supreme Court ruling, in May 2018, that paves the way for a large, regulated sports betting market in multiple US states. As a result, the Committee has introduced additional performance measures into our LTIP and annual bonus plans relating to our US business for those tasked to deliver on the US opportunity.
- Changes to taxes and regulations which will negatively impact prospective business performance. These changes will particularly impact EPS, significantly reducing the likelihood that performance targets will be reached on in-flight LTIP awards and in particular, the 2018 LTIP. Following consultation with shareholders, we have adopted new principles for how we deal with such impacts on incentives. We have agreed not to make any changes to targets for in-flight LTIP awards but will be adjusting the base year (2018) to reflect the new taxes/regulation on a pro-forma basis as we set the targets for future year awards.

- The normal activities of the Committee, including assessing incentive outcomes for bonus and LTIP, reviewing salaries, remuneration for new and departing Executive Directors during the year, including the exit terms of Alex Gersh and the appointment of Jonathan Hill in line with our Remuneration Policy, and reviewing the implications of external governance developments. Our ongoing approach of setting stretching targets resulted in incentive pay-outs for 2018, being 48.9% of maximum on the annual bonus (2017: 60%) and 64.4% of maximum on the 2016 LTIP (2015 LTIP: 100%).

Full details of the joiner and leaver arrangements for Executive Directors are given on pages 84 and 85. The other items above are covered in this Statement with further detail as appropriate in the remainder of this Directors' Remuneration Report.

Investor consultation

In developing the changes described below, both the Board Chair and I consulted with major investors during the year. We are very grateful to those investors for the time they took with us, and for the feedback provided, which has materially influenced our final proposals. The areas of consultation are described below. During this engagement, we also sought to understand the reasons for the level of vote against last year's Directors' Remuneration Report which, at just under 20%, was close to the 'significant' level of opposition set out in the UK Code. The opposition was almost entirely due to the negative vote of a significant shareholder, and related to the reduction in maximum growth targets under the 2018 LTIP versus prior year. We undertook discussions with them as part of our investor consultation both through myself and the Board Chair, as well as through Management.

i) Changes to 2018 LTIP measures to align with strategy

Following the United States Supreme Court's ruling, in May 2018, to allow individual states to regulate for sports betting, and the completion of the FanDuel Deal in July 2018, the Group's US opportunity has grown, and since the publication of the 2017 Directors' Remuneration Report, the ruling opened up the opportunity for our business to expand significantly in the US over the coming years. However, the US is a nascent growth market, and, as such, the transformational long-term value that it will deliver to the Group is unlikely to have a commensurate impact on Group earnings and revenue in the near-term.

The Committee has therefore determined that a new element should be introduced into our 2018 LTIP, aligned to the performance of our US business. As the FanDuel Deal was not announced at the time of publication we were not able to communicate our intent to do this in our 2017 Directors' Remuneration Report. The new measure is based on the growth in value of the US business, and will be weighted to 25% of the 2018 LTIP, with the EPS measure being reduced in weighting from 75% to 50% of the award. Revenue remains weighted at 25%. To avoid double counting, the US business will be excluded from measurement of the 2018 LTIP EPS and Revenue targets.

Performance under this US Value measure will be based on the external valuation of the US business in 2021 that forms part of the FanDuel Deal agreement and the related put and call options. For reasons of commercial sensitivity, the Committee has determined that the base value for the measure will only be disclosed retrospectively, but to ensure robust governance, the valuation has been lodged with KPMG, our External Auditor. The resulting measures and targets for the 2018 LTIP are set out in detail on page 83.

During consultation, our investors have indicated good levels of support for the approach to the revised 2018 LTIP measures.

ii) Tax and regulatory changes

The most difficult area of discussion within the Committee and with shareholders during the year concerned the impact on incentives of tax and regulatory changes which have created headwinds in several of our key markets. The range of changes announced in 2018 have a significant effect on the business, largely outside of the control of Management, reducing EPS in excess of 100p on a pro-forma basis (27% of Group 2018 EPS). The main items of note were:

(i) a change in the regulation of UK Fixed Odds Betting Terminals ("FOBT") to a £2 staking limit (from April 2019);

(ii) an increase in UK Remote Gaming Duty ("RGD") (from 15% to 21% from April 2019);

(iii) the doubling of Irish betting duty from 1% to 2% (from 1 January 2019); and

(iv) the confirmation by 7 out of 8 Australian states/territories of the introduction of point of consumption tax ("POCT") frameworks for online betting.

Together, these items have had a material impact on the business which means that the EPS conditions for our 2017 and 2018 LTIP awards are now unlikely to be met. The Committee is mindful of the impact that an immediately underwater 2018 LTIP award would have on the motivation of the senior team, particularly bearing in mind the recent recruitment of two new Executive Directors. Anticipating this impact, in our 2017 Annual Report on Remuneration we announced our intent to adjust 2018 LTIP EPS targets for the impact of POCT being introduced progressively in Australia. This reflected the material risk that regulatory changes posed to us achieving threshold EPS levels, and the impact of unachievable targets on the motivation of our executives.

Prior to making any changes to targets, we consulted with our largest investors. Whilst we had highlighted our intention to make this adjustment for POCT in the 2017 Directors' Remuneration Report, most felt that the principle of alignment meant that retrospective changes, even to the recently awarded 2018 LTIP should not be made. Instead, the new tax and regulatory environment should be reflected in targets for future awards. As a result of this feedback, we are not proceeding with this adjustment for any in-flight LTIPs for Executive Directors.

REMUNERATION COMMITTEE CHAIR'S STATEMENT CONTINUED

The Committee notes that the lack of adjustment significantly reduces the potential value of outstanding LTIPs, and believes it is important to ensure that external factors, largely beyond the control of Management, are dealt with in a balanced way that is fair to investors and Management. To provide clarity, we have developed the following Guiding Principles, detailing how we will deal with tax and regulatory changes for incentive awards. These are summarised in the box below.

Guiding Principles for Incentives ("Guiding Principles")

1. Annual bonus targets will continue to be adjusted for currency movements, unbudgeted items and unbudgeted changes to tax or regulation, given the lack of opportunity for mitigating action to be taken within one year.
2. LTIP targets will not normally be adjusted for tax or regulatory changes occurring during the performance period.
3. LTIP targets will be adjusted for the EPS accretion (or dilution) arising from share buybacks undertaken during the performance period unless the buyback was explicitly taken into account in setting the target.
4. The Committee will make technical adjustments to retain the original intent and challenge of the performance measure in the event of, for example, corporate transactions or changes to accounting standards.
5. LTIP targets for new awards will be set relative to fully re-stated base-year performance that reflects the proforma impact of known tax or regulatory changes.
6. The Committee retains discretion to make additional adjustments in limited exceptional circumstances, and will do so following consultation with our major investors.
7. Adjustments made in line with these principles will be transparently disclosed.

The Committee expects that the application of these principles will result in performance outcomes from incentives that balance the interests of shareholders with those of Management, ensuring that future incentives are stretching, whilst remaining realistic and motivating. This has been reflected in our approach to incentive outcomes based on 2018 performance and to how we have set 2019 LTIP and bonus targets.

2019 LTIP and bonus targets

The 2019 LTIP will include a US Value measure, and the corresponding exclusion of the US business from EPS and Revenue measures. Following consultation and investor feedback, and given the continued change in the external environment, the Committee believes it is appropriate to introduce relative Total Shareholder Return ("TSR") as a new measure for the 2019 LTIP. The details of the TSR comparator group are set out on page 87. This measure enables Management to be held accountable for performance of the overall business given we are now measuring performance of the US and non-US businesses separately in the remaining LTIP measures. The 2019 LTIP will therefore be measured 25% each on: EPS, Revenue, US Value and relative TSR. The Committee believes this set of measures creates appropriate balance, reflecting the requirements of the different businesses in our portfolio, whilst ensuring overall alignment of Group performance and shareholder value.

In line with our Guiding Principles, we have calibrated stretching EPS and Revenue growth targets for the 2019 LTIP from an adjusted 2018 base year that factors in the impact of the new taxes and regulatory changes, excludes the US business (captured separately in the US Value measure) and incorporates an adjustment for the Adjarabet acquisition. An adjustment to the 2018 base year has also been undertaken to reflect the £500m share buyback programme conducted from May 2018 to February 2019. Full details on measures and targets is given on pages 86 and 87.

In addition, our 2019 annual bonus will be revised to include a US measure weighted to 25% of the bonus. This will comprise a number of goals relating to the US business and the investments we will be making there. To avoid duplication, the performance of our US business will be excluded from targets for both the EBIT and Revenue measures, which will be weighted to 37.5% each in order to incorporate the US measure. Full details of measures is given on page 86.

The table below summarises the changes to our 2018 and 2019 incentives detailed above.

Key change	Key change	Rationale
2018 LTIP performance measures	Introduced US Value measure at 25%, EPS weighting reduced to 50%	Reflects importance of investment in FanDuel
	Excluded US business from EPS and Revenue	Avoids double counting with introduction of US Value measure
	Measures are now 50% EPS, 25% Revenue, 25% US Value measure	Reflects appropriate weighting of measures given business mix
2019 LTIP performance measures	Introduced relative TSR with 25% weighting	Introduces a measure that captures value creation across the portfolio, and increases resilience to changing market conditions, aligning reward outcomes with performance in light of new business mix
	US Value measure first introduced in the 2018 LTIP	As for 2018 LTIP
	Excluded US business from EPS and Revenue	As for 2018 LTIP
	Measures are 25% each on EPS, Revenue, US Value measure, relative TSR	Reflects appropriate weighting and balance of measures given business mix
2019 bonus	Introduced US-focused measure for 25% of award	Introduces a measure that specifically focuses on the US business, which is not well reflected in current measures
	Excluded US business from EBIT and Revenue	Avoids double-counting with the introduction of a US-focused measure
	Measures are 37.5% on EBIT and Revenue (both excluding the US business) and 25% on US-focused measures	Reflects introduction of US-focused measure and business mix
Guiding Principles for incentives	Developed new principles for dealing with the impact of tax and regulatory changes on incentives going forward	Gives clarity to Executive Directors and shareholders on how these issues will be considered over multiple cycles

2018 Performance and Outcomes (2018 bonus and 2016 LTIP)

Our annual bonus for 2018 was equally weighted across EBIT and Revenue measures, with stretching growth targets set for both. Performance under both measures was between threshold and target performance, after adjusting for changes in currency and other unbudgeted items, and led to an overall outcome of 48.9% of maximum (2017: 60%). Full detail of the targets and adjustments made (in line with Guiding Principle 1) are given on page 82.

The 2016 LTIP will vest in May 2019, based on three year EPS and Revenue targets that were very stretching by reference to market norms. Although significant regulatory and tax changes impacted our performance towards the latter end of the performance period, in order to reflect the shareholder feedback described earlier the Committee decided not to make adjustments to the outcome of the LTIP (in line with Guiding Principle 2). However a mechanistic downward adjustment was made to the EPS outturn to reflect the share buyback undertaken in 2018 (in line with Guiding Principle 3). On this basis EPS grew by 21% p.a. over the 3 years to 2018, and Revenue by 11% p.a. Due to the high level of stretch in our targets, this resulted in an overall outcome of 64.4% of maximum (2015 LTIP: 100%). Full details of the targets and adjustments made are given on page 83.

Looking ahead

The Committee has carefully reviewed the requirements of the revised 2018 UK Code and welcomes the increased focus on broader stakeholders and the expanded remit of the Committee. The Committee already has a degree of oversight of reward policies across the Group, and we will refine and enhance this during 2019 in line with the requirements of the 2018 UK Code. In addition, and in order to provide increased transparency we have decided to early adopt the requirement to disclose the ratio of CEO to UK workforce pay. Fairness and transparency are key priorities for the Committee, and we will review a range of information through the year including gender pay and CEO/wider workforce pay ratios as part of our deliberations on executive pay. Embedding the 2018 UK Code will be a significant focus during 2019 as the Board continues to seek to adopt strong standards of governance. The experience of this year has highlighted the challenges of designing remuneration for a company undergoing rapid change in a sector that is prone to significant and unpredictable regulatory intervention. The Committee intends to undertake a thorough review of the Remuneration Policy in 2019, in the context of a wider remuneration review across the Group, in order to ensure that the design of the pay system best meets the Group's strategic objectives. Depending on the outcome of this review, we may bring a new Remuneration Policy for approval at the 2020 AGM, one year earlier than required by legislation. In these circumstances we would, of course, consult with major investors prior to finalisation of the Remuneration Policy.

Given the external factors affecting our business, the Committee remains alert to the need to balance alignment of the shareholder experience with the need to ensure that we are able to continue to recruit, motivate and retain executives for the future. We will retain a close dialogue with our investors as we continue to seek to strike this balance.

Peter Rigby
Remuneration Committee Chair
5 March 2019

ANNUAL REPORT ON REMUNERATION

Remuneration at a glance

This section is a snapshot of the remuneration received by our Executive Directors who served in 2018 and implementation of the Remuneration Policy in 2019.

Single total remuneration figures for 2018

This sets out the total single figure of remuneration for 2018 for each of our Executive Directors who served during the year. Full details are set out on page 81 of this report.

Peter Jackson, Chief Executive Officer (from 8 January 2018)

Total: £1,664,000

Jonathan Hill, Chief Financial Officer (from 22 October 2018)

Total: £149,000

Breon Corcoran, Chief Executive Officer (until 7 January 2018)

Total: £295,000

Alex Gersh, Chief Financial Officer (until 21 October 2018)

Total: £1,070,000

Salary · Benefits · Annual bonus · LTIP · Pension · Other

2018 Annual bonus outcome

The 2018 annual bonus was equally weighted across EBIT and Revenue measures. Adjustments in the year were made for Australian POCT, currency and other unbudgeted items in line with the Guiding Principles leading to an overall outcome of 48.9% of maximum.

Measure	Bonus outcome for FY 2018 (following adjustments)[1]
EBIT	42.7% of salary
Revenue	45.3% of salary
Total	88.1% of salary
Peter Jackson	£621,872
Alex Gersh	£395,697

1. Neither Breon Corcoran nor Jonathan Hill were eligible to receive a bonus for 2018.

REVENUE

Performance achieved

£1,873.4m

EBIT

Performance achieved

£360.5m

Bonus deferral

In line with the Remuneration Policy, one third of Peter Jackson's bonus will be deferred into shares under the DSIP, with 50% vesting one year from the grant date and 50% two years from the grant date.

As part of Alex Gersh's leaving arrangements, his bonus will be paid in cash after his date of departure from the Group.

2016 LTIP outcome

The 2016 LTIP vests in May 2019 based on 3 year EPS and Revenue growth targets from 1 January 2016 to 31 December 2018.

Although significant regulatory and tax changes impacted our performance towards the latter part of the performance period, no adjustments have been made to the outcome of the LTIPs in accordance with our Guiding Principles. A mechanistic downwards adjustment was made to EPS outturn to reflect share buybacks made during 2018. The performance targets and performance outturn are set out opposite.

REVENUE

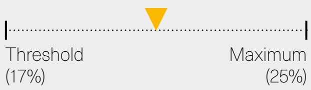
Actual three years performance (p.a. growth)

11%

EPS

Actual three year performance (p.a. growth)

21%



Peter Jackson	No award
Jonathan Hill	No award
Breon Corcoran	64.4% of award vests (pro-rated for portion of vesting period served as Chief Executive Officer)
Alex Gersh	64.4% of award vests (pro-rated for portion of vesting period served as Chief Financial Officer)

Implementation of Remuneration Policy in 2019

In view of the significant regulatory external changes and internal changes, in particular the FanDuel Deal, implementation of the Remuneration Policy in 2019 will differ from that of previous years, as discussed in the Remuneration Committee Chair's Statement.

In line with the revised 2018 LTIP a new US Value measure will be included in the 2019 LTIP, with the US business excluded from EPS and Revenue measures. Following consultation and investor feedback and to ensure Management is held accountable for the performance of the overall business, a relative TSR measure will also be introduced in 2019. All four measures will be equally weighted at 25% of the overall award.

Alignment of 2019 measures to strategy

Group EPS (excluding US)	Continued growth in the core business in Europe and Australia
	Exclusion of US avoids double counting
Group Revenue (excluding US)	Continued growth in the core business in Europe and Australia
	Exclusion of US avoids double counting
US Value measure	Incentivise growth and future value creation in developing the US business
	Alignment with the US management team
Relative TSR	Overall Group success measure to reward successful management of portfolio
	Provides a measure that is resilient to market and regulatory changes

The implementation of our Remuneration Policy and proposed changes for 2019, are summarised below.

Element	Implementation for 2019
Total salary	• Peter Jackson – salary increase of 2.8% effective 1 March 2019 results in a salary of £740,160 • Jonathan Hill – salary increase of 2.8% effective 1 March 2019 results in a salary of €554,221
Benefits	Peter Jackson and Jonathan Hill will receive benefits in line with our Remuneration Policy
Pension	Executive Directors will receive cash in lieu of pension of 15% of total salary
Annual bonus and Deferred Share Incentive Plan ("DSIP")	Maximum opportunity of 180% of total salary for both Peter Jackson and Jonathan Hill The performance measures and their relative weightings will be: • EBIT (excluding US business performance): 37.5% weighting • Revenue (excluding US business performance): 37.5% weighting • US measure: 25% weighting
LTIP 2019 awards	Maximum opportunity of: • 300% of total salary for Peter Jackson • 250% of total salary for Jonathan Hill The 2019 LTIP performance measures and their relative weightings will be: • EPS (excluding US business performance): 25% weighting • Revenue (excluding US business performance): 25% weighting • Relative Total Shareholder Return: 25% weighting • US measure: 25% weighting
Shareholding guidelines	• 300% of total salary for Peter Jackson • 200% of total salary for Jonathan Hill Both will be required to retain half of all post-tax vested awards until their respective shareholding requirements are achieved

ANNUAL REPORT ON REMUNERATION CONTINUED

This section provides details of remuneration outcomes for the financial year ended 31 December 2018 for Executive Directors who served during 2018, and how the approved Remuneration Policy will be implemented for all Directors in 2019.

The Committee's responsibilities

Set out below is a summary of the Committee's key responsibilities, which have been updated for 2019 to reflect the content of the 2018 UK Code:

- Setting the Remuneration Policy for 2019 for the Executive Directors;
- Reviewing the wider workforce remuneration and related policies and the alignment of incentives and rewards with culture and taking these into account when setting the policy for Executive Director remuneration;
- Supporting the Board in determining whether reward related employee policies and practices are in line with the Group's culture, strategy and values;
- Consideration of the views of employees on Executive Director and Executive Committee remuneration;
- Engaging with shareholders in respect of the Remuneration Policy for Executive Directors and its implementation as appropriate;
- Engaging with the workforce to explain how executive remuneration aligns with wider Group pay policy;
- Ensuring that the Remuneration Policy and reward decisions incentivise and retain talent, and support the delivery of our long-term strategy;
- Consideration of the appropriateness of the Remuneration Policy when reviewed against the rest of the organisation;
- Determining the terms of employment for Executive Directors, members of the Executive Committee and the Company Secretary, including remuneration, recruitment and termination arrangements;
- Approving the measures and targets for incentive schemes for Executive Directors, the Executive Committee and the Company Secretary; and
- Assessing the appropriateness and achievement of performance targets relating to incentive plans.

Given the 2018 UK Code did not come into effect until 1 January 2019, the Committee will provide full details of our compliance with the relevant requirements in the 2019 Annual Report on Remuneration. The Committee already has a degree of oversight of reward policies across the Group, and during 2019 this will be reviewed and developed in accordance with the requirements of the 2018 UK Code. In addition, we will review a range of information through the year including relevant pay ratios reflecting our focus on fairness and transparency.

The Committee's focus in 2018

Overall remuneration	Review and approve Executive Directors' and members of the Executive Committee total remuneration
Annual bonus	Determine and approve bonus outcomes in respect of 2017 performance
	Review and approve performance measures and targets for 2018 bonus
	Review forecasted 2018 bonus outcome and discussion of possible adjustments
	Review, consider and approve performance measures for the 2019 bonus
Long-term incentives	Review performance measures and targets for the 2018 LTIP awards in light of regulatory change and changes to the US business
	Approve 2018 incentive grants for Executive Directors and the Executive Committee
	Approve overall quantum of awards for 2018 share incentives for all employees
	Consider the relevant incentivisation model for FanDuel Group employees
	Review of the global remuneration structure for those employees below Executive Committee level
	Review, consider and approve new performance measures for the 2019 LTIP
Governance	Review and approve the 2017 Directors' Remuneration Report and 2018 Directors' Remuneration Policy
	Prepare the 2018 Directors' Remuneration Report
	Consider the 2018 UK Code, its implications for, and impact on, the Committee's remit and responsibilities
	Review the annual Remuneration Committee calendar
	Review and update the Committee's Terms of Reference
	Assess dilution from share schemes against recommended limits and use of Employee Benefit Trust
Shareholder consultation	Engagement with shareholders on proposed changes to the LTIP measures and targets for in-flight incentive awards and future awards
Chief Financial Officer transition	Payments for loss of office and leaver-related arrangements for Alex Gersh
	Recruitment arrangements for Jonathan Hill

External advisors

PricewaterhouseCoopers ("PwC") are the Committee's remuneration advisors and they provide independent commentary and advice, together with updates on legislative requirements, best practice and market practice to assist it with its decision making.

PwC reported directly to the Committee, and are signatory to, and abide by the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). The Committee undertakes due diligence periodically to ensure that the remuneration advisors remain independent of the Group and that the advice provided is impartial and objective. The Committee is satisfied that any conflicts are appropriately managed.

The fees paid to PwC in respect of work carried out for the Committee in 2018 totalled £146,750, and are based on an agreed fee for business as usual support (with additional work charged on a time and materials basis). PwC also advised and supported the Group's Management in relation to remuneration during the year. PwC also provided tax advice to the Group during 2018.

The Committee also seeks internal advice and support from the Company Secretary, Deputy Company Secretary, Chief People Officer and Reward Director as appropriate.

Shareholder voting at shareholder meetings

The following shows the results of the advisory votes on the Annual Statement and Annual Report on Remuneration and the Remuneration Policy at the 2018 AGM:

	For	Against	Total votes cast	Votes withheld
2017 Annual Report on Remuneration (AGM 2018)	50,533,199 (80.40%)	12,320,982 (19.6%)	62,885,232	11,051
2018 Remuneration Policy (AGM 2018)	62,482,515 (99.38%)	390,412 (0.62%)	62,885,232	12,305

During our extensive engagement with investors through 2018 we sought to understand the reasons for the level of vote against last year's Directors' Remuneration Report which, at just under 20%, was close to the 'significant' level of opposition set out in the UK Code. The opposition was almost entirely due to the negative vote of a significant shareholder, and related to the reduction in maximum growth targets under the 2018 LTIP versus prior year. We undertook discussions with them as part of our investor consultation both through myself and the Board Chair as well as through Management.

Single Figure of Total Remuneration for Executive Directors (Audited)

The table below sets out the single figures of total remuneration received by each Executive Director of the Company during the year ended 31 December 2018 and the prior year. Remuneration relates to the period during which each Executive Director was a member of the Board in this capacity. Please refer to notes below the table for full details of how the figures are calculated and additional disclosure of the full-year equivalents.

Executive Director	Year	Total salary[1] (£000)	Benefits[2] (£000)	Annual bonus (£000)	LTIP[3] (£000)	Pension[4] (£000)	Other[5] (£000)	Single figure of total remuneration (£000)
Peter Jackson[6]	2018	710	6	622	n/a	106	220	1,664
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Breon Corcoran[7]	2018	14	2	0	277[10]	2	0	295
	2017	712	19	771	1,624[11]	107	0	3,233
Jonathan Hill[8]	2018	96	39	n/a	n/a	14	0	149
	2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Alex Gersh[9]	2018	371	15	396	232[10]	56	0	1,070
	2017	447	18	485	1,017[11]	67	5	2,039

The figures in the table have been calculated as follows:

1. Total salary: amount earned for the year.
2. Benefits: comprise private medical insurance, life assurance, income protection. For Jonathan Hill, this also includes £39,000 in relocation costs.
3. For 2018, as vesting occurs after the Directors' Remuneration Report is finalised, the award is valued based on the three-month average share price to 31 December 2018 of £66.3768.
4. Pension: the pension for Peter Jackson, Jonathan Hill, Breon Corcoran and Alex Gersh is the value of the cash paid to them in lieu of contributions.
5. Other: includes SAYE, valued based on the intrinsic value at date of grant.
   For Peter Jackson, the value of 1/3rd of the options which vested on 3 December 2018 under the Restricted Share Plan is £217,500
6. Peter Jackson was appointed as Chief Executive Officer on 8 January 2018. On appointment to this role his total salary was £720,000. This table does not reflect any salary received by him as a Non-Executive Director during 2017 or until he became Chief Executive Officer in 2018.
7. Breon Corcoran stepped down as Chief Executive Officer on 7 January 2018 and remained in employment until 10 August 2018.
8. Jonathan Hill was appointed as Chief Financial Officer on 22 October 2018. On appointment, his total salary was €539,125. Values are converted from Euros to Pound Sterling using the 12-month average exchange rate over the financial year (2018: £1= 1.13032).
9. Alex Gersh stepped down as Chief Financial Officer on 21 October 2018 and remained in employment until 4 March 2019.
10. The value has reduced by 23.7% since the time of grant due to share price movement.
11. Value based on the share price on vest date, 2 July 2018, of £81.80.

Incentive outcomes for 2018

2018 Annual bonus (Audited)

The maximum annual bonus opportunity for Executive Directors is 180% of total salary. Target bonus is 120% of total salary.

The 2018 annual bonus was based on equally weighted EBIT and Revenue targets.

For 2018, as communicated in the 2017 Directors' Remuneration Report, and in accordance with our Guiding Principles, the Committee has made a formulaic adjustment to EBIT for the impact of POCT implemented in Queensland from 1 October 2018.

We have also made adjustments to EBIT and Revenue for unbudgeted items relating to transactions and investments in our US and Australian businesses. These mechanistic adjustments are in line with our Guiding Principles and ensure that Executive Directors are not rewarded or penalised for these investment related impacts for which mitigation cannot be taken within the year. In line with our historic approach and Guiding Principles, annual bonus targets and year-end performance are determined on a constant currency basis (i.e. based on budgeted exchange rates). In total, these adjustments result in a total upward adjustment to targets of £48m on Revenue performance and a downward adjustment to EBIT of £37m.

A full reconciliation of the adjustments is set out below for reference and the original targets have been adjusted to reflect these.

	Revenue	EBIT
Adjustment for impact of POCT in Queensland from 1 October 2018	–	-£5m
Inclusion of US sports betting and daily fantasy sports following FanDuel Deal	+£64m	-£23m
Adjustment relating to changes in marketing investment across the Group	-£1m	-£5m
Foreign exchange impact	-£16m	-£4m
Total adjustment	**+£48m**	**-£37m**

The targets, incorporating the adjustments above, and resulting bonus outcomes for the Executive Directors are as set out below:

		Performance targets						Bonus outcome (£)	
Measure	Max opportunity (% of salary)	Threshold	Target	Maximum	Actual performance	Bonus outcome (% of max)	Bonus outcome (% of salary)	Peter Jackson	Alex Gersh
EBIT	90%	£349m	£371m	£392m	£360.5m	23.7%	42.7%		
Revenue	90%	£1,815m	£1,911m	£1,968m	£1,873.4m	25.2%	45.3%		
Total	**180%**					**48.9%**	**88.1%**	**£621,872**	**£395,697**

In line with the Remuneration Policy, for Peter Jackson, one-third of bonus earned is deferred into shares under the DSIP, vesting 50% after one year from grant and 50% after two years from grant. Shares that are deferred under the DSIP are eligible to receive dividends. No bonus deferral will be applied to Alex Gersh's bonus and it will be delivered to him post his cessation of employment with the Group. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting. Note that as part of his termination arrangements Breon Corcoran was not eligible for a 2018 annual bonus. Jonathan Hill was also not eligible to receive an annual bonus for 2018.

The Committee is satisfied that the annual bonus awarded is a fair reflection of the Group's performance during the year under review.

2016 LTIP (Audited)

The table below sets out a summary of the number of shares vesting and the resulting gross estimated vesting value for the 2016 LTIP awards for Breon Corcoran and Alex Gersh. This estimate is based on the three-month average share price to 31 December 2018 of £66.37. In line with our Guiding Principles, no adjustment has been made to the targets or outcomes of this award despite the adverse tax and regulatory changes that occurred during the period. However, we are making a mechanistic downward adjustment to the LTIP outturn to reflect the impact of the share buyback undertaken in 2018 so that Executive Directors do not benefit from this. This reduced the vesting outcome from 69.0% p.a. to 64.4% p.a. Note that the shares were bought back at full market value.

2016 LTIP performance measures outcome – performance period ended on 31 December 2018:

	Targets			Outcome	
Performance measure	Threshold	Maximum	Actual performance[1]	% of maximum achieved	% of award eligible for vesting
EPS (75%)	17% p.a.	25% p.a.	21% p.a.	91%	63.1%
Revenue (25%)	8% p.a.	13% p.a.	11% p.a.	95%	68.5%
Total vesting (as a % of max)					**64.4%**

1. Performance excludes US sports betting and daily fantasy sports as these were not part of the performance targets and has been adjusted for the share buyback.

Executive Director	Award type	Date of grant	Number of shares under original award	% of total award vesting	Number of shares vesting[3]	Value at vesting[4]
Breon Corcoran	Nominal value options	20 May 2016	6,482[1]	64.4%	4,174	£277,057
Alex Gersh	Nominal value options	20 May 2016	5,428[2]	64.4%	3,495	£231,987

1. Pro-rated to 7 January 2018.
2. Pro-rated to 31 December 2018.
3. Dividend equivalent shares will be added to reflect dividends accrued during the vesting period, as appropriate.
4. Value is based on the average share price over 3 months to 31 December 2018 of £66.37 given that the award vests after the publication of this report. At the date of grant, Breon Corcoran and Alex Gersh's LTIP awards were valued at £1,049,950 and £550,000 respectively.

Share scheme interests awarded in 2018

LTIP 2018 Awards (Audited)

On 12 March 2018, Peter Jackson was granted an LTIP award of 27,261 nil-cost options. On 22 October 2018, Jonathan Hill was granted an LTIP award of 14,181 nil-cost options. Jonathan Hill's award was pro-rated from his joining date of 22 October 2018.

As discussed in the Remuneration Committee Chair's Statement, a new US Value measure with a weighting of 25% of the maximum opportunity has been introduced to this award. At the same time, to avoid double-counting US performance, EPS and Revenue targets will now be measured excluding the US business. Given that the US business was, even before the FanDuel transaction, a higher growth part of our business, the restated EPS growth and Revenue growth targets are slightly lower than the original targets for the whole business. However, the stretch in the targets has been maintained. The resulting amended LTIP measures and weightings are set out below:

Executive Director	Date of grant	Date of vest	Number of awards	Market price at date of award[1]	Face value at date of award	Face value at date of award (% of salary)
Peter Jackson	12 Mar 2018	12 Mar 2021 – Group element Jul 2021 – US element	27,261	£79.2333	£2,159,979	300%
Jonathan Hill	22 Oct 2018	22 Oct 2021	14,181	£66.4318[2]	£942,070[2]	199%

1. Three-day average share price to the date of grant.
2. The award was granted in Euro and converted to Pound Sterling using the 3-day average share price and exchange rate to the date of grant.

	Performance targets	
Performance measure	Threshold (25% vesting)	Maximum (100% vesting)
EPS (excluding US business performance) (50%)	3.3% p.a.	8.4% p.a.
Annualised growth in EPS over the three-year period 2018-2020	Award vests on a straight-line basis between the two points	
Revenue (excluding US business performance) (25%)	3.8% p.a.	9.6% p.a.
Annualised growth in Revenue over the three-year period 2018-2020	Award vests on a straight-line basis between the two points	
US Value measure (25%)	15% over 3 years to July 2021	45% over 3 years to July 2021
Growth and development of the US business to July 2021	Award vests on a straight-line basis between the two points	

US Value measure – further details of performance measurement

Performance under the US Value measure will be based on the external valuations in July 2021 that form part of the FanDuel Deal. As such the 2018 LTIP is to be assessed against the 2021 valuation. The baseline value of the US business used to calibrate this performance measure is currently considered commercially sensitive and so will only be disclosed retrospectively in the Remuneration Report that shows the final vesting against this measure. To ensure robust governance, the baseline valuation has been lodged with KPMG, our External Auditor, who will verify this against the disclosure made at the point of vesting.

In view of these valuation dates, the US Value measure will be assessed beyond the normal 3-year period for the EPS and Revenue measures, and this portion of the award will therefore vest later. The related post-vesting holding period for any awards earned under this portion will be reduced accordingly so that there is no change to the required 5-year period from the grant date to final release.

ANNUAL REPORT ON REMUNERATION CONTINUED

DSIP 2018 Awards (Audited)

One-third of the bonus earned for 2017 has been deferred into shares under the DSIP 2018. 50% of awards made under the DSIP vest one year following grant and the remaining 50% two years following grant (subject to continued employment). Details of the awards made under the DSIP are set out below.

Note that as part of the leaver arrangements with Alex Gersh he is considered a good leaver and as such he will receive all outstanding DSIP awards (i.e. those under the 2017 and 2018 DSIP awards) unless he announces, or is announced by an appointee or appointee designate to an executive director or senior management role, or takes up such a role before the Company's 2019 AGM. In line with this, no DSIP award will be made to Alex in relation to his 2018 annual bonus, which will be paid fully in cash.

Executive Director	Date of grant	Number of shares	Market price at date of award[1]	Face value at date of award	Vesting
Breon Corcoran	12 Mar 2018	3,244	£79.2333	£257,033	Vests following completion of 12-month restrictive covenant period
Alex Gersh	12 Mar 2018	2,039	£79.2333	£161,557	Vests following completion of 12-month restrictive covenant period, or on the normal vest date, whichever is later

1. 3-day average share price to the date of grant.

Single Figure of Total Remuneration for Non-Executive Directors (Audited)

The table below sets out the single figures of total remuneration received by each Non-Executive Director who served during the year ended 31 December 2018:

Non-Executive Director	Current Board Committee member or Chair (as applicable)	Fees[1] (£000) 2018	2017
Jan Bolz[2]	A Re	**79**	25
Zillah Byng-Thorne[3]	A Ri	**97**	79
Michael Cawley	A N Ri	**102**	101
Ian Dyson	A N Re	**90**	90
Gary McGann	CB N Re Ri	**399**	395
Peter Rigby	Re Ri	**80**	80
Emer Timmons[4]	A N Re	**79**	49
Previous Non-Executive Director			
Peter Jackson[5]		**1**	66
Pádraig Ó'Riordáin[6]		**14**	96

A Audit Committee
N Nomination Committee
Committee Chair
Re Remuneration Committee
Ri Risk Committee
CB Chair of the Board

Fees for Non-Executive Directors are pro-rated according to their appointment date or date of role change where appropriate.

1. Fees are converted from Euros to Pound Sterling as appropriate, using the 12-month average exchange rate over the financial year (2017: £1 €1.1406; 2018: £1 = €1.12784).
2. Jan Bolz was appointed as a Non-Executive Director on 6 September 2017.
3. Zilllah Byng-Thorne became Chair of the Risk Committee on 1 January 2018.
4. Emer Timmons was appointed as a Non-Executive Director on 17 May 2017.
5. Peter Jackson's Non-Executive Director fees for 2018 are pro-rated up to 7 January 2018.
6. Pádriag Ó'Riordáin's Non-Executive Director fees for 2018 are pro-rated up to 2 March 2018, and for 2017 reflects his role as Remuneration Committee Chair.

Changes to the Board (Audited)

Payments for loss of office and payments to past directors (Audited)

Breon Corcoran

On 7 January 2018, Breon Corcoran stepped down as Chief Executive Officer and ceased to be an employee of the Group on 10 August 2018 following completion of his 12 months' notice period. During the period between him stepping down as Chief Executive Officer and ceasing being an employee he was available to support the transition. Breon was treated as a good leaver for the purpose of incentive plans.

In line with his contract and the Remuneration Policy, Breon Corcoran was paid his salary (excluding his directorship fee of £65,000), benefits and cash in lieu of pension for the period up to the end of his notice period (from 8 January to 10 August 2018), on a monthly basis. No bonus was paid to Breon for 2018. All unvested and unexercised awards were treated in accordance with the applicable share plan rules and our loss of office policy. The table below sets out a breakdown of the payments to Breon for the period from 8 January 2018 to 10 August 2018.

	£000
Salary (excluding directorship fee)	384
Benefits	8
Pension	58
2017 annual bonus	771
2015 LTIP (Part A)	£497[1]
2015 LTIP (Part B)	£1,624[1]

1. Based on the share price on the vest date, 2 July 2018, of £81.80.

Further details of Breon Corcoran's leaving arrangements are set out in the 2017 Directors' Remuneration Report.

Alex Gersh

On 21 October 2018, Alex Gersh stepped down as Chief Financial Officer, completing a handover with Jonathan Hill from 22 October until 31 December 2018. He ceased being an employee of the Group from 4 March 2019 following completion of his 12 months' notice period. Following the cessation of his employment, Alex will also be subject to a contractual non-competition, non-solicitation and non-hiring restrictive covenant for a period of 12 months commencing on 5 March 2019.

Alex was considered a good leaver for the purpose of incentives and therefore his outstanding DSIP and LTIP awards will vest on the later of completion of the 12-month restrictive covenant period, or the normal vesting date. Outstanding LTIP awards will be pro-rated based on the portion of the vesting period elapsed from the grant date until 31 December 2018 (the date he ceased to be a Director). They will continue to be subject to the relevant performance conditions and will vest on the later of the conclusion of his restrictive covenant period or the normal scheduled vesting date. The 2017 LTIP award has a two-year post-vest holding period. Alex was not granted a 2018 LTIP award.

A mitigation period will apply to all good leaver treatment such that, if Alex announces or is announced as an appointee or appointee designate to any executive director or senior management role, or takes up such a role, prior to the Company's 2019 AGM, all outstanding DSIP and LTIP awards will lapse.

In line with his contract and the Remuneration Policy, Alex was paid his salary (excluding his Directorship fee of £65,000), benefits and cash in lieu of pension for the remainder of his notice period from 1 January to 4 March 2019, on a monthly basis. This represents a total value of £82,154.

As he was in service for the full 2018 year, Alex will receive an annual bonus of 88.1% of salary in relation to 2018, based on performance against the relevant targets and paid fully in cash. The table below sets out the payments made to Alex during the period 22 October 2018 to the year end.

	£000
Salary (excluding directorship fee)	75
Benefits	3
Pension	11

New Chief Financial Officer: Jonathan Hill

Jonathan Hill was appointed Chief Financial Officer on 22 October 2018. His base salary on appointment was €539,125. Jonathan will receive benefits in line with the normal Remuneration Policy (with no car allowance provided) together with a cash supplement in lieu of pension of 15% of his salary. Jonathan will therefore participate in the 2019 annual bonus with a maximum opportunity of 180% of salary, and will receive an award under the 2019 LTIP with a maximum opportunity of 250% of salary at the same time as other participants. He did not participate in the 2018 annual bonus.

Jonathan was awarded shares under the 2018 LTIP, pro-rated from the 250% maximum opportunity (to 199% of salary) for the 2018 LTIP based on the proportion of the vesting period during which he is an Executive Director. His 2018 LTIP award is based on the same performance targets as other participants and will be measured at the same time however, in accordance with the rules of the plan, his award will vest three years from the grant date, and therefore later than for other participants.

Jonathan received no replacement awards in respect of LTIPs forfeited from his previous employer. He forfeited deferred bonus plan awards on leaving Saga plc and as such, Jonathan was granted a restricted share award of €150,731 in the Company's shares which will vest 50% on 22 October 2019 and 50% on 22 October 2020. This was equal in value to the forfeited Saga deferred bonus shares.

In accordance with our Remuneration Policy, the Committee approved the payment of one-off relocation expenses up to a maximum of €120,000, which must be used within the first two years of joining the Group. This relocation support may consist of:

- Pre-visit to Dublin including flights and accommodation
- Home search in Dublin
- Temporary accommodation in Dublin for up to 3 months
- Car hire
- Shipping
- Stamp duty and legal fees on purchasing a new home
- Sales fees and legal fees on selling current home
- Tax support for set-up in Ireland and tax-return support for the first 2 years of employment

Implementation of Remuneration Policy for 2019

In line with Remuneration Policy

Total Salary

The Committee approved the following total salaries for the Executive Directors, effective from 8 January 2018 for Peter Jackson and 22 October 2018 for Jonathan Hill. For 2019 salaries have been approved as below. Note that Jonathan Hill's salary is set in Euros, and therefore the table below shows both the Euro figure and a GBP amount based on the 12-month exchange rate for 2018.

Executive Director	Role	**2019 salary**	2018 salary	% change
Peter Jackson	Chief Executive Officer	**£740,160**	£720,000	2.8%
Jonathan Hill	Chief Financial Officer	**€554,221** **£490,319**[1]	€539,125 £475,000[2]	2.8%

1. Converted using 12-month average exchange rate to 31 December 2018 (£1= €1.13032).
2. Converted using exchange rate of £1 = €1.1350.

Pension and Benefits

The Executive Directors will receive a cash supplement in lieu of pension contribution of 15% of total salary in 2019. They will also receive benefits in line with the Remuneration Policy.

ANNUAL REPORT ON REMUNERATION CONTINUED

Annual Bonus

The maximum annual bonus opportunity for Executive Directors in 2019 will remain at 180% of total salary, as stated in the Remuneration Policy.

Two-thirds of any bonus earned is paid in cash, with the remaining one-third deferred into shares under the DSIP, vesting 50% after one year and 50% after two years from the date of grant subject to continued employment. Awards are eligible to receive dividend equivalents. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting.

The Committee has determined that performance targets will not be disclosed on a prospective basis for reasons of commercial sensitivity, but will be disclosed on a retrospective basis in next year's Annual Report on Remuneration.

The performance measures for the 2019 bonus are as follows:

	Opportunity (% of maximum)	Opportunity (% of salary)
Group EBIT (excluding US business performance)	37.5%	67.5%
Group Revenue (excluding US business performance)	37.5%	67.5%
US measures: • Sportsbook gross Revenue • Sportsbook online market share • Non-sportsbook net Revenue • EBITDA	25%	45%
Total	**100%**	**180%**

LTIP

The levels of LTIP award in 2019 will be in line with the levels in the Remuneration Policy, as set out below.

Executive Director	Face value at date of award (£000)	Face value at date of award (% of salary)
Peter Jackson	2,220	300%
Jonathan Hill	1,386	250%

Awards will vest on growth in EPS, Revenue, achievement against a US Value measure and relative TSR measured over the performance period, weighted equally at 25% of the award. In line with the 2018 LTIP, the performance of our US business will be excluded from EPS and Revenue targets to avoid double counting.

In setting targets both internal budget and brokers' expectations have been reviewed, with consideration to the significant adverse regulatory factors impacting our performance in the coming three year period. Note that targets were set after the acquisition of Adjarabet in February 2019 and so include the budgeted performance of this business. In line with our Guiding Principles, we have calibrated highly stretching EPS and Revenue growth targets for the 2019 LTIP from an adjusted 2018 base year that excludes the US business and factors in the impact of the new taxes and regulatory changes and an adjustment for the Adjarabet acquisition. An adjustment to the 2018 base has also been undertaken to reflect the £500m share buyback programme conducted from May 2018 to February 2019. This ensures that both the base and final year of assessment are on a comparable basis. A full reconciliation of the actual 2018 EPS and Revenue performance to the adjusted base year is provided on the following page.

			Performance targets	
Performance measure	Actual 2018 baseline performance	Adjusted 2018 baseline performance (excluding US performance but including a notional impact for Irish betting duty, RGD, POCT, FOBT, Adjarabet and share buyback)	Threshold (25% vesting)	Maximum (100% vesting)
EPS (excluding US business performance) (25%)			5% p.a.	13% p.a
Annualised growth in EPS over the three-year period 2019-2021	£3.986	£3.279	Award vests on a straight-line basis between the two points	
Revenue (excluding US business performance) (25%)	£1,681,900	£1,704,200	3% p.a.	9% p.a
Annualised growth in Revenue over the three-year period 2019-2021			Award vests on a straight-line basis between the two points	
US Value measure (25%)	–	–	30% over 5 years to July 2023	90% over 5 years to July 2023
Growth and development of the US business				
Relative Total Shareholder Return ("TSR") (25%)	–	–	Median	Upper quartile
TSR compared to the FTSE 31-130 (excluding housebuilders, real estate investment trusts and natural resources companies)			Award vests on a straight-line basis between the two points	

2018 base year adjustment and reconciliation

The 2018 base EPS and Revenue on which 2019 LTIP targets are based have been adjusted for:

- The change in regulation of FOBT to a £2 staking limit from April 2019;
- The announced increase in UK RGD from 15% to 21% from April 2019;
- The doubling of Irish betting duty from 1% to 2% from 1 January 2019;
- The confirmation by 7 out of 8 Australian states/territories of the introduction of POCT frameworks for online betting;
- Inclusion of Adjarabet as if the Group had owned 51% of Adjarabet since 1 January 2018; and
- Inclusion of the full effect of £500m share buyback conducted during 2018 and completed in early 2019.

The table below shows the earnings adjustments proposed for each item:

	Revenue £m	EPS £
Group excluding US (total accumulative adjustment to the 2018 base year)	**+22**	**-0.71**
FOBT regulation net impact	-41	-0.27
RGD increase		-0.16
Irish betting duty increase		-0.20
Australian POCT		-0.39
Adjarabet	+64	+0.11
Share buyback		+0.21

US Value measure

Performance will be measured against the July 2023 external valuation forming part of the FanDuel Deal, with the baseline value and final outcome disclosed in the Remuneration Report that shows the final vesting under this measure.

Given the later vesting date for this measure, the related post-vesting holding period for any awards earned under this portion will be reduced accordingly. This will result in there being no change to the required overall 5-year period from the grant date to release.

Relative TSR measure

In determining the appropriate comparator group for TSR, the Committee has reviewed the full breadth of potential peers and determined that the appropriate group would be the FTSE 31-130 at the date of grant, comprising companies of a comparable size to the Company. We further determined that companies operating in highly cyclical industries may distort assessment of our performance due to the lack of alignment to the economic pressures on the Company, and therefore companies in the housebuilding, natural resources and real estate investment sectors are excluded from the peer group. A sector specific group was considered. However, analysis showed that industry specific factors affect peers quite differently and given the small size of group and high level of merger and acquisition activity, a broader group is considered preferable.

Save As You Earn ("SAYE")

Executive Directors will be eligible to participate in the plan with the same terms as all other UK and Ireland employees if an invitation to enter a savings contract is offered during the year.

Chair and Non-Executive Directors

The services of the Non-Executive Directors, including the Chair, are provided for under the terms of a letter of appointment with the Company. Continuation of the Non-Executive Directors' appointments is contingent on satisfactory performance and annual re-election at the AGM of the Company, unless terminated earlier upon written notice by either the Non-Executive Director or the Company. The Non-Executive Directors' appointments will terminate automatically if they are removed from office by a resolution of the shareholders of the Company or are not re-elected. The appointment letters for the Non-Executive Directors provide that on termination, only fees accrued and expenses incurred up to the date of termination are payable.

Any reasonable expenses, including all travel (including to/from Company offices), hotels and other expenses the Non-Executive Directors reasonably incur in the furtherance of their duties may be reimbursed by the Group and grossed up for any tax payable by the individual. Non-Executive Directors do not receive any other benefits from the Company and they are not eligible to join the Group's pension scheme or participate in any bonus or share incentive plan.

Non-Executive Director	Start of current term[1]
Jan Bolz	6 September 2017
Zillah Byng-Thorne	2 February 2016
Michael Cawley	2 February 2016
Ian Dyson	2 February 2016
Gary McGann	2 February 2016
Peter Rigby	2 February 2016
Emer Timmons	17 May 2017

1. Dates of original appointment to Paddy Power plc or Betfair Group plc, as applicable, are shown on pages 56 and 57.

Chair and Non-Executive Director Fees

The fees payable to the Chair of the Board and other Non-Executive Directors for 2019 are as follows:

		Fee p.a.
Chair		€450,000
Base fee	Non-Executive Director	£65,000 or €90,000
Additional fees	Senior Independent Director	£10,000
	Audit Committee Chair	€25,000
	Nomination, Remuneration or Risk Committee Chair	£15,000 or €20,000

These fees were reviewed in December 2018 by the Board and are considered to continue to be appropriate for 2019. The current aggregate annual fee for all Non-Executive Directors, including the Chair, is €1,087,287, which is significantly below the maximum aggregate fee allowed by the Company's Articles of Association of €2,000,000. The €2,000,000 cap is considered to be an upper limit far in excess of what is currently required.

ANNUAL REPORT ON REMUNERATION CONTINUED

Executive Directors: External directorships

The Board acknowledges that Executive Directors may be invited to become non-executive directors of other companies which have no business relationship with the Group and that these duties can broaden their experience and knowledge to the benefit of the Group. Executive Directors are permitted to accept a maximum of one other external non-executive directorship (but not a chairmanship) of a large publicly listed company (or its equivalent), with the prior approval of the Chair of the Board. Fees paid for external appointments may be retained by the individual concerned.

Percentage change in Chief Executive Officer remuneration compared to other employees

The table below shows the percentage change in the Chief Executive Officer's remuneration from the prior year compared to the average percentage change in remuneration for all other employees. To provide a relevant comparison, the analysis includes only salaried corporate office UK and Ireland employees and is based on a consistent set of employees, i.e. the same individuals appear in the 2018 and 2017 populations.

	Chief Executive Officer			Other employees[2]
	2018[1] (£000)	2017 (£000)	% change	Average % change
Salary	**720**	712	+1.12%	+6.4%
Taxable benefits	**6**	19	-68%	-1.3%
Annual bonus[3]	**622**	771	-19.3%	-5.6%

1. Based on full-year equivalent remuneration for Peter Jackson.
2. The UK and Ireland employee population is, in the view of the Committee, the most appropriate comparator group. The calculation covers employees who were continuously employed for the period 1 January 2017 to 31 December 2018.
3. Bonuses for the workforce for 2018 have not been concluded at the time of signing this report and therefore this is an indicative figure.

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and return of capital) from the financial year ended 31 December 2017 to the financial year ended 31 December 2018.

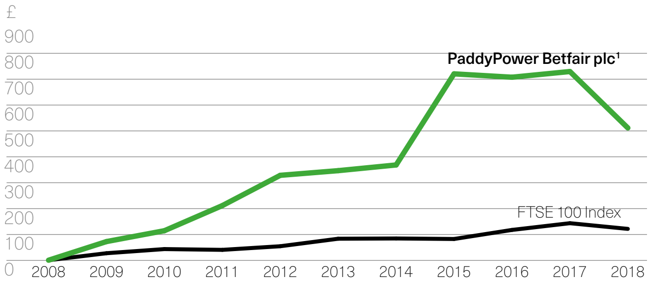
	2018 (£m)	2017 (£m)	% change
Dividends[1]	**169**	149	+13%
Share buyback[2]	**415**	–	n/a
Total shareholder distributions	**584**	149	+291%
Employee remuneration	**395**	379	+4%

1. Dividends paid to shareholders of Paddy Power Betfair plc during 2018 and 2017.
2. Share buyback relates to the returns to shareholders in 2018 as part of the share buyback programme.

Pay for Performance

The graph below shows Paddy Power Betfair plc's[1] Total Shareholder Return performance (share price plus dividends paid) compared with the performance of the FTSE100 Index over the ten-year period to 31 December 2018, assuming a nominal £100 investment in Paddy Power plc[1] and the FTSE100 Index at the start of the timeframe. This index has been selected because the Company believes that the FTSE100 provides a relevant and appropriate broad market comparator index for the combined entity, and includes companies of a similar size. The table on page 81 details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

VALUE OF £100 INVESTED AT 31 DECEMBER 2008



1. Paddy Power plc changed its name to Paddy Power Betfair plc on completion of the Merger of Paddy Power plc and Betfair Group plc on 2 February 2016.

Source: Datastream

CEO pay ratio disclosure

During 2018, Paddy Power Betfair has undertaken an exercise to identify the CEO pay ratio, reflecting the revised Directors' Remuneration Reporting regulations and the preference of our investors for the early adoption of this requirement.

In accordance with section 17 of The Companies (Miscellaneous Reporting) Regulations 2018, option A was used in the calculation of the pay ratios. Under this approach we ranked the pay and benefits of all our UK employees for the relevant financial year to identify the 25th, 50th, and 75th percentile and used the pay and benefits figures for these three UK employees to determine the pay ratios at each quartile. This was compared with the Chief Executive Officer's single figure for the year to calculate the relevant ratios.

Alongside the ratio for our UK employees only (in accordance with the regulations), we have also decided to publish the ratio for both our UK and Ireland employees combined, which in our view better reflects our corporate structure and the significant proportion of Group employees based in Ireland. These ratios are as follows:

Group	Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
UK employees only	2018	Option A	112.95	92.07	53.80
UK and Ireland	2018	Option A	102.97	79.00	51.96

The total pay and benefits of each employee who is the best equivalent of the 25th, 50th and 75th ranked employee is as follows:

Group		25th percentile pay employee	Median pay employee	75th percentile pay employee
UK employees	Total pay and benefits	£17,333	£21,264	£36,390
	Salary only	£17,077	£20,374	£33,044
UK & Ireland	Total pay and benefits	£19,013	£24,781	£37,677
	Salary only	£18,450	£22,636	£33,742

The median pay ratio above for 2018 is consistent with the pay, reward and progression policies for the company's UK employees taken as a whole however, the UK and Ireland ratio in our view better reflects the policies of the Group more widely.

Methodology

The pay and benefits of employees was calculated in line with the Single Total Figure of Remuneration methodology. In our calculations, actual pay from 1 January to 31 December 2018 was used. Due to the appointment of Peter Jackson early in 2018, the CEO single figure combines the pay for both Chief Executive Officers in accordance with the requirements of the regulations.

Joiners, leavers and part time employees' earnings have been annualised on a full-time equivalent ("FTE") basis excluding any payments of a one-off nature, with FTE calculations based on 40 hours per week. Those on unpaid leave for more than 30 days have been excluded from the analysis.

Where bonus payments are made on a weekly, monthly or quarterly basis, payments made in the 2018 compensation year were included. For annual bonus payments, bonuses calculated for the 2018 year and to be paid in 2019 were used. Benefits included in the calculation are employer pension/or cash in lieu received and the benefit in kind/P11D value of any taxable benefits.

Change in Chief Executive Officer's single total figure of remuneration

	2009	2010	2011	2012	2013	2014	2015	2016		2017	**2018**	
	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Andy McCue	Andy McCue	Breon Corcoran	Breon Corcoran	Breon Corcoran	Peter Jackson
Chief Executive Officer single figure of remuneration[1] (£000)	2,993	3,323	5,775	6,534	6,752	6,450	2,701	2,109	1,557	3,233	**295**	**1,664**
Annual bonus outcome (% of maximum)	74%	72%	86%	62%	55%	67%	77%	0%[5]	67%	60%	**0%[6]**	**48.9%**
LTIP vesting outcome[2] (% of maximum)	100%	100%	100%	100%	95%[3]	83%[4]	100%	100%	n/a	100%	**64.4%**	**n/a**

1. Remuneration is converted from Euros to Pound Sterling as appropriate, using the 12-month average exchange rate over the financial year. Breon and Peter are paid in Pound Sterling.
2. Before retesting – note, there is no provision for retesting in respect of LTIP awards made in 2013 and future years.
3. Retesting was applied to the unvested portion of the 2011 LTIP based on performance to 31 December 2014, and as a result an additional 4.9% of the award vested in March 2015.
4. Retesting was applied to the unvested portion of the 2012 LTIP based on performance to 31 December 2015, and as a result an additional 4.0% of the award vested in March 2016.
5. Andy was not eligible for a bonus in 2016 in line with his payment for loss of office (see Annual Report and Accounts 2016).
6. Breon was not eligible for a bonus in 2018 in line with his payment for loss of office.

Directors' shareholding (Audited)

The table below shows the shareholding of each Director against their respective shareholding requirement (where relevant) as at 31 December 2018 and there have been no changes to this from then until the date of this report.

The Chief Executive Officer and Chief Financial Officer are required to build and maintain holdings of 300% and 200% respectively. Share ownership guidelines may be met through both beneficially owned shares and vested but unexercised options net of notional tax. Those subject to continued employment or performance assessment are not included. We recognise the requirement under the 2018 UK Code relating to post-cessation shareholding, and will review this as part of the next remuneration policy review. In the intervening period we believe that our loss of office policy which requires that outstanding LTIPs vest in line with the normal cycle at cessation, and the holding period applying to LTIPs (and which will ordinarily continue to apply post-cessation) create strong alignment between our Executive Directors and shareholders following departure.

		Share option awards					
Executive Director	Beneficially owned[1]	Subject to performance	Vested but not yet exercised	Subject to continued employment only[2]	Shareholding required (% total salary)	Current shareholding (% total salary)	Requirement met
Peter Jackson	7,437	27,261	3,058	6,445	300%	80%	No
Jonathan Hill	0	14,181	0	1,993	200%	0%	No
Breon Corcoran[3]	140,465	13,583	419,943	2,227	n/a	n/a	n/a
Alex Gersh[3]	12,113	18,827	17,863	2,739	n/a	n/a	n/a

1. Includes shares held by the individual and those held by persons closely associated with them.
2. Based on beneficially owned shares and vested but unexercised options net of notional tax, Paddy Power Betfair plc share price of £63.60 and salaries as at 31 December 2018.
3. For Breon Corcoran and Alex Gersh, this is based on their holdings up to the date they stepped down as a Director.

Non-Executive Director	Beneficially owned[1]
Jan Bolz	0
Zillah Byng-Thorne	930
Michael Cawley	3,600
Ian Dyson	3,163
Gary McGann	3,260
Peter Rigby	126
Emer Timmons	0

1. Includes shares held by the individual and those held by persons closely associated with them.

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

Executive Directors – Summary of Outstanding Share Awards

The interests of the Executive Directors who served during 2018 in the Company's share schemes as at 31 December 2018 are as follows.

Executive Director	Date of original award	Awards held at 31 Dec 2017	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2018[2]	Exercise price	Market price at date of original award	Performance period	Vest date	Expiry date
Peter Jackson – Chief Executive Officer											
Restricted Share Plan	12 Mar 2018	n/a	9,174[1]	3,058	0	9,174	£–	£79.2333	n/a	1/3rd vested 1/3rd 03 Dec 2019 1/3rd 03 Dec 2020	11 Mar 2025
LTIP 2018	12 Mar 2018	n/a	27,261	0	0	27,261	£–	£79.2333	EPS/Revenue measure: 1 Jan 2018 – 31 Dec 2020 US measure: 10 Jul 2018 – Jul 2021	Group element: 12 Mar 2021 US element: Jul 2021	11 Mar 2025
SAYE 2018	12 Oct 2018	n/a	329	0	0	329	£54.68	£60.9500	n/a	1 Dec 2021	31 May 2022

1. Includes 87 dividend equivalent shares in relation to the vested portion of the award.

Executive Director	Date of original award	Awards held at 31 Dec 2017	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2018[2]	Exercise price	Market price at date of original award	Performance period	Vest date	Expiry date
Jonathan Hill – Chief Financial Officer											
LTIP 2018	22 Oct 2018	n/a	14,181	0	0	14,181	£–	£66.6431	EPS/Revenue measure: 1 Jan 2018 – 31 Dec 2020 US measure: 10 Jul 2018 – Jul 2021	22 Oct 2021	21 Oct 2025
Restricted Share Plan	22 Oct 2018	n/a	1,993	0	0	1,993	£–	£66.6431	n/a	50% 22 Oct 2019 50% 22 Oct 2020	21 Oct 2025

ANNUAL REPORT ON REMUNERATION CONTINUED

Executive Director	Date of original award	Date of replacement award[1]	Awards held at 31 Dec 2017	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2018[2]	Exercise price	Market price at date of original award[3]	Performance period	Vest date	Expiry date
Breon Corcoran – previous Chief Executive Officer												
Share Option Agreement	01 Aug 2012	02 Feb 2016	212,700	0	0	115,200[10]	97,500	£–	£18.0565	Performance has been tested	Vested	07 Aug 2020
LTIP 2013[4]	23 Jul 2013	02 Feb 2016	79,773	1,973[7]	0	0	81,746	£0.00235	£20.9127	Performance has been tested	Vested	07 Aug 2020
LTIP 2014[4]	27 Jun 2014	02 Feb 2016	72,361	1,790[7]	0	0	74,151	£0.00235	£22.7198	Performance has been tested	Vested	07 Aug 2020
LTIP 2015 Part A[4]	01 Jul 2015	02 Feb 2016	5,926	145[7]	6,071	0	6,071	£0.00223	£55.2910	Performance has been tested	Vested	07 Aug 2020
LTIP 2015 Part B[5]	01 Jul 2015	02 Feb 2016	24,147	479[7]	19,851	0	19,851	£0.00223	£55.2910	Performance has been tested	01 Jul 2018	07 Aug 2020
LTIP 2016	20 May 2016	n/a	11,871	0	0	0	6,482[8]	€0.09	£87.0225	2 Feb 2016 – 31 Dec 2018	12 Aug 2019	19 May 2023
LTIP 2017	10 Mar 2017	n/a	25,579	0	0	0	7,101[8]	£–	£83.7375	1 Jan 2018 – 31 Dec 2019	10 Mar 2020	08 Mar 2024
DSIP 2013[6]	05 Jul 2013	02 Feb 2016	8,190	121[7]	0	8,311[10]	0		£20.3662	n/a	Vested	n/a
DSIP 2014[6]	27 Jun 2014	02 Feb 2016	10,632	157[7]	0	10,789[10]	0	£0.00235	£22.7198	n/a	Vested	n/a
DSIP 2015[6]	01 Jul 2015	02 Feb 2016	5,999	88[7]	0	6,087[10]	0	£0.00223	£55.2910	n/a	Vested	n/a
DSIP 2016	21 Jun 2016	n/a	3,675	77[7]	1,915	3,752[10]	0	£–	£88.5870	n/a	50% Vested 50% 21 Jun 2018	n/a
DSIP 2017	10 Mar 2017	n/a	2,227	25[7]	1,138	1,138[10]	1,114	£–	£83.7375	n/a	50% 10 Mar 2018 50% 10 Mar 2019	07 Feb 2020
DSIP 2018	12 Mar 2018	n/a	n/a	3,244	0	0	3,244	£–	£79.2333	n/a	50% 12 Mar 2019 50% 12 Mar 2020	07 Feb 2020
SAYE 2014[6]	07 Nov 2014	n/a	421	0	0	421[10]	0	£21.3469	£29.0165	n/a	Vested	n/a

Executive Director	Date of original award	Date of replacement award[1]	Awards held at 31 Dec 2017	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2018[2]	Exercise price	Market price at date of original award[3]	Performance period	Vest date	Expiry date
Alex Gersh – previous Chief Financial Officer												
LTIP 2014[4]	27 Jun 2014	02 Feb 2016	16,915	259[7]	0	17,174[10]	0	£0.00235	£22.7198	Performance has been tested	Vested	n/a
LTIP 2015 Part A[4]	01 Jul 2015	02 Feb 2016	2,979	73[7]	0	3,052[10]	0	£0.00223	£55.2910	Performance has been tested	Vested	n/a
LTIP 2015 Part B[5]	01 Jul 2015	02 Feb 2016	12,138	299[7]	0	12,437[10]	0	£0.00223	£55.2910	Performance has been tested	01 Jul 2018	n/a
LTIP 2016	20 May 2016	n/a	6,218	0	0	0	5,428[9]	€0.09	£87.0225	2 Feb 2016 – 31 Dec 2018	20 May 2019	19 May 2023
LTIP 2017	10 Mar 2017	n/a	13,399	0	0	0	8,100[9]	£-	£83.7375	1 Jan 2017 – 31 Dec 2019	10 Mar 2020	09 Mar 2021
DSIP 2014[6]	27 Jun 2014	02 Feb 2016	7,039	104[7]	0	7,143[10]	0	£0.00235	£22.7198	n/a	Vested	n/a
DSIP 2015[6]	01 Jul 2015	02 Feb 2016	4,448	65[7]	0	4,513[10]	0	£0.00223	£55.2910	n/a	Vested	n/a
DSIP 2016	21 Jun 2016	n/a	2,771	58[7]	0	2,829[10]	0	£–	£87.3502	n/a	50% Vested 50% 21 Jun 2018	n/a
DSIP 2017	10 Mar 2017	n/a	1,400	15[7]	715	715[10]	700	£-	£83.7375	n/a	50% 10 Mar 2018 50% 10 Mar 2019	04 Sep 2020
DSIP 2018	12 Mar 2018	n/a	0	2,039	0	0	2,039	£–	£79.2333	n/a	50% 12 Mar 2019 50% 12 Mar 2020	11 Sep 2020
SAYE 2014[6]	07 Nov 2014	n/a	843	0	0	843[10]	0	£21.3469	£29.5016	n/a	Vested	n/a

1. Date of completion of the Merger; these are replacement Paddy Power Betfair awards in respect of previously granted Betfair awards.
2. Includes additional dividend equivalent shares to reflect dividends accrued during the vesting period, as appropriate.
3. Betfair Group plc share prices have been converted into Paddy Power Betfair plc share prices where appropriate, by multiplying by a factor of 2.3507 (based on exchange ratio of 1 Betfair Group plc share for 0.4254 Paddy Power Betfair plc share).
4. These Betfair LTIP awards were exchanged on completion of the Merger for equivalent awards over Paddy Power Betfair shares. Betfair performance was assessed in the second half of 2015, and targets were deemed to have been met in full by the Betfair Group plc Remuneration Committee. Awards vested in full on their original vest dates.
5. These Betfair LTIP awards were exchanged on completion of the Merger for equivalent awards over Paddy Power Betfair plc shares. New targets relating to the performance of Paddy Power Betfair were set for this portion of the LTIP award and are detailed in the Directors' Remuneration Report 2015 (see Annual Report and Accounts 2015).
6. These Betfair awards were exchanged on completion into equivalent Paddy Power Betfair awards. The number of awards and exercise price have been converted into Paddy Power Betfair plc equivalents on completion of the Merger.
7. Dividend shares added during the year in line with the relevant plan rules.
8. Awards pro-rated to 7 January 2018.
9. Awards pro-rated to 31 December 2018.
10. The total number of options exercised by Breon Corcoran in 2018 was 145,698 and the total gain was £11,274,755 based on the market price on the day of each exercise. The total number of options exercised by Alex Gersh in 2018 was 48,706 and the total gain was £4,009,542 based on the market price on the day of each exercise.

REMUNERATION POLICY

This section provides a summary of the Remuneration Policy approved by shareholders on Friday, 18 May 2018 by an advisory, non-binding vote, and applying for up to three years from that date.

Our Remuneration Policy for Executive Directors is set out in the following table. The full policy can be found on our website at www.paddypowerbetfair.com/investor-relations.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Total salary	To attract and retain high-calibre talent in the labour market in which the Executive Director is employed.	Generally reviewed annually but at other times of the year in exceptional circumstances. Total salaries (inclusive of any Director fees) are set with reference to individual skills, experience, responsibilities, Company performance and performance in role. Independent benchmarking is conducted on a periodic basis against companies of a similar size, complexity and operating in the same or similar sectors, although this information is used only as part of a broader review.	Increases (as a percentage of salary) will generally be in line with inflation and consistent with those offered to the wider workforce. Higher increases may be appropriate where an individual changes role, there is a material change in the responsibilities of the role, where an individual is appointed on a below-market salary with the expectation that this salary will increase with experience and performance, where there is a need to retain key individuals, or where salaries, in the opinion of the Committee, have fallen materially below the relevant market rates.
Benefits	To provide market-competitive but cost-effective benefits.	Employment-related benefits may include (but are not limited to) private medical insurance, life assurance, income protection, relocation, travel and accommodation assistance related to fulfilment of duties, tax equalisation, and/or other related expenses as required. Where expenses are necessary for the ordinary conduct of business the Company may meet the cost of tax on benefits.	The value of benefits may vary from year-to-year in line with variances in third-party supplier costs which are outside of the Company's control.
Pension	To provide retirement benefits that are appropriately competitive within the relevant labour market.	Paid as a defined contribution and/or cash supplement.	Contribution of up to 15% of total salary (or an equivalent cash payment in lieu).
Annual bonus and Deferred Share Incentive Plan ("DSIP")	To incentivise and reward the successful delivery of annual performance targets.	The Committee reviews the annual bonus prior to the start of each financial year to ensure that the bonus opportunity, performance measures, targets and weightings are appropriate and in line with the business strategy at the time. Performance is determined by the Committee on an annual basis by reference to Group financial measures. The Committee may also introduce an element of performance against personal/strategic objectives; this element will not be weighted more than 25% of the total in any year. Two-thirds of any annual bonus is paid in cash, with the remaining one-third deferred into shares (under the DSIP). Any deferred element vests 50% after one year and 50% after two years from the date of grant. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting. Dividends (or equivalent) accrue and are paid on DSIP awards that vest.	For target performance, the bonus earned is 120% of total salary. Maximum annual opportunity of 180% of total salary. For threshold performance bonus earned is 25% of maximum opportunity.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Long Term Incentive Plan ("LTIP")	To attract, retain and incentivise Executive Directors to deliver the Group's long-term strategy whilst providing strong alignment with shareholders.	Annual grant of shares or nil-cost options, vesting after a minimum of three years, subject to the achievement of performance conditions. The Committee reviews the performance measures, targets and weightings prior to the start of each cycle to ensure that they are appropriate. The performance measures and respective weightings may vary year-on-year to reflect strategic priorities. Following vesting, awards are subject to a two-year holding period. Directors may sell sufficient shares to satisfy the tax liability on exercise but must retain the net number of shares until the end of this two-year period. Malus and clawback provisions apply to the LTIP, which allow the Company to reduce or claw back awards during the holding period for reasons of a miscalculation resulting in higher vesting than should have occurred, material misstatement, or gross misconduct resulting in cessation of employment. Dividends (or equivalent) accrue and are paid on LTIP awards that vest.	The normal Remuneration Policy maximum opportunity is 300% of total salary for the Chief Executive Officer and 250% of total salary for the Chief Financial Officer. The plan rules permit an award up to 400% of total salary but this is only used in very exceptional circumstances (for example, in the case of critical recruitment). Threshold performance will result in no more than 25% vesting.
Save As You Earn ("SAYE")	To facilitate share ownership and provide further alignment with shareholders.	The Committee operates Save As You Earn share plans for all employees (in the UK this is an HMRC-approved and in Ireland this is an Irish Revenue-approved scheme); the Executive Directors may participate in the plan on the same basis as other employees. Participants are invited from time to time to save up to the monthly limit over a three-year period and use these savings to buy shares in the Company at up to the maximum discount allowable in the relevant jurisdiction.	Maximum opportunity is in line with HMRC and Irish Revenue limits (currently £500 and €500 per month, respectively) for UK and Irish employees, respectively. Maximum opportunity for employees in other countries is the equivalent of €500 per month.
Shareholding Guidelines	To ensure alignment between Executive Director interests and those of shareholders.	The Company requires Executive Directors to build up and maintain a holding of shares in the Company equivalent to a minimum of 300% and 200% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively. Until share ownership guidelines have been met, Executive Directors will be required to retain half of post-tax vested awards. Shareholding guidelines may be met through both beneficially owned shares and vested but unexercised options on a notional net of tax basis.	

DIRECTORS' REPORT

The Directors' Report for the year ended 31 December 2018 should be read in conjunction with the other sections of this Annual Report and Accounts, all of which are incorporated into this Directors' Report by reference for the purposes of sections 325 and 1373 of the Companies Act 2014 and Regulation 21 of SI 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006' and SI 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007' and SI 360/2017 'European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulation 2017' as applicable:

- the Strategic Report, which includes a review of the development and performance of the Group, the external environment, key strategic aims, financial and non-financial disclosure requirements arising from EU and Irish legislation: pages 2 to 53;
- information on employees: pages 6, 7 and 34 to 37;
- the Corporate Governance report: pages 54 to 100;
- the Directors' Remuneration Report, which includes information on the annual performance bonus, the long term incentive plan, share schemes, share options, Directors' service contracts, Directors' remuneration and payments for loss of office: pages 74 to 95;
- details of the Audit Committee: pages 65 to 69;
- details of share capital and reserves: Note 16 to the Consolidated Financial Statements on page 139;
- details of earnings per share: Note 9 to the Consolidated Financial Statements on page 129; and
- details of derivative financial instruments: Note 29 to the Consolidated Financial Statements on page 157.

Principal activities

The Group is a global sports betting and gaming operator, whose headquarters are in Dublin, Ireland. It currently operates across the following divisions:

- Europe – (i) Online, which includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business ("B2B") partnerships; and (ii) Retail, which operates 626 Paddy Power betting shops across the UK and Ireland;
- Australia – consisting of Sportsbet, the market-leading brand in the fast-growing Australian online betting market;
- US – comprising TVG, America's leading horseracing TV and betting network and advanced deposit US horse wagering business, the FanDuel brand, which operates in the daily fantasy sports market and the sportsbook product in US states as they open up, the Betfair New Jersey online casino and the Betfair New Jersey horseracing betting exchange.

Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability.

Results

The Group's profit for 2018 before separately disclosed items of £303.8m reflects a decrease of 10% on the 2017 profit before separately disclosed items of £336.0m. Overall Group profit for 2018 amounted to £180.7m after separately disclosed items amounting to £123.1m, further information is set out in Note 4 to the Consolidated Financial Statements on page 125. Adjusted diluted earnings per share amounted to £3.772 compared with £3.941 in the previous year, a decrease of 4%. The financial results for 2018 are set out in the Consolidated Income Statement on page 107. Total equity attributable to the Company's equity holders at 31 December 2018 amounted to £3,998.0m (2017: £4,395.4m).

Business review, key performance indicators and principal risks and uncertainties

The Strategic Report on pages 2 to 53, which includes the Chair's Statement and the Chief Executive Officer's Review contains a review of the performance and developments of the Group during the year, including the analysis of the key performance indicators. The principal risks and uncertainties facing the Group are on pages 50 to 53.

Annual General Meeting ("AGM") 2019

The Notice of AGM, convening the AGM to be held on 15 May 2019, has been sent out to shareholders together with this Annual Report and Accounts. This contains full details of the resolutions that will be put to shareholders. It is also available on our corporate website:

paddypowerbetfair.com/investor-relations

Directors and Company Secretary

Director changes

Breon Corcoran ceased being Chief Executive Officer on 7 January 2018 and was succeeded on 8 January 2018 by Peter Jackson. Pádraig Ó'Ríordáin retired as a Non-Executive Director on 2 March 2018. Alex Gersh ceased being Chief Financial Officer on 21 October 2018 and was succeeded on 22 October 2018 by Jonathan Hill. Biographies of our current Directors can be found on pages 56 and 57. The Company Secretary is Edward Traynor.

In accordance with the recommendations of the UK Code, we require all Directors seeking re-election to retire and seek re-election at each AGM. Accordingly at our AGM 2019, Jonathan Hill will retire and seek election, and all other Directors will retire and seek re-election. The Board believes that all Directors offering themselves for election or re-election continue to be effective and demonstrate commitment to the role.

Directors' and Officers' liability insurance

Throughout 2018, the Group had in place directors' and officers' liability insurance, which covered all Directors and Officers.

Directors' and Company Secretary's shareholdings

The Company has established share ownership guidelines for Executive Directors to ensure that their interests are aligned with those of shareholders.

For detailed information, see the Directors' Remuneration Report: pages 74 to 95

As at 5 March 2019 (being the latest practicable date before publication of this Annual Report and Accounts), the current Directors and the Company Secretary held the same number of beneficial interests in shares as at 31 December 2018 as set out in the table below. These shareholdings include all beneficial interests and those held by persons closely associated with them. This does not include their share awards under the Company's share schemes. The interests of the Executive Directors in the Company's share schemes as at 31 December 2018 are set out on page 91. The Company Secretary has no interest in the Company's share schemes that require disclosure.

	Number of ordinary shares of €0.09 each	
	31 Dec 2018	31 Dec 2017 (or date of appointment to the Company if later)
Jan Bolz	**–**	–
Zillah Byng-Thorne	**930**	930
Michael Cawley	**3,600**	3,600
Ian Dyson	**3,163**	3,163
Jonathan Hill[1]	**–**	–
Peter Jackson	**7,437**	930
Gary McGann	**3,260**	2,010
Peter Rigby	**126**	–
Emer Timmons	**–**	–

1. Jonathan Hill was appointed as a Director of the Company on 22 October 2018.

None of the Directors nor the Company Secretary had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

Shares

Substantial shareholdings

As at 31 December 2018 and 5 March 2019 (being the latest practicable date before publication of this Annual Report and Accounts), the Company had been notified of the following details of interests of over 3% in the Company's ordinary share capital (excluding treasury shares):

	Notified holding 31 Dec 2018	**Notified holding 5 Mar 2019**	**Notified % holding 5 Mar 2019**
Parvus Asset Management Europe Limited[1]	7,077,037	**7,112,847**	**9.04%**
Massachusetts Financial Services Company	6,685,927	**6,685,927**	**8.05%**
BlackRock Inc.	4,944,850	**4,944,850**	**6.05%**
The Capital Group Companies, Inc.[2]	9,695,874	**4,628,534**	**5.90%**
HSBC Holdings PLC	Below threshold	**4,147,023**	**5.13%**
David Power	3,472,822	**3,472,822**	**4.15%**
Marathon Asset Management LLP	Below threshold	**2,398,866**	**3.06%**
Royal Bank of Canada	2,522,473	**Below threshold**	

1. Parvus Asset Management Europe Limited holds a derivative position via equity swap.
2. EuroPacific Growth Fund ("EUPAC") is a mutual fund registered in the United States and has notified the Company that it is interested in 3.8784% of the then Company's ordinary share capital carrying voting rights, and that its voting rights have been delegated to Capital Research and Management Company ("CRMC"). CRMC's holdings under management are reported in aggregate by The Capital Group Companies, Inc. Accordingly, EUPAC's interests are included in the 5.90% interest which was notified by The Capital Group Companies, Inc.

Share capital, rights and obligations

As at 5 March 2019 (being the latest practicable date before publication of this Annual Report and Accounts), the Company's total issued share capital was 80,034,738 shares, comprising:

- 78,069,138 ordinary shares in issue each with a nominal value of €0.09, all of which are of the same class and carry the same rights and obligations. Ordinary shares carry the right to the profits of the Company available for distribution and to the return of capital on the winding up of the Company. Ordinary shares carry the right to attend and speak at extraordinary general meetings of the Company and each share has the right to one vote. With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which a Company share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights; and
- 1,965,600 treasury shares, which have no voting rights and no entitlement to dividends. This represents 2.46% of the Company's total issued share capital (including treasury shares).

As far as known to the Directors, the Company is not directly or indirectly owned or controlled by another company or any government. Further information on the Company's share capital is set out in Note 16 to the Consolidated Financial Statements on page 139.

At the Company's AGM in 2018, shareholders authorised the Directors, by way of passing a special resolution, to be able to allot shares for cash up to 5% of the Company's total issued share capital (excluding treasury shares) without first being required to offer them to existing shareholders of the Company. At the 2019 AGM, shareholders will be requested to renew this authority. Save for the allotment of shares in respect of the Group's employee share schemes, the Directors have no current intention to exercise this authority.

Purchase of own shares

At the Company's AGM in 2018, the shareholders authorised the Company and/or any of its subsidiaries, by way of passing a special resolution, to be able to make market purchases of a maximum of 12,692,692 of the Company's ordinary shares (15% of the Company's total issued share capital (excluding treasury shares)).

On 2 May 2018, the Group announced its intention to return £500m of cash to shareholders via a share buyback programme. Under the authority granted at the 2018 AGM, the Company commenced a share buyback on 29 May 2018, which completed on 6 February 2019. In total, it purchased and cancelled a total of 6,993,308 ordinary shares for £500m on both the London Stock Exchange and Euronext Dublin, representing 8.26% of the issued share capital (excluding treasury shares) as under the AGM 2018 resolution authority. The minimum price paid was £65.24 per ordinary share and the maximum price was £82.00 per ordinary share.

As at 31 December 2018, 5,635,089 ordinary shares had been purchased and cancelled for a total of £414.7m. Further details are set out in Note 16 to the Consolidated Financial Statements on page 139.

At the 2019 AGM, shareholders will be requested to renew this authority to make market purchases with respect to 10% of the Company's total issued share capital (excluding treasury shares).

Own shares held

During 2018, The Paddy Power Betfair plc Employee Benefit Trust ("EBT") transferred 101,232 (2017: 306,761) ordinary shares to employees under the Company's share schemes. At 31 December 2018, the EBT held 99,741 (2017: 200,973) ordinary shares in the Company, representing 0.12% (2017: 0.24%) of the total issued share capital of the Company (excluding treasury shares) as at that date. No shares were purchased into the EBT during the year ended 31 December 2018 (2017: 29,342). Further information is set out in Note 16 to the Consolidated Financial Statements on page 139.

Outstanding options

509,140 (2017: 592,708) awards or grants over shares were made during 2018 that would be dilutive of the Company's issued share capital. We settle outstanding awards or grants under the Company's share schemes with shares purchased in the market and through issuing new shares. The Board continues to review this as appropriate. As at 31 December 2018, there were 1,568,986 (2017: 1,767,952) options outstanding.

Dividends

Details of the Company's dividends for the financial years ended 31 December 2018 and 2017:

	Payment date		Dividend per share	Dividend total
		pence	cents	£
2018 Final Dividend[1]	21 May 2019	133.00	–	–
2018 Interim Dividend	24 Sep 2018	67.00	74.40	55.0m
2017 Final Dividend	29 May 2018	135.00	152.99	114.0m
2017 Interim Dividend	22 Sep 2017	65.00	71.61	54.7m

1. Subject to shareholders' approval at the AGM 2019.

Employees

The Group employed 7,901 people as at 31 December 2018. The responsibility for formulating, implementing and ensuring adherence to employment policies and relevant legislation falls under the remit of our Human Resources function. The Group fully supports the principle of equal opportunity for all employees and opposes all forms of discrimination and has policies to ensure that it meets its legal obligations. It is also the Group's policy to give full and fair consideration to the recruitment of disabled persons, and to provide such persons with the same training, career development and promotion opportunities as other employees. In the event of employees becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is provided.

The Group believes in open and continuous communications as an important part of the employee engagement process. The Group has various internal communication channels for informing employees about financial results, business development and other news concerning the Group and its people. Our Code of Ethics applies to all employees across the Group. As part of enabling our employees to participate in the Group's performance and align with shareholder value, employees are also able to join our all employee Save As You Earn scheme (subject to local jurisdictional requirements) (see Note 18 of the Consolidated Financial Statements on pages 140 to 146).

For detailed information on our people and culture: pages 34 to 37

Events after the reporting date

Acquisition of Adjarabet

On 1 February 2019, the Group announced the acquisition of an initial 51% controlling stake in Adjarabet, the market leader in online betting and gaming in the regulated Georgian market. The Group, through agreed option agreements, expects to acquire the remaining 49% after three years.

In 2018, Adjarabet generated unaudited revenues of 215m Georgian Lari ("GEL") (£64m) and unaudited EBITDA of GEL68m (£20m). The initial cash consideration being paid by the Group for the 51% stake is £101m. A mechanism has also been agreed, consisting of call and put options, which enables the Group to acquire the remaining 49% after three years at a valuation equivalent to 7 times 2021 EBITDA. The call/put option consideration can be settled, at the Group's election, in cash or shares. The acquisition-date fair value accounting exercise had not been completed as at 5 March 2019.

Legacy German & Greek tax assessments

On 13 February 2019, the Group provided an update on two separate disputed legacy tax assessments. The first relates to the Betfair Exchange in Germany, which operated there until November 2012, and the second relates to the paddypower.com business in Greece.

The Hessen Fiscal Court provided the Group with its decision relating to the Group's appeal of a 2012 German tax assessment relating to the Betfair Exchange, which operated in Germany until November 2012. The Fiscal Court found against the Group and deemed that a tax liability of approximately €40m (£36m) is payable (including accrued interest). This represents a multiple of the revenues generated by the Exchange during the assessment period.

Separately, the Group was recently issued with a Greek tax assessment for financial years 2012, 2013 and 2014, relating to paddypower.com's Greek interim licence. This assessment concluded that the Group is liable to pay €15m (£13m) in taxes including penalties and interest. This is substantially higher (by multiples) than the total cumulative revenues ever generated by paddypower.com in Greece.

The Group strongly disputes the basis of these assessments, and in line with the legal and tax advice we have received, is confident in our grounds to appeal. We therefore intend to do so. Accordingly, we have not provided for these amounts in our Financial Statements. Pending the outcome of these appeals, we paid the total Greek liability in January 2019 while we await clarity with respect to the timing of any cash payment in Germany.

Other

Greenhouse gas emissions

See page 31

Political donations

No political donations were made by the Company during 2018 that require disclosure in accordance with the Electoral Acts 1997 to 2002 and the Electoral Political Funding Act 2012.

Articles of Association

The Company's Articles of Association may only be amended by way of a special resolution approved by the shareholders. They were last amended, effective as of 2 February 2016, by way of a special resolution passed at the Extraordinary General Meeting held on 21 December 2015.

paddypowerbetfair.com/investor-relations

Significant agreements – change of control provisions

There are no significant agreements which contain provisions entitling other parties to exercise termination or other rights in the event of a change in control of the Company. The rules of certain Company share schemes include provisions which apply in the event of a takeover or reconstruction.

Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. In that context, disclosure in this Annual Report and Accounts of information about any of those third parties is not considered necessary for an understanding of the development, performance or position of the Group's businesses.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's length basis and are disclosed in the Financial Statements. Transactions with Directors and parties related to them have been disclosed in Note 31 to the Consolidated Financial Statements on pages 160 and 161.

Funding and liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also spreads its cash reserves across several highly rated banks and investments to mitigate counterparty risks. The Group performs regular cash flow projections to ensure that it has sufficient cash on demand to meet expected operational expenses for a period of at least 90 days. The Group has a committed revolving credit facility of £450m provided by a syndicate of banks which expires in April 2023. At 31 December 2018, £285m of this facility was drawn down.

Viability Statement

In accordance with the UK Code provision C2.2, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to December 2021. This three-year timeframe was selected as it corresponds with the Board's strategic planning horizon. Also the possible impact of future regulatory change and the pace of technological change limits the Directors' ability to reliably predict the longer term. This is based on long term plans prepared in 2018 with sensitivity analysis performed on key financial metrics such as sportsbook net revenue % and amounts staked.

The Directors' assessment has been made with reference to the strong cash generation capabilities of the Group, its committed debt facilities and in particular its £450m committed revolving credit facility, which expires in April 2023, the Board's risk appetite and the principal risks and uncertainties and how they are managed, as detailed in pages 50 to 53 of this Annual Report and Accounts.

The Directors also assessed the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks and uncertainties and the likely degree of effectiveness of current and available mitigating actions.

Going concern, responsibilities and disclosure

The current activities of the Group and those factors likely to affect its future development, together with a description of its financial position, are described in the Strategic Report. Principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in the Understanding and Managing our Principal Risks section of the Strategic Report on pages 50 to 53. Critical accounting estimates affecting the carrying values of assets and liabilities of the Group are discussed in Note 2 to the Consolidated Financial Statements.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for three years (in line with the Viability Statement). In making this assessment, the Directors considered the going concern status for a period of at least 12 months from the date of signing this Annual Report and Accounts. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Compliance Policy Statement

It is the policy of the Directors of the Company, in line with section 225 of the Companies Act 2014 to:

(i) comply with its relevant obligations;

(ii) put in place appropriate arrangements and structures that are designed to secure material compliance with its relevant obligations;

(iii) conduct a review during each fiscal year of those arrangements and structures; and

(iv) seek and rely on the advice of persons employed by the Group or retained by it under contract for services, being persons who appear to the Board to have the requisite knowledge and experience to advise the Directors of the Company on compliance with its relevant obligations.

External Auditor

In accordance with section 383(2) of the Companies Act 2014, KPMG will continue in office as the External Auditor and a resolution authorising the Directors to fix their remuneration will be proposed at the forthcoming 2019 AGM.

Disclosure of information to the External Auditor

Each of the Directors who held office at the date of approval of the Directors' Report confirms that:

- so far as they are aware, there is no relevant audit information of which the External Auditor is unaware; and
- that they have taken all steps that they ought to have taken as a Director to make them aware of any relevant audit information and to establish that the External Auditor is aware of that information.

Books of account

The measures which the Directors have taken to ensure that adequate accounting records are kept with the requirements of sections 281 to 285 of the Companies Act 2014 are: the appointment of suitably qualified personnel; the adoption of suitable policies for recording transactions, assets and liabilities; and the appropriate use of computers and documentary systems. The Group and Company accounting records are kept at the Company's headquarters at Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland.

Listing Rule 9.8.4R

For the purposes of compliance with LR 9.8.4R, LR 9.8.4R (4) – Details of any long-term incentive schemes are included in the Directors' Remuneration Report on pages 74 to 95, and included by reference within this Directors' Report. The remaining LR9.8.4R sections are not applicable.

On behalf of the Board of Directors

Peter Jackson
Chief Executive Officer
5 March 2019

Jonathan Hill
Chief Financial Officer

Paddy Power Betfair plc, Registered in Ireland

Company number 16956

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable law including Article 4 of the IAS Regulation. The Directors have elected to prepare the Company Financial Statements in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of Companies Act 2014.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year. In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Company comply with the provision of the Companies Act 2014. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act 2014 including Article 4 of the IAS Regulation. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Act 2014.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's and Company's website (www.paddypowerbetfair.com/investor-relations) Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement as required by the Transparency Directive and UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 56 and 57 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- the Group Financial Statements, prepared in accordance with IFRS as adopted by the European Union and the Company Financial statements prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of Companies Act 2014, give a true and fair view of the assets, liabilities, and financial position of the Group and Company at 31 December 2018 and of the profit or loss of the Group for the year then ended;
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board of Directors

Peter Jackson
Chief Executive Officer
5 March 2019

Jonathan Hill
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PADDY POWER BETFAIR PLC

Opinion

We have audited the Group and Company financial statements of Paddy Power Betfair plc (the "Company') for the year ended 31 December 2018 set out on pages 107 to 185, which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company statement of financial position, the company statement of cash flows, the company statement of changes in equity, and related notes, including the summary of significant accounting policies set out in note 2. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were re-appointed as auditor to Paddy Power Betfair plc by the Directors on 18 May 2018. The period of total uninterrupted engagement is for the financial year ended 31 December 2018. Prior to 18 May 2018, KPMG LLP, the UK member firm of KPMG, was the auditor to Paddy Power Betfair plc having served as auditor for the two financial years ended 31 December 2017. KPMG in Ireland previously served as auditor to Paddy Power plc (subsequently renamed to Paddy Power Betfair plc) for 14 uninterrupted financial years. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with ethical requirements in Ireland including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ("IAASA") as applied to listed public entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Revenue recognition: £1,873 million (2017: £1,745 million)

The Audit Committee Report: page 67
Accounting policy: pages 115 and 116
Note 3 to the Group financial statements: pages 122 to 124

The key audit matter	How the matter was addressed in our audit
The Group has a number of income streams across its online and retail operations which are predominantly driven by cash and credit card transactions. The accuracy and completeness of the amounts recognised from these income streams is largely dependent on the effectiveness of the operational and fraud-related controls in place in the Group's IT systems that aim to correctly calculate appropriate wins and losses and commission revenues, as applicable, alongside customer funds. It is also dependent on core finance processes and controls accurately reporting on and reconciling these transactions. Revenue streams for the vast majority of the Group's products are computed on highly-complex IT systems, with a number of different bases for calculating revenue. There are in excess of 1 billion transactions each year, all requiring a correct IT outcome. There is a risk that a system may not be configured correctly from the outset such that winning and losing bets or commissions are calculated incorrectly, that the systems do not interface correctly from the customer facing systems through to the financial information systems and that unauthorised changes may be made to any of these systems, which may result in the misstatement of revenue. The calculation of revenue from the IT systems links directly to the reconciliation of funds between customer and corporate accounts and as such customer funds must be appropriately managed and safeguarded. There is a risk that winning and losing bets or commissions are not calculated correctly and consequently a risk that the revenue to be transferred from the customer accounts in the ring-fenced trust to Paddy Power Betfair corporate accounts could be misstated.	Our procedures when relevant to the Group or Parent Company included, among others: • Obtaining and documenting our understanding of the data capture and processing process, including testing the configuration of the system which monitors the information transfer between key IT systems and evaluating whether it is operating effectively. • We tested general IT controls to ensure the relevant IT environments supporting the revenue processes and financial reporting systems have appropriate controls which support IT automated processes and controls. These include access rights to programs and data, program change and development and computer operations, specifically: evaluating account set-up and termination; password settings; user access recertification; privileged user access management; program change and development process controls; and job processing. • We tested processes and controls over customer account set-up, cash deposits and withdrawals from customer accounts. • We tested controls over the capture of initial bets, their allocation between different products and their processing through the system to recognition as revenue or in the appropriate customer account. • We tested the effectiveness of the controls at a sample of retail betting shops in the Republic of Ireland and United Kingdom by undertaking site visits. • We traced bets placed on live-betting environments from the customer-facing systems to the data warehouse and then from the data warehouse to the financial information systems to assess whether that information is passed appropriately from one system to another. • We obtained external confirmation of the clients funds held in the client trust and reconciled the obtained bank balance confirmation to the customers' betting accounts. • We assessed the appropriateness of cash transferred from the client trust accounts to corporate cash by reconciling the total revenue amounts reported by key IT systems to the amounts transferred from the client funds to corporate cash and agreement of sample of these settlements to the relevant bank information. • Using Data Analytics, we recalculated a sample of commission rates charged during the year, at an event level, and identified rates for further examination which were outside the ranges described on the Exchange terms and conditions. • We recalculated premium charges for a sample of customers during the year ensuring all charges were applied as described on the Exchange terms and conditions. • We considered any reports issued by the Group's Internal Audit function during the year on revenue related processes. • We performed substantive analytical procedures over the significant revenue streams and tested the inclusion of income in the appropriate period. • We tested a sample of bets placed around year end for events which had occurred ensuring the revenue was appropriately recorded. We also tested a sample of open bets at year end ensuring the event had not yet occurred and ensured the bet was correctly recorded as an open bet at year end. • We also considered the adequacy of disclosures in respect of revenue recognition. • Based on evidence obtained we found that revenue recognition is appropriate.

They key audit matter above was the only one applicable to the Parent Company.

Tax provisioning

The Audit Committee Report: page 67
Accounting policy: page 120
Notes 8 and 30 to the Group financial statements: pages 128 and 159

The key audit matter	How the matter was addressed in our audit

For some markets in which the Group now operates or operated in the past, the tax regulations dealing specifically with online gaming might not yet be formed, is unclear or continues to evolve, requiring the Directors to exercise a level of judgement surrounding the interpretation and application of local and international tax laws which may differ from the relevant tax authorities. This may result in significant judgements in the quantification of provisions or contingent liabilities for gaming and other indirect taxes in countries where the tax regulations do not exist or are unclear, the volatility of which could have a significant impact on the financial statements, particularly if there is a retrospective element applied to taxes. Where tax regulations exist in certain jurisdictions, the Group must adhere to the operating guidelines within these jurisdictions, such that taxes do not become payable elsewhere. These regulations require Directors to make judgements in relation to international income tax laws including transfer pricing, point of consumption tax and controlled foreign companies.	Our procedures included, among others:
	• Obtaining and documenting our understanding of the process around tax provisioning and testing the design and implementation of the relevant controls therein.
	• We assessed the accuracy and existence of any significant tax provisions by having discussions with management's legal and tax advisors and obtaining correspondence from the Group's external counsel, including formal confirmations.
	• With the assistance of our tax specialists;
	  • we assessed the Group's tax positions and correspondence with the relevant tax authorities;
	  • we evaluated the methodology applied by the Directors in relation to the recognition of direct and indirect tax liabilities; and
	  • we evaluated and challenged the assumptions underpinning the measurement and recognition of such amounts.
	• We tested a sample of the Group's indirect and direct taxes calculations by reference to the relevant income streams and underlying tax rates.
	• We assessed the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.
	• Based on evidence obtained, we found that the treatment of the tax provisions and associated disclosures were appropriate.

Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £10.4 million, determined with reference to a benchmark of Group profit before tax, of which it represents 5%.

Materiality for the parent company financial statements as a whole was set at £7.8 million, determined with reference to a benchmark of total assets and chosen to be lower than materiality for the Group financial statements as a whole. It represents 0.1% of total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £520,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 4 reporting components, we subjected two to full scope audits for Group purposes.

The components within the scope of our work accounted 90% of Group revenues, 98% of Group net assets and 92% of Group profit before taxation.

The remaining 10% of total Group revenues and 8% of Group profit before tax is represented by two reporting components. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality, which was £4 million, having regard to the mix of size and risk profile of the Group across the components. The work on one of the two in-scope components was performed by component auditors in Australia and the rest, including the audit of the parent company, was performed by the Group team.

The Group team held teleconference meetings with the Australian component to assess the audit risk and strategy. The Group team also held teleconference meetings at the conclusion of their fieldwork to discuss the findings reported to the Group team in more detail. The Group team also carried out a detailed file review of the Australian component audit workpapers.

We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 99 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report and strategic report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information:

- we have not identified material misstatements in the directors' report;
- in our opinion, the information given in the directors' report is consistent with the financial statements;
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Understanding and Managing our Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- the directors' confirmation within the Directors' Report on page 99 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- the directors' explanation in the Directors' Report of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other corporate governance disclosures

We are required to address the following items and report to you in the following circumstances:

Fair, balanced and understandable

If we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;

Report of the Audit Committee

If the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee;

Statement of compliance with UK Corporate Governance Code

If the directors' statement does not properly disclose a departure from provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Statement on pages 54 and 55, that:

- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements and has been prepared in accordance with the Act;
- based on our knowledge and understanding of the Company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information; and
- the Corporate Governance Statement contains the information required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017.

We also report that, based on work undertaken for our audit, other information required by the Act is contained in the Corporate Governance Statement.

Directors' Remuneration Report

In addition to our audit of the Financial Statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the UK Companies Act 2006, as if those requirements were to apply to the Company.

Our opinions on other matters prescribed by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Group and Company were sufficient to permit the Group financial statements and the Company statement of financial position to be readily and properly audited and the Group and Company's statement of financial position and the Group's profit and loss account is in agreement with the accounting records.

We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

The Listing Rules of the Irish Stock Exchange and the UK Listing Authority require us to review:

- the Directors' Statement, set out on page 99 in relation to going concern and longer-term viability;
- the part of the Corporate Governance Statement on pages 54 to 55 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Board of Directors' remuneration committee.

Respective responsibilities and restrictions on use

Directors' responsibilities

As explained more fully in their statement set out on page 101, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for our report, or for the opinions we have formed.

C. Mullen
for and on behalf of KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2
5 March 2019

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2018

	Note	Before separately disclosed items 2018 £m	Separately disclosed items (Note 4) 2018 £m	Total 2018 £m	Before separately disclosed items 2017 £m	Separately disclosed items (Note 4) 2017 £m	Total 2017 £m
Continuing operations							
Revenue	3	**1,873.4**	**–**	**1,873.4**	1,745.4	–	1,745.4
Cost of sales		**(469.9)**	**–**	**(469.9)**	(405.4)	–	(405.4)
Gross profit		**1,403.5**	**–**	**1,403.5**	1,340.0	–	1,340.0
Operating costs excluding depreciation, amortisation and impairment		**(952.5)**	**(28.0)**	**(980.5)**	(866.8)	(7.4)	(874.2)
EBITDA[1]		**451.0**	**(28.0)**	**423.0**	473.2	(7.4)	465.8
Depreciation and amortisation		**(90.5)**	**(100.7)**	**(191.2)**	(81.3)	(134.5)	(215.8)
Impairment		**–**	**(27.2)**	**(27.2)**	–	–	–
Operating profit		**360.5**	**(155.9)**	**204.6**	391.9	(141.9)	250.0
Financial income	6	**3.9**	**17.7**	**21.6**	1.7	–	1.7
Financial expense	6	**(7.5)**	**–**	**(7.5)**	(5.1)	–	(5.1)
Profit before tax		**356.9**	**(138.2)**	**218.7**	388.5	(141.9)	246.6
Tax (expense)/credit	8	**(53.1)**	**15.1**	**(38.0)**	(52.5)	23.6	(28.9)
Profit/(loss) for the year		**303.8**	**(123.1)**	**180.7**	336.0	(118.3)	217.7
Attributable to:							
Equity holders of the Company		**316.1**	**(114.7)**	**201.4**	336.0	(118.3)	217.7
Non-controlling interest		**(12.3)**	**(8.4)**	**(20.7)**	–	–	–
		303.8	**(123.1)**	**180.7**	336.0	(118.3)	217.7
Earnings per share							
Basic	9			**£2.417**			£2.579
Diluted	9			**£2.404**			£2.554

1. EBITDA is defined as profit for the year before depreciation, amortisation and impairment, financial income, financial expense and tax expense/credit. It is considered by the Directors to be a key measure of the Group's financial performance.

Notes 1 to 34 on pages 113 to 163 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Profit for the year		**180.7**	217.7
Other comprehensive income/(loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange gain/(loss) on translation of the net assets of foreign currency denominated entities	6	**26.1**	(43.3)
Net change in fair value of investments	6	**–**	13.7
Other comprehensive income/(loss)		**26.1**	(29.6)
Total comprehensive income for the year		**206.8**	188.1
Attributable to:			
Equity holders of the Company		**219.3**	188.1
Non-controlling interest		**(12.5)**	–
		206.8	188.1

Notes 1 to 34 on pages 113 to 163 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 £m	31 December 2017 £m
Assets			
Property, plant and equipment	10	**130.4**	136.3
Intangible assets	11	**578.1**	445.2
Goodwill	12	**4,075.3**	3,885.2
Deferred tax assets	19	**10.7**	11.7
Investments	14	**2.4**	15.1
Other receivables	14	**8.9**	4.2
Total non-current assets		**4,805.8**	4,497.7
Trade and other receivables	14	**81.8**	48.8
Financial assets – restricted cash	15	**167.2**	75.4
Cash and cash equivalents	15	**123.7**	306.6
Total current assets		**372.7**	430.8
Total assets		**5,178.5**	4,928.5
Equity			
Issued share capital and share premium		**424.8**	423.0
Treasury shares	16	**(40.7)**	(40.7)
Shares held by employee benefit trust	16	**(8.6)**	(15.6)
Other reserves		**92.4**	114.5
Retained earnings		**3,530.1**	3,914.2
Equity attributable to owners of the parent		**3,998.0**	4,395.4
Non-controlling interest		**213.3**	–
Total equity		**4,211.3**	4,395.4
Liabilities			
Trade and other payables	20	**532.8**	334.7
Derivative financial liabilities	20	**20.1**	7.8
Provisions	21	**4.3**	3.2
Current tax payable		**20.8**	38.0
Borrowings	22	**0.4**	–
Total current liabilities		**578.4**	383.7
Trade and other payables	20	**26.2**	34.5
Derivative financial liabilities	20	**0.9**	2.3
Provisions	21	**1.3**	1.2
Deferred tax liabilities	19	**77.4**	49.2
Borrowings	22	**283.0**	62.2
Total non-current liabilities		**388.8**	149.4
Total liabilities		**967.2**	533.1
Total equity and liabilities		**5,178.5**	4,928.5

Notes 1 to 34 on pages 113 to 163 form an integral part of these consolidated financial statements.

On behalf of the Board of Directors

Peter Jackson
Chief Executive Officer

Jonathan Hill
Chief Financial Officer

5 March 2019

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Profit for the year		**180.7**	217.7
Separately disclosed items	4	**123.1**	118.3
Tax expense before separately disclosed items		**53.1**	52.5
Financial income	6	**(3.9)**	(1.7)
Financial expense	6	**7.5**	5.1
Depreciation and amortisation before separately disclosed items		**90.8**	81.3
Employee equity-settled share-based payments expense before separately disclosed items	18	**18.9**	26.0
Foreign currency exchange (gain)/loss	7	**(2.0)**	0.9
(Profit)/loss on disposal of property, plant and equipment and intangible assets	7	**(0.3)**	0.1
Cash from operations before changes in working capital		**467.9**	500.2
(Increase)/decrease in trade and other receivables		**(30.2)**	7.3
(Decrease)/increase in trade, other payables and provisions		**(24.5)**	20.7
Cash generated from operations		**413.2**	528.2
Tax paid		**(59.9)**	(44.8)
Net cash from operating activities before restructuring and strategic initiatives costs paid		**353.3**	483.4
Restructuring and strategic initiative costs paid		**(22.9)**	(11.8)
Net cash from operating activities		**330.4**	471.6
Purchase of property, plant and equipment	10	**(31.6)**	(39.2)
Purchase of intangible assets		**(38.5)**	(25.6)
Proceeds from disposal of investment	14	**21.9**	–
Cash acquired from acquisition of FanDuel	13	**20.4**	–
Purchase of businesses	13	**(12.8)**	(14.9)
Capitalised internal development expenditure	11	**(30.3)**	(20.0)
Payment of contingent deferred consideration	13	**(6.1)**	(3.5)
Proceeds from disposal of property, plant and equipment and intangible assets		**1.0**	–
Interest received		**1.7**	1.7
Net cash used in investing activities		**(74.3)**	(101.5)
Proceeds from the issue of new shares		**2.3**	5.8
Proceeds from the issue of shares to Non-controlling interest		**7.5**	–
Purchase of shares by employee benefit trust	16	**–**	(2.5)
Dividends paid	17	**(169.0)**	(149.4)
Net amounts drawn down/(repaid) on borrowings facility	22	**223.1**	(157.6)
Repayment of FanDuel debt and debt like items	13	**(79.9)**	–
Interest paid	22	**(3.1)**	(1.8)
Fees in respect of borrowing facility	22	**(2.4)**	–
Purchase of own shares including direct purchase costs	16	**(415.0)**	–
Net cash used in financing activities		**(436.5)**	(305.5)
Net (decrease)/increase in cash and cash equivalents		**(180.4)**	64.6
Cash and cash equivalents at start of year		**306.6**	249.9
Foreign currency exchange loss on cash and cash equivalents		**(2.5)**	(7.9)
Cash and cash equivalents at end of year	15	**123.7**	306.6

Notes 1 to 34 on pages 113 to 163 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company (see Note 16)										
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2018	*86.5*	423.0	(13.8)	15.4	(40.7)	(15.6)	112.9	3,914.2	4,395.4	–	4,395.4
Adoption of IFRS 9	–	–	–	(13.7)	–	–	–	13.7	–	–	–
Opening balance as restated	*86.5*	423.0	(13.8)	1.7	(40.7)	(15.6)	112.9	3,927.9	4,395.4	–	4,395.4
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	201.4	201.4	(20.7)	180.7
Foreign exchange translation (Note 6)	–	–	17.9	–	–	–	–	–	17.9	8.2	26.1
Total comprehensive income/(loss) for the year	–	–	17.9	–	–	–	–	201.4	219.3	(12.5)	206.8
Transactions with owners of the Company, recognised directly in equity											
Shares issued (Note 16)	*0.5*	2.3	–	–	–	–	–	–	2.3	–	2.3
Shares issued in Non-controlling interest	–	–	–	–	–	–	–	22.6	22.6	16.8	39.4
Business combinations – FanDuel (Note 13)	–	–	–	–	–	–	–	8.9	8.9	209.0	217.9
Own shares acquired by the Group (Note 16)	*(5.6)*	(0.5)	–	0.5	–	–	–	(501.8)	(501.8)	–	(501.8)
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	20.4	–	20.4	–	20.4
Equity-settled transactions – vestings	–	–	–	–	–	7.0	(6.7)	0.3	0.6	–	0.6
Tax on share-based payments	–	–	–	–	–	–	–	(0.7)	(0.7)	–	(0.7)
Transfer to retained earnings on exercise of share options (Note 16)	–	–	–	–	–	–	(40.5)	40.5	–	–	–
Dividends to shareholders (Note 17)	–	–	–	–	–	–	–	(169.0)	(169.0)	–	(169.0)
Total contributions by and distributions to owners of the Company	*(5.1)*	1.8	–	0.5	–	7.0	(26.8)	(599.2)	(616.7)	225.8	(390.9)
Balance at 31 December 2018	*81.4*	424.8	4.1	2.2	(40.7)	(8.6)	86.1	3,530.1	3,998.0	213.3	4,211.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of the Company (see Note 16)								
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	*86.0*	417.2	29.5	1.7	(40.7)	(30.9)	141.8	3,798.0	4,316.6
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	217.7	217.7
Foreign exchange translation (Note 6)	–	–	(43.3)	–	–	–	–	–	(43.3)
Net change in fair value of investments (Note 6)	–	–	–	13.7	–	–	–	–	13.7
Total comprehensive (loss)/ income for the year	–	–	(43.3)	13.7	–	–	–	217.7	188.1
Transactions with owners of the Company, recognised directly in equity									
Shares issued (Note 16)	*0.5*	5.8	–	–	–	–	–	–	5.8
Own shares acquired by employee benefit trust	–	–	–	–	–	(2.5)	–	–	(2.5)
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	26.0	–	26.0
Equity-settled transactions – vestings	–	–	–	–	–	17.8	(16.0)	1.3	3.1
Tax on share-based payments	–	–	–	–	–	–	–	0.3	0.3
Transfer to retained earnings on exercise of share options (Note 16)	–	–	–	–	–	–	(46.3)	46.3	–
Dividends to shareholders (Note 17)	–	–	–	–	–	–	–	(149.4)	(149.4)
Replacement share options – expense recorded in income statement (Note 4)	–	–	–	–	–	–	7.4	–	7.4
Total contributions by and distributions to owners of the Company	*0.5*	5.8	–	–	–	15.3	(28.9)	(101.5)	(109.3)
Balance at 31 December 2017	*86.5*	423.0	(13.8)	15.4	(40.7)	(15.6)	112.9	3,914.2	4,395.4

Notes 1 to 34 on pages 113 to 163 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Paddy Power Betfair plc (the "Company") and its subsidiaries (together referred to as the "Group") is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions; (i) Online, which in 2018 included the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market leader in the fast-growing Australian online betting market; (iii) Retail, which operates over 620 Paddy Power betting shops across the UK and Ireland; and (iv) US, which comprises FanDuel, a market leading operator in daily fantasy sports and online and retail sportsbetting, TVG, America's leading horseracing TV and betting network, the Betfair New Jersey online casino and the Betfair New Jersey horseracing betting exchange.

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange. The address of its registered office is set out on page 188 of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2018 comprise the financial statements of the Company and its subsidiary undertakings and were approved for issue by the Board of Directors on 5 March 2019.

2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis except for betting transactions and foreign exchange forward contracts (which are recorded as derivative financial instruments), investments, contingent deferred consideration and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of share-based payments). The consolidated financial statements are presented in pounds sterling and are rounded to the nearest million.

Further to IAS Regulation (EC1606/2002, 'Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU"). The consolidated financial statements have been prepared on the basis of IFRS adopted by the EU and effective for accounting periods ending on or after 1 January 2018.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year, except as highlighted below in 'Recent accounting pronouncements'.

Recent accounting pronouncements

The IASB have issued the following standards, policies, interpretations and amendments which were effective for the Group for the first time in the year ended 31 December 2018:

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRS 2014–2016 Cycle – Amendments to IFRS 1 First Time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures
- IFRIC 22 Foreign *Currency Transactions and Advance Consideration*

The adoption of the above new standards and interpretations did not have a significant impact on the Group's consolidated financial statements.

The Group has also adopted IFRS 9 *Financial Instruments and IFRS 15 Revenue from Contract with Customers* from 1 January 2018.

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 retains and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through Profit or Loss ('P&L'). The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the date of initial application to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 *Financial Instruments: Recognition and Measuremen*t. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

Adoption of this standard did not impact the Group other than how the Group presents movements in investments in equity instruments. Under IAS 39, these instruments are categorised as available-for-sale and the movement in fair value is booked to OCI. Per IFRS 9, such instruments are required to be measured at fair value through profit or loss unless the irrevocable option at initial application to present changes in fair value in OCI is chosen. This designation is made on an instrument by instrument basis. . As at 1 January 2018, the previously recognised fair value movement on equity instruments was reclassified to retained earnings.

The impact of IFRS 9 on the classification and measurement of the consolidated statement of financial position as at 31 December 2017 is disclosed in Note 34 to the consolidated financial statements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Group's primary revenues of sports betting and gaming are not within the scope of IFRS 15. This is due to these revenues being treated as derivatives under IFRS 9 *Financial Instruments* and therefore not within the scope of IFRS 15. Adoption of this standard in respect of the Group's other revenue streams within the scope of IFRS 15 did not impact how the Group recognised revenue.

Adopted IFRS not yet applied

The following IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective date 1 January 2019) (Adopted by EU)

2. Basis of preparation and summary of significant accounting policies (continued)

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective date 1 January 2019)
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures (effective date 1 January 2019)
- Annual improvements to IFRS Standards 2015-2017 Cycle (effective date 1 January 2019)
- Amendments to IAS 19: Plan amendment, Curtailment or Settlement (effective date 1 January 2019)
- Amendments to references to the Conceptual Framework in IFRS Standards (effective date 1 January 2020)
- IFRS 17 Insurance Contracts (effective date 1 January 2021)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be confirmed)

The following Adopted IFRS has been issued but has not been applied in these financial statements.

- IFRS 16 *Leases* (effective date 1 January 2019)

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. IFRS 16 introduces a single on-balance sheet lease accounting model for leases. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard replaces IAS 17 *Leases* and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019.

The impact of this standard on the financial statements will be significant given the operating lease commitments of £182m outlined in Note 30 to the Consolidated Financial Statements and is set out in more detail below.

Income statement

The nature of the expense relating to leases will change as IFRS 16 replaces the straight line operating expense with a depreciation charge for right-of-use assets and interest expense on these liabilities. EBITDA will increase as the Group currently recognises operating lease expenses in operating costs. The Group's lease expense for 2018 was £39m and is disclosed in Note 7 to the Consolidated Financial Statements. Depreciation and Amortisation costs and Finance expense as currently reported in the Consolidated Income Statement will increase as under the new standard, the right-of-use asset will be capitalised and depreciated over the term of the lease with an associated finance expense applied annually to the lease liability. We do not expect the implementation of IFRS 16 to have a material impact on operating profit or profit before tax.

Statement of financial position

The recognition of the lease liability and the 'right-of-use' asset will result in a grossing up of the statement of financial position by approximately £165m.

The Group has completed an assessment of the potential impact on its consolidated financial statements and will adopt the modified retrospective approach and will also use the exemptions available in respect of low value items and short term leases as appropriate.

Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings based on accounts made up to the end of the financial year. A subsidiary is an entity controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs 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 the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimation (as described below), that have a significant effect on the amounts recognised in the financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment to the carrying amount of assets and liabilities within the next financial year is set out below.

Valuation of tax provisions and liabilities

Taxation within the group includes both Income Taxes and Gaming Taxes. Judgement and estimation is required to interpret international tax laws and the way these taxes interact within each jurisdiction, to identify and value provisions in relation to gaming and income taxes as applicable. The liabilities for uncertain tax positions reflected within current tax payable and provisions in the consolidated statement of financial position for the year ended 31 December 2018 are comprised of a number of individual immaterial uncertain tax positions relating to the risks assessed in various jurisdictions by Management. While complex judgement is involved to assess each individual uncertain tax position, management do not expect a material change to arise in the next financial year. For that reason, Management have not provided a sensitivity for the tax provision and liabilities. Uncertainties have been measured using the best estimate of the likely outcome. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax or gaming tax expense in the period in which such a determination is made. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks and the Group believes that the accrual for all tax liabilities at 31 December 2018 is adequate for all uncertain tax positions based on its assessment of the range of factors outlined above. Further information in relation to these judgements are outlined below, at Note 21 and Note 33.

Note 29 – Determination of fair value of contingent consideration

Contingent consideration is initially recognised at fair value and subsequently reassessed at each reporting date to reflect changes in estimates and assumptions. Fair value is determined with reference to forecast performance for the acquired businesses during the relevant time periods and the amounts to be paid in such scenarios. The fair value was estimated by assigning probabilities to the potential payout scenarios. The significant unobservable inputs are forecast performance for the acquired businesses. Based on the performance of the acquired businesses, a range of possible outcomes is disclosed in Note 29.

Note 12 – Measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets

An impairment review has been performed of all goodwill and intangible assets held by the Group. The impairment review is performed on a "value-in-use" basis, which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and an appropriate growth rate. Certain of these estimates and assumptions are subjective in nature. However, there are no estimates or assumptions used in assessing the recoverable amount of cash generating units which are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Significant unobservable inputs and valuation adjustments are monitored on an on-going basis.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in the different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Revenue

The services provided by the Group comprise sports betting (sportsbook, the exchange sports betting product, daily fantasy sports products and pari-mutuel betting products), fixed odds games betting, online games and casino, peer-to-peer games including online bingo and online poker and business-to-business services. Revenue is stated exclusive of value-added tax.

The Group's betting and gaming activities are classified as derivative financial instruments, with the exception of the exchange sports betting product and pari-mutuel betting products on which commission income is earned, peer-to-peer games on which commission income and tournament fees are earned (including daily fantasy sports), and business-to-business services on which fees are earned.

Revenue from sportsbook betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period. These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the revenue line as this represents the Group's principal activity. Customer promotions (including free bets) and bonuses are deducted from sportsbook betting revenue.

Revenue from the exchange sports betting product represents commission earned on betting activity and is recognised on the date the outcome for an event is settled.

Revenue from Daily Fantasy Sports products represents entry fees less prizes paid and player acquisition and retention incentives. Prizes are generally paid in cash or an entry fee into specific contests or tournaments.

The Group earns service fees from offering fantasy sports contests ("Contests") and fantasy sports tournaments ("Tournaments") to users. Contests are generally completed in a single day or up to one week. Tournaments are generally completed in one week or up to several months over two to three rounds. For Contests, revenue is recognised when the contest is settled. For Tournaments, revenue is recognised over the period of the tournament as each round is completed and there is no longer a service obligation to each user that participated in the tournament.

The Group offers various incentives to build loyalty, encourage and engage users on the platform, the costs of incentives are recorded as a reduction to the amount recognised as revenue for service fees.

Revenue from sponsorships represent advertising campaigns for customers who become a presenting sponsor at events. Customers are generally billed prior to the campaign launch and revenue is earned over the period of the event.

2. Basis of preparation and summary of significant accounting policies (continued)

Revenue (continued)

Revenue from pari-mutuel betting products represents a percentage of stake and is recognised on settlement of the event, and is stated net of customer promotions and bonuses in the period.

Revenue from fixed odds games and the online casinos represents net winnings ("customer drop"), being amounts staked net of customer winnings, and is stated net of customer promotions and bonuses incurred in the period.

Revenue from peer-to-peer games represents commission income ("rake") and tournament fees earned from games completed by the period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

Revenue from business-to-business services represents fees charged for the services provided in the period.

Cost of sales

Cost of sales principally comprises betting and gaming taxes, software supplier costs, customer payment transaction fees, sporting levies and other data rights charges.

Research and development

Expenditure on research activities is recognised in the income statement as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an internally generated intangible asset only when the necessary criteria are met; including demonstrating the technical feasibility of the product and having sufficient certainty over future revenue or cost savings that will be generated from the product. The qualifying expenditure capitalised represents costs directly attributable to the development of the asset. This expenditure is capitalised from the date when they first meet the recognition criteria and until the date at which the asset is available for use. If the criteria are not met the expenditure is recognised in profit or loss as an expense in the period in which it is incurred. Capitalised development expenditure assets are amortised on a straight-line basis from the date they are available for use over their useful economic life.

Financial income

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest. Financial income includes positive changes in the fair value of financial assets at fair value through profit or loss and positive changes in the fair value of deferred contingent consideration.

Financial expense

Financial expense comprises interest expense on borrowings (except in respect of borrowing costs relating to qualifying assets), interest on guarantee contracts entered into with third parties, the unwinding of the discount on provisions and other non-current liabilities, negative changes in the fair value of financial assets at fair value through profit or loss and negative changes in the fair value of deferred contingent consideration.

Bank and credit card charges

Bank and credit card charges and fees that are considered integral to the operations of the Group's business are recognised in 'cost of sales' in the consolidated income statement. Bank charges and fees that are related to the Group's financing activities are recognised in 'financial expense' in the consolidated income statement.

Operating segment reporting

Operating segments are distinguishable components of the Group that have been established based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker (the Board of Directors, "CODM") in order to assess each segment's performance and to allocate resources to them. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its operating segments of Online, Australia, US and Retail are its reportable segments. See Note 3 for further information on operating segments.

Functional and presentation currency

Pounds sterling represents the primary currency for transactions and as such the Group has chosen to present its financial statements in pounds sterling. The Company at 1 January 2018 changed its functional currency from Euro to pound sterling. See Note 1 in the Company financial statements for more detail. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which are primarily pounds sterling, euro, Australian dollar and US dollar.

Foreign currency transactions

Transactions in foreign currencies are translated at the relevant foreign exchange rate ruling at the date of the transaction. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currencies at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within 'operating costs excluding depreciation and amortisation' in the income statement rather than as financial income or expense, as the Directors consider that the gains or losses arising relate to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

Foreign currency translation of foreign operations

To the extent that the Group's foreign operations are considered to have functional currencies which are different from the Group's presentation currency, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and long term intra-group loans that are part of the net investment because repayment is not planned or foreseen, are translated to GBP at the foreign exchange rates ruling at the reporting date.

The revenues and expenses of these foreign operations are translated to GBP at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the consolidated statement of other comprehensive income and presented in the foreign currency translation reserve within equity.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The value of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS 3 *Business Combinations*, is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the carrying values of the relevant net assets in non-controlling interest is dealt with through retained earnings. Costs relating to the acquisition of businesses that occurred since 1 January 2010 are expensed to the income statement when incurred. Costs related to the acquisition of non-controlling interests are recognised directly in retained earnings.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders percentage interest in the net fair value of the assets, liabilities and contingent liabilities recognised. Subsequently the non-controlling interests are allocated their share of results recognised in the income statement and the statement of comprehensive income.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net in the income statement.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight-line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.

Intangible assets

Intangible assets, principally comprising brands, customer relations, computer software and technology, development expenditure, licences and broadcasting and wagering rights are capitalised and amortised over their estimated useful economic lives on a straight-line basis, with the exception of customer relations which is amortised on a reducing balance basis.

Brands represent the fair value of brands and trade-mark assets acquired in business combinations.

Customer relations represent the fair value of customer relations acquired in business combinations.

Computer software and technology includes the costs incurred in acquiring and bringing specific software programs into use and the fair value of software and technology acquired in business combinations. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

Development expenditure represents internally generated costs incurred on development activities. These costs have been capitalised in accordance with the requirements of IAS 38 *Intangible Assets*.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences), licences for electronic point-of-sale ("EPOS") system software, and gambling licences including US market access payments across a number of jurisdictions globally.

Broadcasting and wagering rights represent assets acquired as part of the all-share merger with Betfair Group plc in 2016 (the 'Merger') and in particular relate to the US segment.

2. Basis of preparation and summary of significant accounting policies (continued)

Intangible assets (continued)

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Brands	8 – 10 years
Customer relations	4 years reducing balance, based on estimated customer lifecycle
Computer software and technology	2 – 5 years
Development expenditure	3 years
Licences	2 – 20 years
Broadcasting and wagering rights	6 years

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business in 2008, the acquisition of an additional betting shop in Northern Ireland in 2011 and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited in 2009 are not amortised for the reasons set out in Note 11.

Impairment

Financial assets (including receivables) – applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured at 12 month ECLs.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full or the financial asset is significantly past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the third party;
- a breach of contract such as a default;
- the restructuring of a balance by the Group on terms that the Group would not consider otherwise; or
- it is probable that the third party will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Financial assets (including receivables) – effective in comparative period

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An impairment loss in respect of investments is calculated as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-derivative financial instruments

Other non-derivative financial instruments comprise cash and cash equivalents, restricted cash, deposits, investments, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

Restricted cash represents cash held by the Group but which is ring fenced, or used as security for specific arrangements (such as cash held on the balance sheet in designated client fund accounts where certain jurisdictions require the Group to do so, or as collateral for a bank guarantee), and to which the Group has restricted access for a period of time. It includes funds held to cover monies owed to customers, as per the terms of the Australian corporate sports book making licenses issued to Sportsbet and also funds held to cover monies owed to customers in our US businesses . Restricted cash was classified as held to maturity and carried at amortised cost, prior to the adoption of IFRS 9. It is now classified as amortised cost. Restricted cash balances are further classified as current or non-current depending on when the restriction first ends.

Neither cash and cash equivalents or restricted cash include certain customer funds deposited in a stakeholder account held by The Sporting Exchange (Clients) Limited, a wholly-owned subsidiary of the Group, on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7 *Statement of Cash Flows*, these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Subsequent to initial recognition, cash and cash equivalents, deposits and trade and other payables are measured at amortised cost.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Investments in equity are measured at fair value and changes therein, are recognised in the consolidated income statement unless the irrevocable option at initial application to present changes in fair value in OCI is chosen. This designation is made on an instrument by instrument basis. Fair value is determined using a discounted cash flow which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and discounts for lack of marketability and lack of control that pertains to the minority stake.

Prior to the introduction of IFRS 9 at 1 January 2018, such instruments were classified as available-for-sale financial assets and were measured at fair value and changes therein, other than impairment losses, were recognised in the consolidated statement of other comprehensive income and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss in equity was reclassified to profit or loss. Fair value was determined using a discounted cash flow which required estimation of future net operating cash flows, the time period over which they would occur, an appropriate discount rate and discounts for lack of marketability and lack of control that pertained to the minority stake.

2. Basis of preparation and summary of significant accounting policies (continued)

Borrowings

Borrowings are recorded at the fair value of the proceeds received, net of any directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Derivative financial instruments

The Group holds certain derivative financial instruments which are initially recognised at fair value.

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is considered probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Long service leave

The provision for long service leave (that arises under the provisions of Australian state legislation) is measured per the requirements of IAS 19. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Lease reinstatement

Where there exists a legal obligation for properties held under operating leases to be reinstated to their original condition on expiry of the lease, a provision is established to recognise the estimated cost of such reinstatement work on a straight-line basis over the term of the lease.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract by the Group are less than the unavoidable costs of meeting its obligations under the terms of the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Gaming tax

Gaming tax provisions relate to amounts provided for taxes in certain jurisdictions where the interpretation of tax legislation is uncertain. When the group disagrees with the application of unclear tax legislation, for example when it is applied retrospectively and/or results in a one-off disproportionate tax equivalent to many times the profit derived by the Group from its historic activities in that jurisdiction, the Group continues to challenge these interpretations.

Whilst the maximum potential obligation for all ongoing cases could be greater than the recognised provision, and the outcomes may not be known for some time, a liability has been recorded for the Directors' best estimate of the cash outflows that will ultimately be required in respect of each claim. Management have not provided a sensitivity for this provision as the range is not considered to be material. Management note this is a key estimate, however it is not a key judgement that will have a material impact in the coming year. See Note 21 and 33 for further details.

Income Tax

Income Tax in the income statement comprises current and deferred tax. Income Tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

Employee benefits

Pensions

The Group operates a number of defined contribution schemes under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the service is received. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Long-term incentive bonus plans

The Group accounts for obligations relating to long term incentive bonus plans for employees at the present value of the defined benefit obligation at the reporting date. The service cost relating to such plans is allocated to the financial years over which service under the plan is rendered by the employee. The income statement expense represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period, in addition to any associated finance costs where material.

Share-based payments

The Group operates equity-settled long term and medium term incentive plans for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and/or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve in equity. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Group also currently operates a deferred share incentive plan (DSIP) whereby one-third of any annual incentive payment (determined under the Annual Cash Incentive Plan) may be paid in deferred shares. Any such deferred element granted under the DSIP will vest 50% after 1 year and 50% after 2 years from the date of grant and will be fair valued using the same methodology as other long and medium term incentive plans. The two-thirds cash portion is measured on an undiscounted basis and expensed as the related service is provided. A liability is recognised for the amount expected to be paid under this cash portion if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates an equity-settled share save scheme ("SAYE") for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions other than non-market performance conditions, upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group also operates equity-settled schemes for employees under which employees may acquire options over Company shares. The fair value is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions, other than non-market performance conditions, upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards that vest.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Shares held by employee benefit trust

The costs of purchases of the Company's shares by the Employee Benefit Trust, which have been conditionally awarded to executives under the terms of the share award schemes, are shown separately as deductions from equity in the consolidated statement of financial position.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Transaction costs relating to the purchase by the Company of its own shares are recognised directly in retained earnings. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and any resulting surplus on the transaction is recognised in share premium.

Where the Company purchases its own shares and subsequently cancels those shares, the cost of the shares cancelled is written off directly to retained earnings. The nominal value of the shares cancelled is transferred from share capital to undenominated capital.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 33.

Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include awards under share award schemes and share options granted to employees.

Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Separately disclosed items

Separately disclosed items are those that in management's judgement need to be disclosed by virtue of their size, incidence or if not part of the Group's normal trading activities. The separate reporting of these items helps provide a better understanding of the Group's underlying performance.

Such items may include the amortisation of acquisition related intangibles, the incremental fair value uplift for share options replaced under the terms of the Merger, significant restructuring and strategic initiative costs, material fees in respect of acquisitions, significant impairment of property, plant and equipment and intangible assets and also significant movement in the fair value of contingent consideration.

In the majority of cases, it is the material impact that these items have on the financial statements that determines whether they should be separately disclosed. Materiality is determined by assessing whether disclosing such items separately would present a reader with a better understanding of the performance of the Group. If such items were deemed to be less than material, they would not be separately disclosed.

These items, usually due to their size and nature tend to be non-recurring items and would not arise on an annual basis. However, in other cases, items such as for example, the amortisation of acquisition related intangibles may occur over several years but are disclosed separately due to their finite life and the significantly changing amortisation profile of the assets in question in the related years. The separate disclosure of such items helps the reader better understand underlying business performance.

The tax related impact of such items is also disclosed separately.

2. Basis of preparation and summary of significant accounting policies (continued)

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. 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 consolidated financial statements. Further detail is contained in the Directors' Report on page 99.

3. Operating segments

Revenue

Income for the years ended 31 December 2018 and 2017 is analysed as follows:

	2018 £m	2017 £m
Revenue in respect of sportsbook and gaming activities	**1,425.2**	1,358.6
Other commission and fee revenue (included in Online, Australia and US revenue)	**448.2**	386.8
Revenue	**1,873.4**	1,745.4

As more fully described in the basis of preparation and summary of significant accounting policies, betting activities are considered to be derivative financial instruments as set out in IFRS 9 *Financial Instruments*. Other commission and fee revenue is earned from the exchange sports betting product and pari-mutuel betting products, daily fantasy sports, peer-to-peer gaming, and business-to-business services and, as these activities do not involve customers taking a direct position against the Group, such revenue is not classified as income from derivative financial instruments and represents revenue from contracts with customers under IFRS 15.

The Group's reportable segments are businesses that are managed separately, due to a combination of factors including method of service delivery, geographical location and the different services provided.

Reportable business segment information

The Group has determined that its operating segments are its reportable segments. The Group's reportable segments are as follows:

- Online
- Australia
- Retail
- US

The reportable segments reflect the way financial information is reviewed by the Group's Chief Operating Decision Maker ("CODM").

The Online segment derives its revenues primarily from sports betting (sportsbook and the exchange sports betting product) and/or gaming (games, casino, bingo and poker) services in all business-to-customer ("B2C") geographies that the Group operates in except the US and Australia, and business-to-business ("B2B") services globally. Online services are delivered primarily through the internet with a small proportion delivered through the public telephony system.

The Australia segment earns its revenues from sports betting services provided to Australian customers using primarily the internet with a small proportion using the public telephony system.

The Retail segment derives its revenues from sports betting and/or gaming machine services delivered through licenced bookmaking shop estates in the UK and Ireland.

The US segment earns its revenues from sports betting, daily fantasy sports and gaming services provided to US customers using primarily the internet with a proportion of US sports betting services also provided through a handful of retail outlets.

Corporate administrative costs (Board, Finance, Legal, Internal Audit, HR, Property and other central functions) cannot be readily allocated to individual operating segments and are not used by the CODM for making operating and resource allocation decisions. These are shown in the reconciliation of reportable segments to Group totals.

The accounting policies in respect of operating segments reporting are the same as those described in the basis of preparation and summary of significant accounting policies set out in Note 2.

The Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the Online, Australia, Retail and US segments.

Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

Reportable business segment information for the year ended 31 December 2018:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	**947.6**	**402.9**	**331.5**	**191.4**	**–**	**1,873.4**
Cost of sales	**(231.0)**	**(121.2)**	**(73.1)**	**(44.6)**	**–**	**(469.9)**
Gross profit	**716.6**	**281.7**	**258.4**	**146.8**	**–**	**1,403.5**
Operating costs excluding depreciation, amortisation and impairment	**(400.5)**	**(144.7)**	**(186.8)**	**(161.3)**	**(59.2)**	**(952.5)**
EBITDA[1]	**316.1**	**137.0**	**71.6**	**(14.5)**	**(59.2)**	**451.0**
Depreciation and amortisation	**(41.6)**	**(17.6)**	**(20.8)**	**(10.5)**	**–**	**(90.5)**
Reportable segment profit/(loss) before separately disclosed items	**274.5**	**119.4**	**50.8**	**(25.0)**	**(59.2)**	**360.5**
Amortisation of acquisition related intangible assets (Note 4)	**(79.9)**	**–**	**–**	**(20.8)**	**–**	**(100.7)**
Impairment of goodwill and intangible assets (Note 4)	**–**	**–**	**–**	**(27.2)**	**–**	**(27.2)**
Reportable segment profit/(loss) after amortisation of acquisition related intangible assets and impairment of goodwill and intangible assets	**194.6**	**119.4**	**50.8**	**(73.0)**	**(59.2)**	**232.6**
Restructuring and strategic initiatives[2] (Note 4)						**(28.0)**
Operating profit						**204.6**

Reportable business segment information for the year ended 31 December 2017:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	898.4	403.7	334.0	109.3	–	1,745.4
Cost of sales	(198.7)	(111.3)	(70.6)	(24.8)	–	(405.4)
Gross profit	699.7	292.4	263.4	84.5	–	1,340.0
Operating costs excluding depreciation and amortisation	(393.5)	(152.9)	(181.7)	(80.9)	(57.8)	(866.8)
EBITDA[1]	306.2	139.5	81.7	3.6	(57.8)	473.2
Depreciation and amortisation	(38.6)	(14.7)	(19.0)	(9.0)	–	(81.3)
Reportable segment profit/(loss) before separately disclosed items	267.6	124.8	62.7	(5.4)	(57.8)	391.9
Amortisation of acquisition related intangible assets (Note 4)	(129.1)	–	–	(5.4)	–	(134.5)
Reportable segment profit/(loss) after amortisation of acquisition related intangible assets	138.5	124.8	62.7	(10.8)	(57.8)	257.4
Replacement share options[2] (Note 4)						(7.4)
Operating profit						250.0

1. EBITDA is defined as profit for the year before depreciation, amortisation and impairment, financial income, financial expense and tax expense /credit. It is considered by the Directors to be a key measure of the Group's financial performance.
2. The Group does not allocate restructuring and strategic initiatives and replacement share options to reportable segments.

Reconciliation of reportable segments to Group totals:

	2018 £m	2017 £m
Revenue		
Total revenue from reportable segments, being total Group revenue	**1,873.4**	1,745.4
Profit and loss		
Operating profit	**204.6**	250.0
Unallocated amounts:		
Financial income	**21.6**	1.7
Financial expense	**(7.5)**	(5.1)
Profit before tax	**218.7**	246.6

Disaggregation of revenue under IFRS 15

Group revenue disaggregated by product line for the year ended 31 December 2018:

	Online £m	**Australia £m**	**Retail £m**	**US £m**	**Total £m**
Sports revenue[1]	**677.8**	**402.9**	**221.7**	**171.7**	**1,474.1**
Gaming revenue	**269.8**	**–**	**109.8**	**19.7**	**399.3**
Total Group revenue	**947.6**	**402.9**	**331.5**	**191.4**	**1,873.4**

Group revenue disaggregated by product line for the year ended 31 December 2017:

	Online £m	Australia £m	Retail £m	US £m	Total £m
Sports revenue[1]	660.0	403.7	227.7	93.7	1,385.1
Gaming revenue	238.4	–	106.3	15.6	360.3
Total Group revenue	898.4	403.7	334.0	109.3	1,745.4

1 . Sports revenue comprises sportsbook, exchange sports betting, daily fantasy sports and pari-mutuel betting.

3. Operating segments (continued)

Geographical segment information

The Group considers that its primary geographic segments are 'UK', 'Ireland', 'Australia', 'US' and 'Rest of World'. The UK geographic segment consists of the UK Retail bookmaking business, online and telephone sports betting from customers in the UK, and online gaming from customers in the UK. The Ireland geographic segment consists of the Irish Retail bookmaking business, online and telephone sports betting from customers in Ireland, and online gaming from customers in Ireland. The Australia geographic segment consists of online and telephone sports betting from Australian customers. The US geographic segment is comprised of online and retail sports betting and online gaming from US customers. The Rest of World geographic segment is comprised of online sports betting, online gaming and B2B services provided to customers in geographies other than the UK, Ireland, Australia and the US. Revenues from customers outside the UK, Ireland, Australia and the US are not considered sufficiently significant to warrant separate reporting.

Group revenues disaggregated by geographical segment for the year ended 31 December 2018:

	Online £m	**Australia £m**	**Retail £m**	**US £m**	**Total £m**
UK	**672.8**	**–**	**195.4**	**–**	**868.2**
Ireland	**103.2**	**–**	**136.1**	**–**	**239.3**
Australia	**–**	**402.9**	**–**	**–**	**402.9**
US	**–**	**–**	**–**	**191.4**	**191.4**
Rest of World	**171.6**	**–**	**–**	**–**	**171.6**
Total Group revenue	**947.6**	**402.9**	**331.5**	**191.4**	**1,873.4**

Group revenues disaggregated by geographical segment for the year ended 31 December 2017:

	Online £m	Australia £m	Retail £m	US £m	Total £m
UK	639.1	–	193.5	–	832.6
Ireland	98.0	–	140.5	–	238.5
Australia	–	403.7	–	–	403.7
US	–	–	–	109.3	109.3
Rest of World	161.3	–	–	–	161.3
Total Group revenue	898.4	403.7	334.0	109.3	1,745.4

Revenues are attributed to geographical location on the basis of the customer's location.

Non-current assets (excluding deferred tax asset balances) by geographical segment are as follows:

	2018 £m	2017 £m
UK	**3,761.6**	3,850.3
Ireland	**104.8**	113.8
Australia	**89.9**	91.5
US	**823.3**	413.6
Rest of World	**15.5**	16.8
Total	**4,795.1**	4,486.0

4. Separately disclosed item

	2018 £m	2017 £m
Amortisation of acquisition related intangible assets	**(100.7)**	(134.5)
Replacement share options	**–**	(7.4)
Impairment of goodwill and intangible assets	**(27.2)**	–
Gain on contingent consideration	**10.7**	–
Restructuring and strategic initiatives	**(28.0)**	–
Profit on disposal of investment	**7.0**	–
Operating profit impact of separately disclosed items	**(138.2)**	(141.9)
Tax credit on separately disclosed items	**15.1**	23.6
Total separately disclosed items	**(123.1)**	(118.3)

Amortisation of acquisition related intangible assets

Non-cash amortisation of £100.7m has been incurred in the period (2017: £134.5m) as a result of intangible assets separately identified under IFRS 3 as a result of the Merger with Betfair in 2016 and the acquisition of FanDuel Limited in 2018.

Replacement share options

Under the terms of the Merger, outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans would not vest on completion but would be replaced by share option awards over an equivalent number of ordinary shares in the Company, calculated by reference to the exchange ratio of 0.4254. Whilst the awards will vest in line with their previous terms, the replacement of the options, under IFRS 3, requires them to be accounted for at fair value on acquisition. No such costs were incurred in 2018 (2017: £7.4m).

Impairment of goodwill and intangible assets

Non-cash impairments amounting to £27.2m in relation to primarily goodwill and intangible assets associated with our DRAFT business were incurred in the year (see Note 12). There were no such impairments in 2017.

Gain on contingent consideration

The movement in the value of contingent consideration in the period relates to the contingent consideration that the Group has deemed is no longer payable arising in respect of the DRAFT acquisition.

Restructuring and strategic initiatives

This relates to incremental, one-off costs arising during the year from the combination of Betfair US with FanDuel Limited (see Note 13) and costs incurred as a result of significant restructuring and strategic changes made following the appointment of a new CEO. No such costs were incurred in 2017.

Profit on disposal of investment

In February 2018, the Group disposed of its remaining 31.4% non-controlling interest in LMAX Limited for cash consideration amounting to £21.9m to the existing majority LMAX shareholders generating a profit of £7.0m.

Restructuring and strategic initiatives and replacement share options are included in the consolidated income statement within operating costs excluding depreciation, amortisation and impairment. Amortisation of acquisition related intangible assets is included within depreciation and amortisation and impairment of goodwill and intangible assets is included within impairment. The profit on disposal of investment and gain on contingent consideration are included within financial income.

5. Employee expenses and numbers

Employee expenses excluding separately disclosed items (see Note 4) are:

	2018 £m	2017 £m
Wages and salaries	**306.9**	285.4
Social security costs	**29.7**	33.1
Defined contribution pension and life assurance costs	**13.2**	11.8
Share-based payment costs	**18.9**	26.0
Other staff costs	**26.7**	22.8
	395.4	379.1
The average number of persons employed by the Group (including Executive Directors), all of whom were involved in the provision of sports betting and gaming services, during the year was:	**7,702**	7,503

Details on the remuneration of Directors as per the requirement of the Companies Act 2014 are set out below.

	2018 £m	2017 £m
Emoluments	**3.4**	3.5
Pension costs	**0.2**	0.2
	3.6	3.7

The gain on the exercise of share options in 2018 by individuals who were Directors at any time during 2018 was £15.3m (2017: £5.3m). Further detail in respect of Directors remuneration is set out in the Directors' Remuneration Report on pages 74 to 95.

6. Financial income and expense

	2018 £m	2017 £m
Recognised in profit or loss:		
Financial income:		
Change in fair value of contingent consideration	**10.7**	–
Profit on disposal of investment	**7.0**	–
Movement in fair value of investments	**2.2**	–
On financial assets at amortised cost		
Interest income on short term bank deposits	**1.7**	1.7
Total	**21.6**	1.7
Financial expense:		
Change in fair value of contingent consideration	**1.1**	–
Unwinding of the discount on provisions and other non-current liabilities	**2.7**	3.0
On financial liabilities at amortised cost		
Interest on borrowings, bank guarantees and bank facilities, and other interest payable	**3.7**	2.1
Total	**7.5**	5.1

	2018 £m	2017 £m
Recognised in other comprehensive income/(loss):		
Foreign exchange gain/(loss) on translation of the net assets of foreign currency denominated entities	**26.1**	(43.3)
Net change in fair value of investments	**–**	13.7
Total	**26.1**	(29.6)

7. Statutory and other information

	2018 £m	2017 £m
Auditor's remuneration for audit and other assurance services	**0.8**	0.8
Depreciation of property, plant and equipment	**40.2**	39.0
Amortisation of intangible assets	**130.6**	164.1
Impairment of goodwill and intangible assets	**27.2**	–
Amortisation of capitalised development costs	**19.9**	12.7
(Gain)/loss on disposal of property, plant and equipment and intangible assets	**(0.3)**	0.1
Foreign currency exchange (gain)/loss – monetary items	**(2.0)**	0.9
Operating lease rentals, principally premises	**39.1**	35.2
Research and development	**30.3**	20.8
Operating lease income (representing sub-lease income)	**(1.8)**	(1.4)

Remuneration to Group external auditor (KPMG Ireland)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the auditor's remuneration figures presented below represent fees paid to KPMG Ireland only and are exclusive of value-added tax. In 2017, the Group external auditor was KPMG LLP.

	2018 £m	2017 £m
Audit	**0.3**	0.3
Other assurance services – audit of subsidiaries	**0.1**	0.1
Other assurance services – miscellaneous	**0.1**	0.1
Total	**0.5**	0.5

Further analysis of the total fees paid to the Group external auditor, KPMG Ireland, worldwide for audit and non-audit services is presented below:

Analysis of total auditor's remuneration for audit and other assurance services

	2018 £m	2017 £m
Audit of Group (KPMG Ireland)	**0.3**	0.3
Audit of subsidiaries (KPMG Ireland)	**0.1**	0.1
Audit of subsidiaries (other KPMG offices)	**0.2**	0.3
Other assurance services – miscellaneous (KPMG Ireland and other KPMG offices)	**0.2**	0.1
Total	**0.8**	0.8

Analysis of amounts paid to the auditor in respect of non-audit services

	2018 £m	2017 £m
Tax advisory services (other KPMG offices)	**0.1**	0.4
Other non-audit services	**–**	–
Total	**0.1**	0.4

8. Tax expense

	2018 £m	2017 £m
Recognised in profit or loss:		
Current tax charge	**53.7**	65.8
Prior year over provision	**(4.0)**	(19.2)
Total current tax	**49.7**	46.6
Deferred tax credit	**(12.5)**	(19.5)
Prior year under provision	**0.8**	1.8
Decrease in net deferred tax liability (Note 19)	**(11.7)**	(17.7)
Total tax expense in income statement	**38.0**	28.9

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

	2018 £m	2017 £m
Profit before tax	**218.7**	246.6
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	**27.4**	30.8
Depreciation on non-qualifying property, plant and equipment	**1.3**	1.7
Effect of different statutory tax rates in overseas jurisdictions	**4.7**	11.4
Non-deductible expenses	**7.0**	6.1
Effect of changes in statutory tax rates	**(0.7)**	(3.1)
Movement on deferred tax balances not recognised	**1.5**	(0.6)
Over provision in prior year	**(3.2)**	(17.4)
Total tax expense	**38.0**	28.9

Total tax expense for 2018 includes a credit for separately disclosed items amounting to £15.1m (2017: £23.6m) (see Note 4).

Tax rates

The Group's consolidated effective tax rate on profits including separately disclosed items for 2018 is 17.4% (2017: 11.7%). The separately disclosed items impacting the consolidated tax rate include the unwind of deferred tax liabilities recognised in respect of merger related intangibles and the acquisition of a majority stake in FanDuel as well as costs associated with that acquisition. The tax effect of separately disclosed items in the current year amounted to a tax credit of £15.1m.

The Group's underlying effective tax rate of 14.9% (2017: 13.5%) is materially impacted by the geographic mix of profits and reflects a combination of higher and lower headline rates of tax in the various jurisdictions in which the Group operates when compared with the Irish standard rate of corporation tax of 12.5%.

The Group's underlying effective tax rate is also materially impacted by the movement on deferred tax balances which remain unrecognised due to the doubt over the future recoverability of those assets, as well as the effect of expenses which are not deductible for tax purposes.

No significant changes are expected to statutory tax rates other than those announced and enacted at 31 December 2018; principally the reduction in the headline rate of UK corporation tax to 17% in April 2020.

The effect of the reduction in the UK headline rate of corporation tax on recognised deferred tax balances in the UK is reflected in the above tax reconciliation.

The future effective tax rate of the Group is principally affected by the ongoing geographic mix of profits in accordance with the OECD guidelines in relation to Base Erosion and Profit Shifting.

9. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares has been adjusted for amounts held as Treasury Shares and amounts held by the Group's Employee Benefit Trust ("EBT").

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

The calculation of basic and diluted EPS is as follows:

	2018	2017
Numerator in respect of basic and diluted earnings per share (£m):		
Profit attributable to equity holders of the Company	**201.4**	217.7
Numerator in respect of adjusted earnings per share (£m):		
Profit attributable to equity holders of the Company	**201.4**	217.7
Separately disclosed items	**114.7**	118.3
Profit for adjusted earnings per share calculation	**316.1**	336.0
Weighted average number of ordinary shares in issue during the year (in 000's)	**83,340**	84,418
Basic earnings per share	**£2.417**	£2.579
Adjusted basic earnings per share	**£3.793**	£3.980
Adjustments to derive denominator in respect of diluted earnings per share (in 000's):		
Weighted average number of ordinary shares in issue during the year	**83,340**	84,418
Dilutive effect of share options and awards on issue	**457**	833
Adjusted weighted average number of ordinary shares in issue during the year	**83,797**	85,251
Diluted earnings per share	**£2.404**	£2.554
Adjusted diluted earnings per share	**£3.772**	£3.941

The average market value of the Company's shares of £74.63 (2017: £81.61) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

The number of options excluded from the diluted weighted average number of ordinary shares calculation due to their effect being anti-dilutive is 447,540 (2017: 390,454).

10. Property, plant and equipment

	Land, buildings and leasehold improvements £m	Fixtures and fittings £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
Balance at 1 January 2017	89.9	151.9	93.1	0.1	335.0
Additions	2.9	10.6	25.7	–	39.2
Disposals	(0.1)	(0.2)	(1.1)	(0.1)	(1.5)
Foreign currency translation adjustment	2.5	3.8	0.3	–	6.6
Balance at 31 December 2017	**95.2**	**166.1**	**118.0**	**–**	**379.3**
Additions	**0.2**	**10.2**	**21.2**	**–**	**31.6**
Additions – business combinations (Note 13)	**3.0**	**0.3**	**0.2**	**–**	**3.5**
Disposals	**(0.9)**	**(0.6)**	**(0.6)**	**–**	**(2.1)**
Foreign currency translation adjustment	**0.2**	**–**	**0.9**	**–**	**1.1**
Balance at 31 December 2018	**97.7**	**176.0**	**139.7**	**–**	**413.4**
Depreciation and impairment					
Balance at 1 January 2017	38.9	99.4	62.6	0.1	201.0
Depreciation and impairment charges	5.1	10.5	23.4	–	39.0
Disposals	(0.1)	(0.2)	(1.1)	(0.1)	(1.5)
Foreign currency translation adjustment	1.2	3.0	0.3	–	4.5
Balance at 31 December 2017	**45.1**	**112.7**	**85.2**	**–**	**243.0**
Depreciation and impairment charges	**5.5**	**11.2**	**23.5**	**–**	**40.2**
Disposals	**(0.3)**	**(0.5)**	**(0.5)**	**–**	**(1.3)**
Foreign currency translation adjustment	**0.2**	**–**	**0.9**	**–**	**1.1**
Balance at 31 December 2018	**50.5**	**123.4**	**109.1**	**–**	**283.0**
Net book value					
At 31 December 2017	50.1	53.4	32.8	–	136.3
At 31 December 2018	**47.2**	**52.6**	**30.6**	**–**	**130.4**

The net book value of land, buildings and leasehold improvements at 31 December 2018 includes £43.3m (2017: £46.2m) in respect of leasehold improvements.

The Directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

11. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise computer software and technology, licences, development expenditure, brands, customer relations, and broadcasting and wagering rights, were as follows:

	Computer software and technology £m	Licences £m	Development expenditure £m	Brands £m	Customer relations £m	Broadcasting and wagering rights £m	Total £m
Cost							
Balance at 1 January 2017	188.9	29.1	25.6	350.4	254.3	34.6	882.9
Additions	24.3	1.2	0.1	–	–	–	25.6
Additions – internally developed	–	–	20.0	–	–	–	20.0
Disposals	(16.3)	(1.2)	–	–	–	–	(17.5)
Foreign currency translation adjustment	2.6	0.1	(0.3)	(3.1)	(0.9)	(3.5)	(5.1)
Balance at 31 December 2017	**199.5**	**29.2**	**45.4**	**347.3**	**253.4**	**31.1**	**905.9**
Additions	**25.7**	**41.9**	**–**	**–**	**–**	**–**	**67.6**
Additions – internally developed	**–**	**–**	**30.3**	**–**	**–**	**–**	**30.3**
Additions – business combinations	**18.9**	**0.6**	**6.3**	**117.6**	**34.7**	**–**	**178.1**
Foreign currency translation adjustment	**(2.6)**	**1.8**	**0.5**	**4.7**	**2.2**	**2.0**	**8.6**
Balance at 31 December 2018	**241.5**	**73.5**	**82.5**	**469.6**	**290.3**	**33.1**	**1,190.5**
Amortisation and impairment							
Balance at 1 January 2017	117.9	7.2	10.3	43.7	116.7	5.9	301.7
Amortisation and impairment charges	43.3	4.3	12.7	41.6	69.6	5.3	176.8
Disposals	(16.3)	(1.1)	–	–	–	–	(17.4)
Foreign currency translation adjustment	2.5	–	(0.1)	(1.3)	(0.3)	(1.2)	(0.4)
Balance at 31 December 2017	**147.4**	**10.4**	**22.9**	**84.0**	**186.0**	**10.0**	**460.7**
Amortisation and impairment charges	**27.7**	**0.9**	**19.9**	**48.2**	**49.3**	**5.2**	**151.2**
Foreign currency translation adjustment	**(1.9)**	**0.2**	**0.4**	**0.2**	**0.5**	**1.1**	**0.5**
Balance at 31 December 2018	**173.2**	**11.5**	**43.2**	**132.4**	**235.8**	**16.3**	**612.4**
Net book value							
At 31 December 2017	52.1	18.8	22.5	263.3	67.4	21.1	445.2
At 31 December 2018	**68.3**	**62.0**	**39.3**	**337.2**	**54.5**	**16.8**	**578.1**

The value of betting shop licences of £18.1m (2017: £18.1m) acquired as a result of the purchase of D McGranaghan Limited in 2008 and an additional betting shop in Northern Ireland in 2011 are not being amortised as the Directors consider these licences to have an indefinite life because:

- existing law in Northern Ireland restricts entry of new competitors;
- there exists a proven and future expected demand for bookmaking services and products; and
- the Group has a track record of renewing its betting permits and licences at minimal cost.

The value of brand intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to £13.1m at 31 December 2018 (2017: £13.7m)) are not being amortised as the Directors consider that the relevant brands have indefinite lives because:

- the Directors intend to utilise the brands in the businesses for the foreseeable future (with the exception of the IAS brand – see below); and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

The Group reviews the carrying value of licences and brands for impairment annually (or more frequently if there are indications that the value of the licences and brands may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell).

In 2011, the Directors reviewed the carrying value of the International All Sports Limited ("IAS") brand of AUD6.9m and determined, on the basis of future plans, that an impairment provision was required against the value of that brand at 31 December 2011. A similar review was performed at 31 December 2017 and at 31 December 2018 (when the GBP equivalent value of the brand was £4.0m and £3.8m respectively) which indicated that there had been no changes in the circumstances that gave rise to the impairment provision and that continued provision was appropriate.

12. Goodwill

The following cash generating units, being the lowest level of asset for which there are separately identifiable cash flows, have the following carrying amounts of goodwill:

	Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2017	3,432.3	45.2	377.0	17.9	18.7	3,891.1
Arising on acquisitions during the year (Note 13)	–	–	27.3	0.4	0.2	27.9
Foreign currency translation adjustment	0.3	(0.6)	(34.8)	0.4	0.9	(33.8)
Balance at 31 December 2017	**3,432.6**	**44.6**	**369.5**	**18.7**	**19.8**	**3,885.2**
Impairment	**–**	**–**	**(26.5)**	**–**	**–**	**(26.5)**
Arising on acquisitions during the year (Note 13)	**–**	**–**	**191.3**	**0.2**	**0.9**	**192.4**
Foreign currency translation adjustment	**0.1**	**(2.1)**	**26.2**	**–**	**–**	**24.2**
Balance at 31 December 2018	**3,432.7**	**42.5**	**560.5**	**18.9**	**20.7**	**4,075.3**

The Online segment goodwill amount arose from the acquisition of CT Networks Limited ("Cayetano"), a games developer based in the Isle of Man and Bulgaria, in 2011, and the acquisition of the Betfair online business (excluding operations in the US) acquired as part of the all-share merger with Betfair Group plc in 2016.

The Australia segment goodwill amount arose from the acquisition of an initial 51% interest in Sportsbet Pty Limited ("Sportsbet") and the subsequent acquisition of International All Sports Limited ("IAS") by Sportsbet, both in 2009.

The US segment goodwill amount arose from the acquisition of the US business acquired as part of the all-share merger with Betfair Group plc in 2016 and the acquisition of FanDuel Limited a market leading operator in the daily fantasy sports market in the United States, in 2018 (see Note 13). Due to the decision to combine the Group's US assets with FanDuel (see Note 13) and the impact of this decision on the Group's existing US daily fantasy sports business, the Group reviewed the carrying value of this business and determined, that an impairment charge of £26.5m was required in 2018.

Goodwill in UK Retail arose from the acquisition of two London bookmaking businesses in 2004, the acquisition of a retail bookmaking company in Northern Ireland in 2008 and the acquisition of a number of retail bookmaking shop properties since 2010 including some in 2018 (see Note 13).

Goodwill in Irish Retail arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and the acquisition of a number of retail bookmaking shop properties since 2007 including some in 2018 (see Note 13).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets

In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2018.

For the purpose of impairment testing, the Group's cash generating units include amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and a shop acquisition in 2011, and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Note 11).

The details of the impairment reviews in respect of the cash generating units as of 31 December 2018 are presented below:

	31 December 2018 £m	31 December 2017 £m
Online – goodwill	**3,432.7**	3,432.6

The recoverable amount of the Online operating segment underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Projections for a further two years are based on the assumptions underlying the management approved projections, and include an average projected growth rate of 6%. The terminal growth rate for the extrapolated period (following the initial five year period) is projected to be approximately 2.6% (2017: 3%) per annum and is based on a weighted average income growth rate of 2.6% (2017: 3%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. A pre-tax discount rate of 9% (2017: 9%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2018 £m	31 December 2017 £m
Australia – goodwill and brands	**55.6**	58.3
Less: IAS brand impairment provision	**(3.8)**	(4.0)
Australia – goodwill and brands net of impairment provision	**51.8**	54.3

The recoverable amount of the Australia operating segment underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2.7% (2017: 2.7%) per annum and is based on a weighted average income growth rate of 2.7% (2017: 2.7%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 14% (2017: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Australia operating segment goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts (with the exception of the IAS brand amounting to £3.8m at 31 December 2018 (2017: £4.0m) – see Note 11).

	31 December 2018 £m	31 December 2017 £m
US – goodwill	**560.5**	369.5

As described further in Note 13, the Group completed the combination of its US business with FanDuel Limited, to create a new company called FanDuel Group Inc. Given that the transaction occurred in the second half of the year on an arms-length basis and there have been no triggering event or indications of impairment, no further impairment testing was performed on this acquisition. The recoverable amount of the existing US operating segment underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period is projected to be approximately 2.5% (2017: 5%) per annum which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumptions are considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. A pre-tax discount rate of 9% (2017: 9%) which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. After recording the impairment on the prior year DRAFT acquisition, management believe that any reasonably possible change in the key assumptions on the remaining US goodwill would not cause its carrying amount to exceed its recoverable amount.

	31 December 2018 £m	31 December 2017 £m
UK Retail – goodwill and licences	**37.0**	36.8

The recoverable amount of the UK Retail underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2017: 2%) per annum and is based on a weighted average income growth rate of 2% (2017: 2%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the cash generating unit and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating unit for the foreseeable future. A pre-tax discount rate of 10% (2017: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK Retail cash generating unit goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

12. Goodwill (continued)

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets (continued)

	31 December 2018 £m	31 December 2017 £m
Irish Retail – goodwill	20.7	19.8

The recoverable amount of the Irish Retail underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2017: 2%) per annum and is based on a weighted average income growth rate of 2% (2017: 2%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the cash generating unit and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating unit for the foreseeable future. A pre-tax discount rate of 10% (2017: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish Retail cash generating unit goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The discount rates applied to each cash generating unit's cash flows represents a post-tax rate that reflects the Group's weighted average cost of capital (WACC) adjusted for any risks specific to that cash generating unit.

Based on the reviews as described above, with the exception of the impairment of USD35.3m (£26.5m) in 2018 of the US daily fantasy sports business acquired in 2017 and the IAS brand impairment of AUD6.9m initially provided for in 2011 (see Note 11), no impairment has arisen.

13. Business combinations

Year ended 31 December 2018

Acquisition of FanDuel Limited

On 10 July 2018, the Group completed the combination of its US business with FanDuel Limited, to create a new company called FanDuel Group Inc.. Under the terms of the combination, the Group contributed its existing US business and assets along with $145m (£109.3m) of cash to FanDuel Group Inc. and also paid $15.5m (£11.7m) to a small number of FanDuel Limited shareholders for their shareholding, while FanDuel Limited contributed its entire business to FanDuel Group Inc.. The cash contribution was used in part to pay down existing FanDuel Limited debt and will also be used to fund the working capital of FanDuel Group Inc.. The combination resulted in the holders of Paddy Power Betfair plc shares owning 61% of FanDuel Group Inc., and the holders of FanDuel Limited shares owning 39% of FanDuel Group Inc. call and put options exist to acquire the shares of FanDuel Limited shareholders at prevailing market valuations after three and five years. The Group has the discretion as to whether these options are settled by the issuance of Paddy Power Betfair plc shares or via cash.

The consideration was £211.9m based on the value of the Group's existing US business contributed to FanDuel Group Inc., cash consideration paid and the fair value of the cash contribution payable by the Group to FanDuel Group.

FanDuel has over 40% market share of the US daily fantasy sports market, with 7m registered customers across 40 states. In 2017, it had revenue of $124m and 1.3m active customers. Headquartered in New York, the business has built-up a leading US sports brand with approximately $400m cumulative marketing spend to date supported by innovative proprietary technology. The transaction strengthens the Group's opportunity to target the prospective US sports betting market through the addition of a strong brand, large existing customer base and talented team.

Since the date of acquisition to 31 December 2018, the FanDuel daily fantasy sports business has contributed £57.3m of revenue.

If the FanDuel acquisition had occurred on 1 January 2018, then their contribution to revenue would have been £101.5m for the year ended 31 December 2018.

FanDuel's profit cannot be readily defined due to the integration of the businesses post the acquisition. The proforma profit for the combined US Group is disclosed on page 41 of the Annual Report. Acquisition related costs of £7.9m were incurred in respect of this transaction and are disclosed within restructuring costs and strategic initiatives in Note 4 of the Consolidated Financial Statements.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Included within the intangible assets were £171.2m of separately identifiable intangibles comprising brands, customer relations and technology acquired as part of the acquisition, with the additional effect of a deferred tax liability of £35.9m thereon. These intangible assets are being amortised over their useful economic lives of up to ten years. Receivables acquired amounted to £3.6m. The book value equated to the fair value as all amounts are expected to be received.

The main factors leading to the recognition of goodwill (none of which is deductible for tax purposes) is growth by combining business activities, a strong workforce, leveraging existing products and synergy savings of the merged operations. The goodwill has been allocated to the existing US CGU and it has been deemed that a separate CGU is not appropriate.

	Provisional fair values as at 10 July 2018 £m
Assets	
Property, plant and equipment	**3.4**
Intangible assets	**178.1**
Total non-current assets	**181.5**
Trade and other receivables	**5.0**
Financial assets – restricted cash	**45.6**
Cash and cash equivalents acquired	**20.4**
Total current assets	**71.0**
Total assets	**252.5**
Liabilities	
Trade and other payables	**54.1**
Debt and debt like items acquired	**79.9**
Customer balances	**44.3**
Total current liabilities	**178.3**
Trade and other payables	**–**
Deferred tax liabilities	**35.9**
Total non-current liabilities	**35.9**
Total liabilities	**214.2**
Net assets acquired	**38.3**
Goodwill	**191.3**
Non-controlling interest measured at the fair value of net assets identified	**(17.7)**
Consideration	**211.9**
The consideration is analysed as:	
Betfair US shares transferred to Non-controlling interest	**157.5**
Consideration paid in cash	**11.7**
Fair value of cash contribution allocated to Non-controlling interest	**42.7**
Consideration	**211.9**

13. Business combinations (continued)

Shop property business acquisitions

In 2018, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

Details of the net assets acquired and the goodwill arising on these acquisitions under IFRS are as follows:

	Provisional fair values 31 December 2018 £m
Identifiable net assets acquired:	
Property, plant and equipment	**0.1**
Goodwill arising on acquisition – UK Retail and Irish Retail	**1.1**
Consideration	**1.2**

The consideration is analysed as:	
Cash consideration	**1.1**
Contingent deferred consideration	**0.1**
Consideration	**1.2**

The principal factors contributing to the UK Retail and Irish Retail goodwill balances are the well-established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 2018 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets for the 12 months following the date of acquisition.

Year ended 31 December 2017

Acquisition of DRAFT

In May 2017, the Group acquired DRAFT, an early stage operator in the daily fantasy sports market in the United States. The acquisition provided the Group with exposure to a fast-growing market and complemented our other businesses in the United States. The initial cash consideration paid on completion was $19m (£14.3m) with further cash payments between $3m (£2.6m) and $29m (£22.7m) payable over the next four years.

The total fair value of further cash consideration at the acquisition date is estimated to be £13m (after discounting at 8%, consistent with other US operations), with the final amount due dependent on future performance over the next four years.

Details of the fair values of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows:

	As at 10 May 2017 £m
Net liabilities acquired	(0.3)
Goodwill arising on acquisition – US	27.3
Consideration	27.0

The consideration is analysed as:	
Cash consideration	14.3
Deferred and contingent consideration	12.7
Consideration	27.0

The principal factors contributing to the goodwill relate to the differentiated product, the strong management team and the marketing and technology expertise that can be provided by the rest of the Group. The goodwill has been allocated to the existing US CGU and it has been deemed that a separate CGU is not appropriate. It has been determined that no other separately identifiable acquired intangible assets exist due to the start-up nature of the business. Information in respect of revenue, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2017 has not been presented on the basis of immateriality.

Shop property business acquisitions

In 2017, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

Details of the net assets acquired and the goodwill arising on these acquisitions under IFRS are as follows:

	Fair values 31 December 2017 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.3
Goodwill arising on acquisition – Irish Retail and UK Retail	0.6
Consideration	0.9
The consideration is analysed as:	
Cash consideration	0.6
Contingent deferred consideration	0.3
Consideration	0.9

The principal factors contributing to the UK Retail and Irish Retail goodwill balances are the well-established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 2017 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets for the 12 months following the date of acquisition.

Net cash outflow/(inflow) from purchase of businesses

	31 December 2018 £m	31 December 2017 £m
Cash consideration – acquisitions in the year	**12.8**	14.9
Cash acquired – acquisitions in the year	**(20.4)**	–
Repayment of FanDuel debt and debt like items	**79.9**	–
Cash consideration – acquisitions in previous years	**6.1**	3.5
Total	**78.4**	18.4
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses	**12.8**	14.9
Cash acquired from acquisition of FanDuel	**(20.4)**	–
Repayment of FanDuel debt and debt like items	**79.9**	–
Payment of contingent deferred consideration	**6.1**	3.5
Total	**78.4**	18.4

During 2018, the Group settled deferred consideration liabilities of £3.4m (2017: £3.5m) in relation to Betfair's historical acquisition of HRTV, a horseracing television network based in the US, £2.6m relating to Paddy Power Betfair's acquisition of DRAFT in 2017 and £0.1m relating to prior year retail acquisitions.

14. Investments and trade and other receivables

Non-current assets

	31 December 2018 £m	31 December 2017 £m
Investments	2.4	15.1

At 31 December 2018, the Group had a non-controlling interest in Featurespace of 2.38% with a fair value of £2.3m (31 December 2017: £0.1m). A fair value gain of £2.2m has been recognised within financial income in 2018. In 2019, the Group disposed of its remaining 2.38% non-controlling interest in Featurespace for cash consideration amounting to £2.3m.

At 31 December 2017, the Group had a non-controlling interest in LMAX Limited of 31.4% with a fair value of £14.9m. In February 2018, the Group disposed of its remaining 31.4% non-controlling interest in LMAX Limited for cash consideration amounting to £21.9m to the existing majority LMAX shareholders. The difference of £7.0m between the cash consideration and the fair value of the asset at the date of disposal was recognised in the consolidated income statement in 2018.

	31 December 2018 £m	31 December 2017 £m
Other receivables		
Prepayments	8.9	4.2

Current assets

	31 December 2018 £m	31 December 2017 £m
Trade and other receivables		
Trade receivables – credit betting customers	1.7	0.3
Trade receivables – other sports betting counterparties	3.4	4.5
Trade receivables	5.1	4.8
Other receivables	6.9	3.1
Value-added tax and goods and services tax	2.1	5.4
Prepayments	67.7	35.5
Total	81.8	48.8

Trade and other receivables are non-interest bearing.

15. Financial assets and cash and cash equivalents

	31 December 2018 £m	31 December 2017 £m
Current		
Financial assets – restricted cash	167.2	75.4
Cash and cash equivalents	123.7	306.6
Total	290.9	382.0

Financial assets

Included in financial assets – restricted cash at 31 December 2018 are bank deposits which were either (1) restricted at that date, as they represented customer funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities. These customer funds that are not held in trust are matched by liabilities of equal value.

The effective interest rate on bank deposits at 31 December 2018 was 2.28% (2017: 0.38%); these deposits have an average original maturity date of 1 day (2017: 1 day). The bank deposits also have an average maturity date of 1 day from 31 December 2018 (2017: 1 day). The Directors believe that all short term bank deposits can be withdrawn without significant penalty.

Financial assets – restricted cash and cash and cash equivalents are analysed by currency as follows:

	31 December 2018 £m	31 December 2017 £m
GBP	**21.8**	173.5
EUR	**61.0**	64.4
AUD	**67.0**	103.9
USD	**134.3**	32.2
Other	**6.8**	8.0
Total	**290.9**	382.0

As at 31 December 2018, £368.4m (31 December 2017: £341.8m) was held in trust in The Sporting Exchange (Clients) Limited on behalf of the Group's customers and is equal to the amounts deposited into customer accounts. Neither cash and cash equivalents or restricted cash include these balances on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group.

16. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2017: 150,000,000 ordinary shares of €0.09 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

The movement in the number of issued ordinary shares during the year was as follows:

During the year ended 31 December 2018, 474,236 ordinary shares (2017: 560,732) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £2.3m (2017: £5.8m).

The £200m share buyback programme announced on 29 May 2018 was completed in August 2018. On completion of this programme, the Group commenced a second buyback programme of £300m which was ongoing at 31 December 2018. Overall in 2018 the Group's brokers repurchased 5,635,089 ordinary shares of €0.09 each. The total cost of the shares repurchased comprised £414.7m for the shares themselves and a further £1.3m for other transaction related costs. Cash payments of £413.7m had been made in respect of the repurchases with the outstanding £1.0m settlement made at the beginning of January 2019. This £1.0m together with the remaining value of the buyback programme (including associated fees) of £85.8m was recorded as a liability at 31 December 2018. The shares bought back are being cancelled and the nominal value of these shares is transferred to undenominated capital. The nominal value of the shares cancelled at 31 December 2018 was £0.5m. As described further in Note 33, the £300m share buyback programme was completed in February 2019.

A total of 1,965,600 ordinary shares were held in treasury as of 31 December 2018 (31 December 2017: 1,965,600). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to £40.7m as of 31 December 2018 (31 December 2017: £40.7m). The cost of treasury shares held by the Company at 31 December 2018 was £4.2m (2017: £4.2m), with a further £36.5m of shares being held by the Company's subsidiaries (2017: £36.5m).

At 31 December 2018, the Paddy Power Betfair plc Employee Benefit Trust ("EBT") held 99,741 (2017: 200,973) of the Company's own shares, which were acquired at a total cost of £8.6m (2017: £15.6m), in respect of potential future awards relating to the Group's employee share plans (see Note 18). The Company's distributable reserves at 31 December 2018 are restricted by this cost amount. In the year ended 31 December 2017, the EBT purchased 29,342 Paddy Power Betfair plc ordinary shares for a total consideration of £2.5m. No shares were purchased in 2018. In 2018, 101,232 shares with an original cost of £7.0m (2017: 306,761 shares with an original cost of £17.8m) were transferred from the EBT to the beneficiaries of the EBT.

The foreign exchange translation reserve at 31 December 2018 had a credit balance of £4.1m (2017: debit balance of £13.8m), and arose from the retranslation of the Group's net investment in Euro, AUD and USD functional currency entities. The movement in the foreign exchange translation reserve for the year ending 31 December 2018 reflects the strengthening of USD against GBP in the year.

Other reserves comprise undenominated capital and a fair value reserve. The movement in other reserves of £13.2m in 2018 relates mainly to the disposal of an investment which had previously been revalued, and the subsequent transfer of the revaluation from the fair value reserve to retained earnings. Undenominated capital at 31 December 2018 of £1.1m (2017: £1.6m) relates to the nominal value of shares in the Company acquired by the Company of £0.9m (2017: £1.4m) and subsequently cancelled and an amount of £0.2m (2017: £0.2m) which arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to Euro.

In 2018, an amount of £40.5m (2017: £46.3m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of £3.6m of deferred tax relating to the Group's share-based payments was charged to retained earnings in 2018 (2017: £2.1m) – see also Note 19. An amount of £2.9m of current tax relating to the Group's share-based payments was credited to retained earnings in 2018 (2017: £2.4m).

As permitted by section 304 of the Companies Act 2014, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of £34.2m (2017: £24.9m).

17. Dividends paid on ordinary shares

	2018 £m	2017 £m
Ordinary shares:		
– final dividend of £1.35 per share for the year ended 31 December 2017 (31 December 2016: £1.13)	**114.0**	94.7
– interim dividend of £0.67 per share for the year ended 31 December 2018 (31 December 2017: £0.65)	**55.0**	54.7
Amounts recognised as distributions to equity holders in the year	**169.0**	149.4

The Directors have proposed a final dividend of 133 pence per share which will be paid on 21 May 2019 to shareholders on the Company's register of members at the close of business on the record date of 12 April 2019. This dividend, which amounts to approximately £104m, has not been included as a liability at 31 December 2018.

18. Share-based payments

Summary of equity-settled share-based payments

The Group had the following share-based payment schemes brought forward from before the Merger:

- The Paddy Power plc Sharesave Scheme; and
- The Paddy Power Long Term Incentive Plan.

In addition, a number of schemes were acquired at the Merger date:

- The Betfair Sharesave Scheme;
- The Betfair Restricted Share Scheme; and
- The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan.

Subsequent to the Merger, the Group has issued new awards under the following schemes:

- The Paddy Power Betfair plc Sharesave Scheme
- The Paddy Power Betfair plc Long Term Incentive Plan, Medium Term Incentive Plan and Deferred Share Incentive Plan;
- The Paddy Power Betfair plc Restricted Share Plan; and
- FanDuel Group Value Creation Plan (VCP).

The above schemes are settled via a mixture of the allotment of shares from the EBT and the issue of new shares or in the case of the FanDuel Group VCP in either equity shares or cash at the Group's option. As a result, all schemes are accounted for as equity-settled in the financial statements. Going forward, no new awards will be granted under any pre-Merger schemes.

The equity-settled share-based payments expense recognised in the income statement in respect of all schemes is as follows:

	2018 £m	2017 £m
Underlying		
The Paddy Power plc Sharesave Scheme	**–**	0.3
The Paddy Power Long Term Incentive Plan ("LTIP")	**0.3**	3.0
The Betfair Sharesave Scheme	**–**	0.3
The Betfair Restricted Share Scheme	**0.1**	0.1
The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan	**0.8**	4.2
Paddy Power Betfair plc Sharesave Scheme	**3.1**	1.4
The Paddy Power Betfair plc Long Term, Medium Term and Deferred Share Incentive Plans ("LTIP", "MTIP" & "DSIP")	**10.2**	16.5
The Paddy Power Betfair plc Restricted Share Plan	**2.0**	0.2
FanDuel Group Value Creation Plan (VCP)	**2.4**	–
	18.9	26.0
Separately disclosed items (see Note 4)	**1.5**	7.4
Total	**20.4**	33.4

General

The aggregate number of shares which may be utilised under the employee share schemes in any ten year period may not exceed ten per cent of the Company's issued ordinary share capital. The percentage of share capital which can be utilised under these schemes comply with guidelines issued by the Irish Association of Investment Managers in relation to such schemes.

Summary of options outstanding

At 31 December 2018, 1,574,487 awards and options (31 December 2017: 1,869,843) in the capital of the Group remain outstanding and are exercisable up to 2028 as follows:

	2018	2017
The Paddy Power plc Sharesave Scheme	**22,389**	57,720
Paddy Power Long Term Incentive Plan ("LTIP")	**5,501**	101,891
The Betfair Sharesave Scheme	**–**	31,019
The Betfair Restricted Share Scheme	**–**	400
The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan	**343,191**	681,646
The Paddy Power Betfair plc Sharesave Scheme	**447,540**	390,454
The Paddy Power Betfair plc Long Term, Medium Term and Deferred Share Incentive Plans ("LTIP", "MTIP" & "DSIP")	**704,689**	589,082
The Paddy Power Betfair plc Restricted Share Plan	**51,177**	17,631
Total	**1,574,487**	1,869,843

The Paddy Power plc Sharesave Scheme

The Paddy Power plc Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including Executive Directors) who had not less than six months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme could be invited to apply for options to acquire shares. The purchase price for each ordinary share in respect of which an option is granted could not be less than 75 per cent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme is €500/£500.

Movements in the share options under this scheme during the year were as follows:

Outstanding at 1 January 2018	Granted during year	Lapsed during year	Exercised during year	Outstanding at 31 December 2018	Earliest exercise date*	Exercise price
4,700	–	**(148)**	**(4,552)**	**–**	2015 and 2017	€41.36
13,717	–	**(853)**	**(8,962)**	**3,902**	2016 and 2018	€45.52
73	–	**–**	**–**	**73**	2016 and 2018	£40.79
32,238	–	**(2,386)**	**(15,356)**	**14,496**	2017 and 2019	€39.60
6,992	–	**(928)**	**(2,146)**	**3,918**	2017 and 2019	£33.76
57,720	–	**(4,315)**	**(31,016)**	**22,389**		

* Share options lapse 3.5 and 5.5 years after date of grant.

The weighted average exercise price for share options exercised during the year is £37.53 (31 December 2017: £35.60) at a weighted average share price at the date of exercise of £77.84 (2017: £85.12). The total number of shares exercisable at 31 December 2018 is 3,975. The fair value of options granted under the Sharesave Scheme was determined using a Black-Scholes model and is expensed over the vesting period. The following assumptions were used in the Black-Scholes pricing model for the above options:

	2011 – 2014
Share price at date of grant	€37.05 – €60.70
Exercise price (€)	€39.60 – €45.52
Exercise price (£)	£33.76 – £40.79
Expected volatility	19% – 30%
Expected term until exercised	3.5 – 5.5 years
Risk-free interest rate	-0.06% – 1.34%

18. Share-based payments (continued)

The Paddy Power Long Term Incentive Plan

Summary of share awards outstanding

The total number of share awards outstanding under the Paddy Power Long Term Incentive Plan at 31 December 2018 was 5,501 (2017: 101,891). These shares will vest fully in 2019. The movements in share awards during the year ended 31 December 2018 (excluding related dividends awarded as shares) were as follows:

Outstanding at 1 January 2018	Granted during year	Lapsed during year	Vested during year	Outstanding at 31 December 2018
101,891	**–**	**(5,342)**	**(91,048)**	**5,501**

2013 Long Term Incentive Plan

On 14 May 2013, the shareholders adopted the 2013 Long Term Incentive Plan ("LTIP") for senior executives, under which the Remuneration Committee can also make conditional awards of a number of Company shares to executives. LTIP awards made from 2013 onwards are subject to the rules of this scheme. In accordance with the rules, the awards vest proportionately to the achievement of an EPS compound growth target of between 7% and 15% over the vesting period of three years. Full vesting of the awards will only occur if EPS growth of at least 15% per annum is achieved over the vesting period. A minimum annual compound EPS growth target of 7% over the vesting period must be achieved to trigger 25% award vesting, with vesting occurring on a sliding scale ranging from 25% of awards (if the minimum EPS compound growth target of 7% per annum is met) to 100% of awards (if the EPS compound growth target of 15% per annum is met). Under the terms of the Merger of Paddy Power plc with Betfair Group plc, awards made in 2013 and 2014 vested in their entirety on the normal scheduled vesting dates in 2016 and 2017, respectively, and are not subject to the EPS growth target testing as outlined above. Awards made in 2015 will vest based on (1) 100% as applied to the awards balance calculated based on the time pro-rata proportion of the three year vesting period (from date of grant) that has elapsed at the date of Merger completion (2 February 2016) (the "Paddy Power Fixed Vesting Level") and (2) the balance of the awards not reflected in the Paddy Power Fixed Vesting Level will remain outstanding and will be capable of vesting in 2018 according to the extent to which specified performance conditions relating to the performance of the combined Paddy Power Betfair Group are satisfied. Through 2016 and 2017, earnings and revenue growth was very strong and as such the maximum target was exceeded and this award will vest in full in 2018 and 2019.

Until the vesting of the award in accordance with the rules of the schemes, the award holder will have no rights over or in respect of the shares subject to the award and, on vesting, the award holder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the schemes. The awards are not transferable. Upon the vesting of a share award, as part of the award holders' rights they also receive a small number of additional shares in respect of dividends on those shares between the grant date and vesting date, regarded as a de facto part of the original share award.

The Betfair Sharesave ("SAYE") Scheme

Similar to the Paddy Power Group prior to the Merger, the Betfair Group offered an HMRC approved SAYE share option scheme in which all UK employees and some international employees can participate. Participants save a fixed amount of up to £500 per month for three years and are then able to use these savings to buy shares in Betfair Group plc at a price fixed at a 20% discount to the market value at the start of the savings period. There are no market conditions associated with the SAYE option grants.

Options previously granted under the Betfair Sharesave Plan were exercisable for a period of six months following the Court Sanction Date (1 February 2016). These options were exercisable over Betfair Shares to the extent of savings made under the related savings contracts at the time of exercise. As part of the Merger, participants in the Betfair Sharesave Plan were also offered the opportunity (as an alternative to exercise) to exchange their options over Betfair Shares for equivalent options over the Company's Shares which will be eligible to vest at the normal maturity dates.

Outstanding at 1 January 2018	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2018
31,019	**–**	**(316)**	**(30,703)**	**–**

The weighted average exercise price for share options exercised during the year is £21.35 (31 December 2017: £21.30) at a weighted average share price at the date of exercise of £82.21 (31 December 2017: £84.66).

The Betfair Restricted Share Scheme

On Merger, the Group acquired a restricted share scheme. The movements in this scheme during the year ended 31 December 2018 were as follows:

Outstanding at 1 January 2018	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2018
400	**–**	**–**	**(400)**	**–**

Restricted shares are valued with reference to the market value of the shares on the date of grant. As part of the Merger, participants holding such options were offered the opportunity (as an alternative to exercise) to exchange such options for equivalent vested options over PPB Shares (calculated by reference to the Exchange Ratio). These replacement options are exercisable until the normal lapse dates that would have applied to the original options over Betfair Shares had the Merger not occurred (being not later than the tenth anniversary of the grant date of the original option).

Unvested options granted over the Betfair Restricted Share Scheme which were outstanding at the date of the Court Order vested in full in accordance with the applicable rules on the date of the Court Order.

The weighted average exercise price for share options exercised during the year was a nominal price (31 December 2017: a nominal price) at a weighted average share price at the date of exercise of £82.20 (31 December 2017: £86.17).

The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan

The following share plans were acquired on the Merger completion date ("Completion") and were originally introduced in the Betfair Group to incentivise and reward for the successful delivery of the short-term and long-term business strategy:

- The Betfair Long Term Incentive Plan ("LTIP") which consists of restricted share awards; and
- The Betfair Deferred Share Incentive Plan ("DSIP") which consists of cash and restricted share awards.

The schemes have awards in the form of cash and restricted shares. The level of award granted in each of the schemes were based on a mixture of the individual performance of the employee and Group-wide performance over the term of the award which was between one and three years.

Prior to the Merger, Paddy Power and Betfair agreed that outstanding unvested awards granted under the Betfair Long Term Incentive Plan ("Betfair LTIP Awards") in 2013/14, 2014/15 and 2015/16 would not vest on Completion but would be replaced by awards over an equivalent number of the Company's Shares (calculated by reference to the Exchange Ratio) which would have the same normal vesting dates as the original awards but be subject to certain absolute vesting levels.

The vesting levels of the replacement awards would crystalise on grant reflecting the extent to which the Betfair Remuneration Committee considered that the performance conditions applying to the relevant awards would have been satisfied at the end of the original vesting periods (the "Betfair Fixed Vesting Level"). The Betfair Fixed Vesting Levels for each of the awards were agreed to be as follows:

- 2013/14 Betfair LTIP Awards — 100% of the underlying shares to vest in full on the normal vesting dates between July 2016 and April 2017;
- 2014/15 Betfair LTIP Awards — 100% of the underlying shares to vest in full on the normal vesting dates between June 2017 and March 2018; and
- 2015/16 Betfair LTIP Awards — a proportion of the underlying shares to vest in full on the normal vesting date in July 2018 or, if later, three years after the applicable date of grant. This proportion would be the time-pro rata proportion of the three year vesting period (from the date of grant) elapsed at the later of the date of Completion and the date on which the 2015 Performance Based Award (as defined below) became effective.

18. Share-based payments (continued)

The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan (continued)

In the case of the 2015/16 Betfair LTIP Awards, an additional replacement award was granted in respect of the balance of the awards not reflected in the Betfair Fixed Vesting Level which would be capable of vesting on the third anniversary of the date of grant according to the extent to which specified performance conditions relating to the performance of the Group are satisfied (the "2015 Performance Based Award"). These performance conditions were set out in the Directors' Remuneration Report in the 2015 Annual Report of Paddy Power Betfair plc, as were agreed post-Completion by the Remuneration Committee. Through 2016 and 2017, earnings and revenue growth has been very strong and as such the maximum target under both measures was exceeded and this award vested in full.

As part of the Merger, participants holding vested DSIP options were offered the opportunity (as an alternative to exercise) to exchange such options for equivalent vested options over the Company's Shares (calculated by reference to the Exchange Ratio). These replacement options are exercisable until the normal lapse dates that would have applied to the original options over Betfair Shares had the Merger not occurred (being not later than the tenth anniversary of the grant date of the original option).

Unvested options granted over the Betfair DSIP which were outstanding at the date of the Court Order vested in full in accordance with the applicable rules on the date of the Court Order.

Outstanding at 1 January 2018	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2018
681,646	**8,743**	**(12,869)**	**(334,329)**	**343,191**

The outstanding shares on these schemes are exercisable up to 2025.

The weighted average exercise price for share options exercised during the year was a nominal price (31 December 2017: a nominal price) at a weighted average share price at the date of exercise of £77.66 (31 December 2017: £83.26). The total number of shares exercisable at 31 December 2018 is 343,191.

The options granted in the year represent dividend roll-ups, in line with documented scheme rules.

The fair value of the share options in the LTIP scheme is expensed over the three year period that the options vest.

The Paddy Power Betfair plc Sharesave Scheme

During the year, 155,179 options were granted under the Paddy Power Betfair plc Sharesave Scheme. These SAYE options must ordinarily be exercised within six months of completing the relevant savings period. In line with market practice, the exercise of these options is not subject to any performance conditions.

Similar to the schemes offered prior to the Merger, all employees (including Executive Directors) who have not less than six months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 per cent of the closing price of the shares on the Irish and London Stock Exchanges on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with all Sharesave related schemes is €500/£500.

	Outstanding at 1 January 2018	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2018
2016	**129,091**	**–**	**(33,259)**	**(3,031)**	**92,801**
2017	**261,363**	**–**	**(55,094)**	**(3,132)**	**203,137**
2018	**–**	**155,179**	**(3,577)**	**–**	**151,602**
Total	**390,454**	**155,179**	**(91,930)**	**(6,163)**	**447,540**

Year granted	Exercise price £	Exercisable before
2016	69.19	2020
2017	57.87	2021
2018	54.68	2022

The weighted average share price at the date of exercise was £75.96 (31 December 2017: £84.40). No shares were exercisable at 31 December 2018.

The fair value of the options is expensed over the period that the options vest. The following assumptions were used in the Black-Scholes pricing model for the 2016 and 2017 options:

	2016 – 2017
Share price at date of grant	£77.25 – £85.70
Exercise price	£57.87 – £69.19
Expected volatility	26.71% – 30.56%
Expected term until exercised	3.25 years
Expected dividend yield	2.18% – 2.30%
Risk-free interest rate	0.28% – 0.86%

The following assumptions were used in the Black-Scholes pricing model for the 2018 options:

	2018
Share price at date of grant	**£67.99**
Exercise price	**£54.68**
Expected volatility	**26.88%**
Expected term until exercised	**3.25 years**
Expected dividend yield	**2.97%**
Risk-free interest rate	**0.96%**

The Paddy Power Betfair plc Long Term Incentive Plan, Medium Term Incentive Plan and Deferred Share Incentive Plan

The following share plans were introduced post-Merger to incentivise and reward for the successful delivery of the short, medium and long-term business strategy:

- Long Term Incentive Plan ("LTIP") which consists of restricted share awards;
- Medium Term Incentive Plan ("MTIP") which consists of restricted share awards; and
- Deferred Share Incentive Plan ("DSIP") which consists of cash and restricted share awards.

The level of award granted in each of the schemes is based on a mixture of the individual performance of the employee and the Group wide performance over the term of the award which is between one and three years.

The DSIP has cash elements which are fixed in value and are paid and expensed in the first year that the awards are issued. The cash award represents two-thirds of the total award. There is no option given to elect to have these issued in shares. The cash element issued is classified as a cash bonus in the income statement and not a 'cash-settled share-based payment' on the basis that the employee does not have the option to choose whether they receive cash or shares, and the award value is fixed and not based on share price movements.

The restricted share portion of the DSIP award will vest over the second and third year of the scheme.

	Outstanding at 1 January 2018	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2018
2016	**287,390**	**5,363**	**(79,181)**	**(60,490)**	**153,082**
2017	**301,692**	**223**	**(61,543)**	**(5,383)**	**234,989**
2018	**–**	**341,558**	**(24,940)**	**–**	**316,618**
Total	**589,082**	**347,144**	**(165,664)**	**(65,873)**	**704,689**

Year granted	Exercise price £	Exercisable before
2016	–	2026
2017	–	2027
2018	–	2028

The weighted average exercise price for share options exercised during the year was a nominal price and at a weighted average share price at the date of exercise of £72.56 (31 December 2017: £83.32). The value of each award was calculated at the grant date and expensed over a period of up to three years in which the awards vest. The total number of shares exercisable at 31 December 2018 is 20,337. The fair value at date of the awards granted during the year was £66.87 - £79.23 (2017: £73.70 - £83.74).

18. Share-based payments (continued)

The Paddy Power Betfair plc Restricted Share Plan

During the year, 41,138 (2017: 17,631) options were granted under the Paddy Power Betfair plc Restricted Share plan. The movements in this plan during the year ended 31 December 2018 were as follows:

	Outstanding at 1 January 2018	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2018
2017	**17,631**	**323**	**(1,840)**	**(5,752)**	**10,362**
2018	**–**	**40,815**	**–**	**–**	**40,815**
Total	**17,631**	**41,138**	**(1,840)**	**(5,752)**	**51,177**

The level of award granted on this plan is based on a mixture of individual performance of the employee and Group-wide performance over the term of the award which is between one and three years. Restricted shares are valued with reference to the market value of the shares on the date of grant. The value of each award was calculated at the grant date and expensed over a period of up to three years in which the awards vest. weighted average exercise price for share options exercised during the year was a nominal price and at a weighted average share price at the date of exercise of £72.39 (31 December 2017: £nil). The fair value at date of the awards granted during the year was £62.43 - £79.23 (2017: £73.70 - £88.15).

FanDuel Group Value Creation Plan (VCP)

In 2019, the Group intends to introduce a plan for FanDuel Group employees that will allow them share in the future value created within the FanDuel Group. As there have been communications to staff in 2018 in respect of this plan, an expense of £2.4m has been recognised in the year. Employees will be awarded an allocation of units which represent a share in value created. The value of these units will be determined by the value of the business at July 2021 and July 2023 compared to benchmark. Employees have the option to exercise 50% of these units at July 2021 at the prevailing value or roll some or all of them to July 2023 at the prevailing value at that date. The Group will have the option of settling this plan via the issuance of Paddy Power Betfair plc shares or cash.

The Paddy Power Betfair plc Employee Benefit Trust

Prior to the Merger, awards under the Paddy Power Plc Long Term Incentive Plan were satisfied from the Paddy Power Betfair plc Employee Benefit Trust (the "EBT"). Post-Merger, certain other awards may also be satisfied from the EBT. Purchases of Paddy Power Betfair plc ordinary shares from 1 January 2017 to 31 December 2018 and shares vested from the EBT during that period, are shown below:

	Number of Paddy Power Betfair plc ordinary shares	Cost of purchase £m
Shares held by the EBT at 1 January 2017	478,392	30.9
Purchased	29,342	2.5
Vested from the EBT in 2017	**(306,761)**	**(17.8)**
Shares held by the EBT at 31 December 2017	**200,973**	**15.6**
Vested from the EBT in 2018	**(101,232)**	**(7.0)**
Shares held by the EBT at 31 December 2018	**99,741**	**8.6**

The results of the EBT are included in the Paddy Power Betfair plc Company financial statements. The shares held by the EBT at the reporting date are shown as a deduction from equity in the consolidated statement of financial position in accordance with the Group's accounting policy (see Note 16).

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2018			31 December 2017		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Property, plant and equipment	**7.8**	**(0.2)**	**7.6**	6.8	–	6.8
Intangible assets	**1.7**	**(82.4)**	**(80.7)**	–	(57.3)	(57.3)
Employee benefits	**11.2**	**–**	**11.2**	14.8	–	14.8
Other	**–**	**(4.8)**	**(4.8)**	–	(1.8)	(1.8)
Net assets/(liabilities)	**20.7**	**(87.4)**	**(66.7)**	21.6	(59.1)	(37.5)

Deferred tax assets and liabilities have been offset at 31 December 2018 and 2017 where there is a legally enforceable right to such set-off in each jurisdiction. Included in the statement of financial position is a deferred tax asset of £10.7m (2017: £11.7m) and a deferred tax liability of £77.4m (2017: £49.2m).

The deferred tax liability in relation to intangible assets disclosed above primarily relates to the deferred tax liability arising in respect of acquisition accounting related intangibles. This deferred tax liability continues to unwind as the intangible assets are amortised over their useful economic life.

The deferred tax asset arising on employee benefits relates to future tax deductions the Group expects to receive in relation to share based payments operated by the Group to reward its employees. The asset is recognised at the tax rate at which it is expected to unwind.

Movement in temporary differences during the year

	Property, plant and equipment £m	Business combinations – intangible assets £m	Employee benefits £m	Other £m	Total £m
Balance at 1 January 2017	4.5	(76.0)	17.7	1.4	(52.4)
Recognised in income	2.3	19.4	(0.7)	(3.3)	17.7
Recognised directly in equity	–	–	(2.1)	–	(2.1)
Foreign currency translation adjustment	–	(0.7)	(0.1)	0.1	(0.7)
Balance at 31 December 2017	**6.8**	**(57.3)**	**14.8**	**(1.8)**	**(37.5)**
Recognised in income	**0.8**	**13.4**	**0.5**	**(3.0)**	**11.7**
Arising on acquisition	**–**	**(35.9)**	**–**	**–**	**(35.9)**
Recognised directly in equity	**–**	**–**	**(3.6)**	**–**	**(3.6)**
Foreign currency translation adjustment	**–**	**(0.9)**	**(0.5)**	**–**	**(1.4)**
Balance at 31 December 2018	**7.6**	**(80.7)**	**11.2**	**(4.8)**	**(66.7)**

Unrecognised deferred tax assets

The Group has unrecognised deferred tax assets in respect of losses of £20.4m (2017: £16.8m), and unrecognised deferred tax assets in respect of depreciation in excess of capital allowances of £0.7m (2017: £0.7m). These have not been recognised on the basis that there is insufficient certainty of there being future taxable profits in the relevant jurisdictions, and therefore the assets will not be realisable.

20. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2018 £m	31 December 2017 £m
Trade and other payables		
Trade payables	**21.3**	3.1
Customer balances	**155.3**	68.6
PAYE and social security	**5.2**	5.7
Value-added tax and goods and services tax	**0.9**	–
Betting duty, data rights, and product and racefield fees	**39.5**	41.3
Employee benefits	**43.5**	47.7
Liability to purchase own shares	**86.8**	–
Contingent deferred consideration – business combinations (Note 29)	**4.8**	3.8
Accruals and other liabilities	**175.5**	164.5
Total	**532.8**	334.7
Derivative financial liabilities		
Sports betting open positions (Note 29)	**20.1**	7.8

20. Trade and other payables and derivative financial liabilities (continued)

Non-current liabilities

	31 December 2018 £m	31 December 2017 £m
Trade and other payables		
Employee benefits	**0.6**	0.3
Contingent deferred consideration – business combinations (Note 29)	**17.0**	30.0
Accruals and other liabilities	**8.6**	4.2
Total	**26.2**	34.5
Derivative financial liabilities		
Sports betting open positions (Note 29)	**0.9**	2.3

The liability to purchase own shares relates to an obligation arising under a buyback agreement for the purchase of the Company's own shares (see Note 16).

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

The carrying amount of the liabilities is not significantly different from the amount that the Group is expected to pay out at maturity of the financial instruments. Sports bets are non-interest bearing. There is no interest rate or credit risk associated with open sports bets.

Contingent deferred consideration – business combinations

Included within non-current liabilities is contingent and deferred consideration of £17.0m due to Betfair's historical acquisition of HRTV, a horseracing television network based in the United States. The amount payable at 31 December 2018 in respect of this acquisition amounted to £21.5m, with £17.0m due after one year from the reporting date.

21. Provisions

Current

	31 December 2018 £m	31 December 2017 £m
Employee benefits (long service leave)	**0.7**	0.5
Betting duty, data rights, and product and racefield fees (gaming tax)	**2.6**	2.6
Accruals and other liabilities (onerous contracts)	**1.0**	0.1
Total	**4.3**	3.2

Non-current

	31 December 2018 £m	31 December 2017 £m
Employee benefits (long service leave)	**0.8**	0.8
Accruals and other liabilities (lease reinstatement and onerous contracts)	**0.5**	0.4
Total	**1.3**	1.2

The movements in provisions during 2017 and 2018 were as follows:

Current

	Long service leave £m	Gaming tax £m	Onerous contracts £m	Total £m
Balance at 1 January 2017	0.5	2.6	1.5	4.6
Amounts used during the year	–	–	(1.5)	(1.5)
Transfers from current liabilities	–	–	0.1	0.1
Balance at 31 December 2017	**0.5**	**2.6**	**0.1**	**3.2**
Amounts used during the year	**(0.2)**	**–**	**(0.1)**	**(0.3)**
Additional provisions recognised	**0.2**	**–**	**1.0**	**1.2**
Transfers from current liabilities	**0.2**	**–**	**–**	**0.2**
Balance at 31 December 2018	**0.7**	**2.6**	**1.0**	**4.3**

Non-current

	Long service leave £m	Lease reinstatement £m	Onerous contracts £m	Total £m
Balance at 1 January 2017	0.6	0.1	0.4	1.1
Transfers to current liabilities	–	–	(0.1)	(0.1)
Charged to the income statement:				
– Additional provisions recognised	0.2	–	–	0.2
Balance at 31 December 2017	**0.8**	**0.1**	**0.3**	**1.2**
Transfers to current liabilities	**(0.2)**	**–**	**–**	**(0.2)**
Charged to the income statement:				
– Additional provisions recognised	**0.2**	**0.1**	**–**	**0.3**
Balance at 31 December 2018	**0.8**	**0.2**	**0.3**	**1.3**

Long service leave

The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the reporting date avail of their entitlement to leave and their expected salaries at that time. As of 31 December 2018, it was expected that cash outflows would occur primarily within the following five years (2017: within the following five years).

Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the expected term of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. The cash outflows are expected to occur at various stages over the next 22 years as longer term leases are not renewed (2017: the next 23 years).

Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of these net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over a period of up to 13 years (2017: 14 years).

21. Provisions (continued)

Gaming tax

Gaming tax provisions relate to amounts provided for taxes in certain jurisdictions where the interpretation of tax legislation is uncertain. When the group disagrees with the application of unclear tax legislation, for example when it is applied retrospectively and/or results in a one-off disproportionate tax equivalent to many times the profit derived by the Group from its historic activities in that jurisdiction, the Group continues to challenge these interpretations.

Whilst the maximum potential obligation for all ongoing cases could be greater than the recognised provision, and the outcomes may not be known for some time, a liability has been recorded for the Directors' best estimate of the cash outflows that will ultimately be required in respect of each claim. Management have not provided a sensitivity for this provision as the range is not considered to be material. Management note this is a key estimate, however it is not a key judgement that will have a material impact in the coming year.

22. Borrowings

Current liabilities

	31 December 2018 £m	31 December 2017 £m
Accrued interest on borrowings	**0.4**	–

Non-current liabilities

	31 December 2018 £m	31 December 2017 £m
Revolving credit facility	**285.0**	62.2
Less: expenses relating to revolving credit facility	**(2.0)**	–
Total	**283.0**	62.2

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300 million provided by a syndicate of banks which expired in May 2020. In 2018, the RCF was amended to an amount of £450 million and was extended to expire in April 2023. At 31 December 2018, £285.0m of this facility was drawn down (2017: €70m (£62.2m)). During 2018, the Group drew down £345.0m (2017: £Nil) and repaid £121.9m (2017: €180.0m (£157.6m)) under this facility.

Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at LIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings. Upfront participation and arrangement fees plus associated costs incurred in arranging the RCF have been capitalised and offset against the loan in the consolidated statement of financial position and are being amortised to the income statement over the expected life of the facility.

It is the Directors' opinion that due to the Group's bank borrowings being subject to floating interest rates and the proven cash generation capability of the Group, there is no significant difference between the book value and fair value of the Group's borrowings.

Under the terms of the RCF, the Group is required to comply with the following financial covenants on a semi-annual basis:

- **Net Leverage Ratio:** Consolidated net borrowings shall not be more than 3.0 times underlying consolidated EBITDA.
- **Interest Cover Ratio:** Underlying consolidated EBITDA shall not be less than 4.0 times net finance charges.

During the year ended 31 December 2018, all covenants have been complied with.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Borrowings £m
Balance at 1 January 2018	62.2
Changes from financing cash flows	
Amounts drawn on borrowings facility	345.0
Amounts repaid on borrowing facility	(121.9)
Fees in respect of borrowing facility	(2.4)
Interest paid	(3.1)
Total	217.6
Other changes	
Interest on borrowings	3.3
Unwinding of capitalised expenses relating to revolving credit facility	0.4
Foreign exchange movements	(0.1)
Total other changes	3.6
Balance at 31 December 2018	283.4

23. Financial risk management

The Group has the following risk exposures in relation to its use of financial instruments:

- Market risk;
- Credit risk;
- Liquidity risk;
- Foreign currency risk; and
- Interest rate risk.

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 24 to 27.

General

The Board of Directors has overall responsibility for the management of the Group's risks. This responsibility is delegated to a number of committees over which the Board has oversight. The primary Board committees set up to manage risks are the Risk Committee and the Audit Committee. Both these Committees report regularly to the Board on their activities. The oversight of the Group's treasury operations is performed by an Investment Committee, chaired by the Chief Financial Officer, which reports annually to the Audit Committee on its activities.

Market risk

Market risk relates to the risk that changes in prices, including sports betting prices/odds, foreign currency exchange rates and interest rates (see also 'Interest rate risk' section below), will impact the Group's income or the value of its financial instruments. Market risk management has the function of managing and controlling the Group's exposures to market risk to within acceptable limits, while at the same time ensuring that returns are optimised.

The management of market risk is performed by the Group under the supervision of the Risk Committee and the Investment Committee and according to the guidelines approved by them. The Group will utilise hedges where there is an identified requirement to manage profit or loss volatility.

23. Financial risk management (continued)

Sports betting prices/odds

Managing the risks associated with sportsbook bets is a fundamental part of the Group's business. The Group has a separate Risk Department which has responsibility for the compilation of bookmaking odds and for sportsbook risk management. The Risk Department is responsible for the creation and pricing of all betting markets and the trading of those markets through their lives. A mix of traditional bookmaking approaches married with risk management techniques from other industries is applied, and extensive use is made of mathematical models and information technology. The Group has set predefined limits for the acceptance of sportsbook bet risks. Stake and loss limits are set by reference to individual sports, events and bet types. These limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged with third parties in certain circumstances to minimise potential losses. The profits and losses recorded on sportsbook hedging activities are recorded in 'revenue' in the income statement.

24. Credit risk

The Group's credit risk represents the risk that a financial loss may result in the event that a counterparty to a financial instrument, a trading partner or customers fail to meet their contractual obligations.

Trade and other receivables

The Group's sports betting and gaming businesses are predominantly cash and credit card/debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. The impairment allowance also includes a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. There is no material concentration of sales with individual customers.

Cash investments and foreign exchange forward contracts

It is Group treasury policy to limit investments in cash deposits and foreign exchange forward contracts to counterparties that have a Moody's (or equivalent) long term credit rating of A3 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved by the Investment Committee.

A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with any individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the reporting date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

The Group continues to carefully measure counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and to take action to mitigate such risks as are identified. The Group has accordingly restricted its cash deposit investments to counterparties that had higher credit ratings and has, when required, shortened the maturities of deposits placed.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2018 £m	31 December 2017 £m
Restricted cash	**167.2**	75.4
Trade receivables	**5.1**	4.8
Other receivables	**6.9**	3.1
Cash and cash equivalents	**123.7**	306.6
Total	**302.9**	389.9

The maximum exposure to credit risk for trade and other receivables by geographic region at 31 December was:

	31 December 2018 £m	31 December 2017 £m
United Kingdom	**4.5**	2.6
Ireland	**1.2**	0.5
Australia	**1.4**	1.1
US	**3.1**	2.0
Other	**1.8**	1.7
Total	**12.0**	7.9

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 31 December was:

	31 December 2018 £m	31 December 2017 £m
Trade receivables – credit betting customers	**1.7**	0.3
Trade receivables – other sports betting counterparties	**3.4**	4.5
Other receivables	**6.9**	3.1
Total	**12.0**	7.9

Significant customers

There were no individual customers at 31 December 2018 or 31 December 2017 that represented over ten per cent of trade receivables.

Impairment losses

The ageing of trade receivables at 31 December 2018 was as follows:

	Gross £m	Impairment allowance £m	Net £m
Not past due	1.2	–	1.2
Past due 0 days to 30 days	1.2	(0.3)	0.9
Past due 31 days to 120 days	2.2	(0.6)	1.6
Past due 121 days to 365 days	4.1	(2.7)	1.4
More than one year	0.9	(0.9)	–
Total	9.6	(4.5)	5.1

The gross trade receivable balance is £9.6m (2017: £8.6m) with an allowance for impairment in respect of these receivables of £4.5m (2017: £3.8m). Impairment losses of £0.3m (2017: £1.3m) were written off during the year.

25. Liquidity risk

This represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for liquidity management is to ensure that there is sufficient liquidity in place to meet its liabilities as they fall due, both under normal or potential adverse conditions, and without resulting in undue loss or damage to the Group.

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of up to 12 months. Information on the overall maturity of deposits at 31 December 2018 and 2017 is set out in Note 15. It is the Directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

25. Liquidity risk (continued)

The Group has the following lines of credit:

- A committed revolving credit bank loan facility ("RCF") of £450m obtained from a syndicate of banks which expires in April 2023. At 31 December 2018, £285.0m of this facility was drawn down. Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at LIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling £4.4m (€5.0m). Interest is payable thereon at the bank's prime overdraft rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power Betfair plc in favour of Allied Irish Banks p.l.c.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling £6.1m. Interest is payable thereon at the bank's sterling base rate plus 3.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power Betfair plc in favour of AIB Group (UK) p.l.c.

At 31 December 2018 and 31 December 2017, none of the bank overdraft facilities were being utilised.

The following are the contractual maturities of financial liabilities as at 31 December:

	31 December 2018						
	Carrying amount £m	**Contractual cash flows £m**	**6 months or less £m**	**6 to 12 months £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 years and over £m**
Non-derivative financial liabilities							
Trade and other payables	**537.2**	**537.2**	**520.3**	**7.7**	**4.7**	**3.4**	**1.1**
Contingent deferred consideration	**21.8**	**26.0**	**2.6**	**2.2**	**7.5**	**8.4**	**5.3**
Borrowings – Revolving Credit Facility and Interest	**285.4**	**295.4**	**1.6**	**1.6**	**3.1**	**3.1**	**286.0**
	844.4	**858.6**	**524.5**	**11.5**	**15.3**	**14.9**	**292.4**
Derivative financial liabilities							
Sports betting open positions	**21.0**	**21.0**	**17.7**	**2.4**	**–**	**–**	**0.9**
Total	**865.4**	**879.6**	**542.2**	**13.9**	**15.3**	**14.9**	**293.3**

	31 December 2017						
	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 years and over £m
Non-derivative financial liabilities							
Trade and other payables	335.4	335.4	330.0	0.9	3.3	0.1	1.1
Contingent deferred consideration	33.8	43.0	1.5	2.3	5.0	14.4	19.8
Borrowings – Revolving Credit Facility	62.2	63.7	0.3	0.4	0.7	62.3	–
	431.4	442.1	331.8	3.6	9.0	76.8	20.9
Derivative financial liabilities							
Sports betting open positions	10.1	10.1	7.7	0.1	0.5	–	1.8
Total	441.5	452.2	339.5	3.7	9.5	76.8	22.7

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, and may vary depending on the future performance of the acquired businesses.

26. Currency risk

The Group is exposed to currency risk in respect of revenue, expenses, receivables, cash and cash equivalents, and other financial assets and financial liabilities (primarily trade payables, accruals and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are pound sterling ("GBP"), euro ("EUR"), Australian dollar ("AUD") and US dollar ("USD").

It is Group policy to ensure that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into the subsidiaries' functional currency at spot rates. Foreign exchange impacts therefore arise on the retranslation of their income and expense into their functional currency for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and other derivatives to manage foreign currency exposures on expected future cash flows.

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, it remains exposed to exchange rate risk in respect of its expected future foreign currency denominated income and expenses in its foreign operations.

Currency risk exposure

As of 31 December 2018 and 2017, the Group's foreign currency risk exposure, based on the functional currencies of its operations, was as follows:

	31 December 2018					31 December 2017				
	EUR £m	**GBP £m**	**AUD £m**	**USD £m**	**Other £m**	EUR £m	GBP £m	AUD £m	USD £m	Other £m
Trade and other receivables	**4.2**	**1.4**	**0.3**	**0.2**	**–**	0.1	–	0.8	0.2	–
Financial assets – restricted cash, and cash and cash equivalents	**28.8**	**0.3**	**1.7**	**3.8**	**0.8**	16.9	60.4	1.4	3.3	0.6
Non-derivative financial liabilities	**(14.9)**	**(0.4)**	**0.1**	**5.4**	**(0.3)**	(12.4)	(60.6)	(6.5)	1.3	(0.3)
Derivative financial liabilities	**(8.6)**	**–**	**–**	**–**	**–**	–	(2.1)	(0.1)	–	–
Gross statement of financial position exposure	**9.5**	**1.3**	**2.1**	**9.4**	**0.5**	4.6	(2.3)	(4.4)	4.8	0.3

The following are the significant exchange rates that applied during the year:

	Average rate		31 December (mid-spot rate)	
	2018	2017	**2018**	2017
To 1 GBP:				
EUR	**1.130**	1.141	**1.118**	1.127
AUD	**1.760**	1.681	**1.813**	1.730
USD	**1.334**	1.289	**1.280**	1.352

Sensitivity analysis

A ten per cent increase and decrease in the value of pound sterling against the following currencies at 31 December 2018 and 2017 would have increased/(decreased) profit and equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Equity	
	10% increase £m	10% decrease £m	10% increase £m	10% decrease £m
31 December 2018				
EUR	**(1.0)**	**1.0**	**–**	**–**
AUD	**(0.2)**	**0.2**	**(16.4)**	**16.4**
USD	**(0.9)**	**0.9**	**(72.0)**	**72.0**
31 December 2017				
EUR	(0.7)	0.7	0.6	(1.4)
AUD	0.4	(0.4)	(20.5)	20.5
USD	(0.5)	0.5	(43.2)	43.2

27. Interest rate risk

Interest rate risk arises primarily from the Group's borrowings which are at a floating rate. The Group may manage this risk through the use of interest rate derivatives as appropriate. At 31 December 2018, the Group was not party to any such derivative. Excess cash funds are invested in interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit.

Profile

At 31 December 2018 and 31 December 2017 the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2018 £m	31 December 2017 £m
Variable rate instruments		
Financial assets – restricted cash	**167.2**	75.4
Financial assets – cash	**123.7**	306.6
Borrowings – Revolving Credit Facility and Interest	**(285.4)**	(62.2)
	5.5	319.8

Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ("bps") in interest rates at 31 December 2018 and at 31 December 2017 would have (decreased)/increased profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Equity	
	50 bps increase £m	50 bps decrease £m	50 bps increase £m	50 bps decrease £m
31 December 2018				
Variable rate instruments	**–**	**1.1**	**–**	**–**
31 December 2017				
Variable rate instruments	1.6	(0.2)	–	–

Due to the low interest rates already applying to a significant portion of the Group's cash balances, a 50bps decrease in interest rates has only a marginal impact on the interest income earned by the Group.

28. Capital management

The capital structure of the group consists of cash and cash equivalents, debt finance, issued capital, reserves and retained earnings. The efficiency of the Group's capital structure is kept under regular review by the Board.

The Group continues to target a medium term leverage range of between 1x and 2x net debt to EBITDA. This target reflects the Group's strong cash flow generation, general capital market conditions and the need to retain strategic flexibility for continuing investment opportunities. The Group has significant capacity in respect of its ability to pay dividends with no material restrictions.

The Group has the authority to buy back up to ten per cent of the Company's issued share capital between the dates of its Annual General Meetings ("AGM"s), subject to the annual approval of its shareholders at the Company's AGM. Shares bought back may either be cancelled or held in treasury. In 2018, 5,635,089 shares have been bought and subsequently cancelled as part of the share buy back program. The Company's ordinary shares are also acquired on the market periodically by the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") to meet the EBT's obligations under share award schemes. These shares are held by the EBT and ownership is transferred to the EBT's beneficiaries if and when the related share awards vest.

At 31 December 2018 and 31 December 2017, neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements.

29. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities carried at amortised cost in the statement of financial position:

	31 December 2018		31 December 2017	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Assets				
Trade receivables	5.1	5.1	4.8	4.8
Other receivables	6.9	6.9	3.1	3.1
Restricted cash	167.2	167.2	75.4	75.4
Cash and cash equivalents	123.7	123.7	306.6	306.6
Total	302.9	302.9	389.9	389.9
Liabilities				
Trade and other payables	(537.2)	(537.2)	(335.4)	(335.4)
Borrowings – Revolving Credit Facility and Interest	(285.4)	(285.4)	(62.2)	(62.2)
Total	(822.6)	(822.6)	(397.6)	(397.6)
Net	(519.7)	(519.7)	(7.7)	(7.7)

Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments	–	–	2.4	2.4
Derivative financial liabilities	–	–	(21.0)	(21.0)
Non-derivative financial liabilities	–	–	(21.8)	(21.8)
Total	–	–	(42.8)	(42.8)

	31 December 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Investments	–	–	15.1	15.1
Derivative financial liabilities	–	–	(10.1)	(10.1)
Non-derivative financial liabilities	–	–	(33.8)	(33.8)
Total	–	–	(43.9)	(43.9)

29. Fair values (continued)

Basis for determining fair values

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Financial instruments carried at amortised cost

Trade and other receivables (Level 2)

The fair value of trade and other receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Financial assets and cash and cash equivalents (Level 2)

The fair values of restricted cash and cash and cash equivalents are based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

Trade and other payables (Level 2)

The fair value of trade and other payables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Borrowings (Level 2)

The fair value of borrowings is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Financial instruments carried at fair value

Investments (Level 3)

The fair value of investments is assumed to be the proceeds received on the disposal of Featurespace in January 2019 (See Note 14).

Derivative financial instruments (Level 3)

Derivative financial instruments comprise sports betting open positions. The fair value of open sports bets at the year-end has been calculated using the latest available prices on relevant sporting events.

Non-derivative financial liabilities (Level 3)

Non-derivative financial liabilities includes contingent consideration. The contingent consideration payable is determined with reference to forecast performance for the acquired businesses during the relevant time periods and the amounts to be paid in such scenarios. The fair value was estimated by assigning probabilities to the potential payout scenarios. The significant unobservable inputs are forecast performance for the acquired businesses.

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value

The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2018 and 2017:

Sports betting open positions

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. There are no reasonably probable changes to assumptions and inputs that would lead to material changes in the fair value methodology although final value will be determined by future sporting results.

Contingent consideration

The fair value of contingent consideration is primarily dependent on forecast performance for the acquired businesses against predetermined targets. An increase and decrease of 10% in the expected performance for the acquired businesses during the relevant time periods would increase and decrease the value of contingent consideration at 31 December 2018 by £0.9m and £0.9m respectively (2017: £1.9m and £3.3m).

Investments

See Note 14 for further detail relating to the sale of the Group's primary investment in 2019.

Movements in the year in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	Sports betting open positions £m	Contingent deferred consideration £m	Investments £m	Total £m
Balance at 1 January 2017	(8.6)	(24.1)	1.4	(31.3)
Arising on acquisitions (Note 13)	–	(13.0)	–	(13.0)
Recognised in the income statement	1,358.6	(2.9)	–	1,355.7
Change in fair value booked to retained earnings	–	–	13.7	13.7
Settlements	(1,360.1)	3.5	–	(1,356.6)
Foreign currency translation adjustment	–	2.7	–	2.7
Balance at 31 December 2017	**(10.1)**	**(33.8)**	**15.1**	**(28.8)**
Arising on acquisitions (Note 13)	**–**	**(0.1)**	**–**	**(0.1)**
Recognised in the income statement	**1,425.2**	**7.4**	**9.2**	**1,441.8**
Settlements	**(1,436.1)**	**6.1**	**(21.9)**	**(1,451.9)**
Foreign currency translation adjustment	**–**	**(1.4)**	**–**	**(1.4)**
Balance at 31 December 2018	**(21.0)**	**(21.8)**	**2.4**	**(40.4)**

30. Commitments and contingencies

(a) Guarantees

The Group has uncommitted working capital overdraft facilities of £10.5m (2017: £10.5m) with Allied Irish Banks p.l.c. These facilities are secured by a Letter of Guarantee from Paddy Power Betfair plc.

The Group has bank guarantees: (1) in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies; and (2) in respect of certain third party rental and other property commitments, merchant facilities and third party letter of credit facilities. The maximum amount of the guarantees at 31 December 2018 was £15.7m (2017: £19.3m). No claims had been made against the guarantees as of 31 December 2018 (2017: £Nil). The guarantees are secured by counter indemnities from Paddy Power Betfair plc and certain of its subsidiary companies. The value of cash deposits over which the guaranteeing banks hold security was £0.9m at 31 December 2018 (2017: £0.9m).

The Australian corporate sports bookmaking licences issued to Sportsbet require those companies to hold sufficient cash funds to cover monies owed to customers. At 31 December 2018, the total value of relevant customer balances attributable to the Australia business segment was £45.5m (AUD82.5m) (2017: £40.0m (AUD69.1m)) and the combined cash and cash equivalent balances held by Sportsbet at that date totalled £65.6m (AUD119m) (2017: £107.6m (AUD186.1m)). In addition, the Group holds cash amounts totalling £121.7m (2017: £35.4m) in respect of customer funds that are not held on trust in The Sporting Exchange (Clients) Limited in accordance with local regulations. This includes the requirements of various states in the United States which requires fantasy contest operators to either segregate customer funds or else maintain a reserve in the form of cash and cash equivalents. Customer funds that are not held on trust are matched by liabilities of an equal value.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

As mentioned in Note 22, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

(b) Contingent liabilities

The Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements. The Board monitors legal and regulatory developments and their potential impact on the business, however given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted. See Note 33 for further detail in respect of legacy German and Greek tax assessments.

30. Commitments and contingencies (continued)

(c) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred was as follows:

	31 December 2018 £m	31 December 2017 £m
Property, plant and equipment	**11.3**	0.3
Intangible assets	**9.8**	0.6
Total	**21.1**	0.9

(d) Operating leases

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately five years left to run (if the Group was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2018 and 2017, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2018 £m	31 December 2017 £m
Within one year	**41.8**	36.7
Between two and five years	**106.0**	105.7
After five years	**34.3**	43.2
Total	**182.1**	185.6

The Group has a small number of properties that are sublet. Sublease payments of £2.2m (2017: £0.5m) are expected to be received during the year ended 31 December 2019.

During 2018, an expense of £39.1m was recognised in profit or loss in respect of operating leases (2017: £35.2m). Contingent rent expense in 2018 on profit or loss amounted to a cost of £0.1m. Sublease income (netted against operating lease expense on the basis of immateriality) amounted to £1.8m in 2018 (2017: £1.4m).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Group has determined that the leases are operating leases.

31. Related parties

The principal related party transactions requiring disclosure under IAS 24 *Related Party Transactions* relate to the existence of subsidiaries and transactions with these entities entered into by the Group, transactions with Directors and the identification and compensation of key management personnel.

Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. A listing of the material subsidiaries is provided in Note 32. Transactions to and from subsidiaries have been eliminated in the preparation of the consolidated financial statements.

Transactions with Directors

There were no loans outstanding to any Director at any time during the year. Details of Directors' remuneration, interests in share awards and share options are set out on pages 74 to 95. Other related party transactions between the Group and the Directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

- Pádraig Ó Ríordáin is a Partner in Arthur Cox and was a director of the Group until 2 March 2018. During this period, the Group incurred fees of €18,600 (year ended 31 December 2017: €86,300) relating to legal advice received from Arthur Cox.

Transactions with key management personnel, comprising Executive Directors, Non-Executive Directors and other members of the Group's Executive Committee

Key management personnel compensation is as follows:

	2018 £m	2017 £m
Short-term employee benefits	**5.5**	5.9
Non-Executive Directors fees	**0.9**	1.0
Post-employment benefits	**0.4**	0.4
Termination costs	**0.3**	–
Share-based payments costs	**7.2**	7.2
Total	**14.3**	14.5

32. Group entities

The Company had the following subsidiary undertakings carrying on businesses which materially affect the profits and assets of the Group at 31 December 2018:

Name	**Equity interest at 31 December 2018**	**Country of incorporation**	**Activity**	**Registered office**
Power Leisure Bookmakers Limited[1]	100%	England and Wales	Bookmaker and provision of support services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Betfair Group Limited[1]	100%	England and Wales	Holding company	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Betfair Limited	100%	England and Wales	Provision of support services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
TSE Holdings Limited	100%	England and Wales	Holding company	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Tradefair Spreads Limited[2]	99.8%	England and Wales	Spread betting services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
TSE Data Processing Limited	100%	Ireland	Provision of support services	Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, D04V972
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Victoria House, Gloucester Street, Belfast, BT1 4LS
CT Networks Limited	100%	Isle of Man	Games developer	Merchants House, 24 North Quay, Douglas, Isle of Man, IM1 4LE
PPB GE Limited	100%	Ireland	Online gaming	Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, D04V972
Paddy Power Holdings Limited[1]	100%	Isle of Man	Holding company	Merchants House, 24 North Quay, Douglas, Isle of Man, IM1 4LE
Sportsbet Pty Limited	100%	Australia	Online sports betting	Level 17, 367 Collins Street, Melbourne, Victoria 3000
Paddy Power Australia Pty Limited	100%	Australia	Holding company	Level 17, 367 Collins Street, Melbourne, Victoria 3000
Betfair Italia S.R.L.	100%	Italy	Online sports betting and gaming	Via Carducci 36, 20123, Milan
TSED Unipessoal LDA	100%	Portugal	R&D activities	Avenida de Camilo 72, 4300-095 Porto
Betfair Casino Limited	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
PPB Entertainment Limited	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
PPB Counterparty Services Limited	100%	Malta	Online sports betting	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Betfair International Plc	100%	Malta	Online sports betting and gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Betfair Holding (Malta) Limited	100%	Malta	Holding company	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Polco Limited	100%	Malta	Online sports betting	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
TSE Malta LP	100%	Gibraltar	Online sports betting	57/63 Line Wall Road, Gibraltar

32. Group entities (continued)

Name	Equity interest at 31 December 2018	Country of incorporation	Activity	Registered office
PPB Games Limited	100%	Malta	Online Gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Betfair Romania Development S.R.L.	100%	Romania	R&D activities	Cladirea The Office, B-dul 21 Decembrie 1989, Nr.77, Corp A, Etaj 4, Cluj-Napoca, 400604
FanDuel Group, Inc.	57.81%	USA	Holding company	251 Little Falls Drive, Wilmington, Delaware, 19808
FanDuel Limited	57.81%	Scotland	Fantasy sports betting, R&D activities and support services	Shepherd and Wedderburn LLP, 1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL
FanDuel Inc	57.81%	USA	Fantasy sports betting	Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801
Betfair Interactive US LLC	57.81%	USA	Online gaming	251 Little Falls Drive, Wilmington, Delaware, 19808
ODS Technologies LP	57.81%	USA	Horse racing broadcaster and betting network	251 Little Falls Drive, Wilmington, Delaware, 19808
HRTV LLC	57.81%	USA	Horse racing broadcaster and betting network	251 Little Falls Drive, Wilmington, Delaware, 19808
Betfair US LLC	57.81%	USA	Online sports betting	251 Little Falls Drive, Wilmington, Delaware, 19808
StarStreet, LLC	57.81%	USA	Fantasy sports betting	251 Little Falls Drive, Wilmington, Delaware, 19808

1. These companies are held directly by Paddy Power Betfair plc.
2. Non-controlling interest of 0.2% exists in relation to Tradefair Spreads Limited. The value of the non-controlling interest was less than £0.1m at 31 December 2018.

All subsidiary undertakings have been included in the Group consolidated financial statements.

In addition to the above subsidiary undertakings, the Group utilises an employee trust, The Paddy Power Betfair plc Employee Benefit Trust, with a registered address at 12 Castle Street, St Helier, Jersey, JE2 3RT, and which holds shares under the share award schemes.

33. Events after the reporting date

Dividend

In respect of the current year, the Directors propose that a final dividend of 133.0 pence per share will be paid to shareholders on 21 May 2019. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register of members on 12 April 2019. The total estimated dividend to be paid amounts to £104m.

Acquisition of Adjarabet

On 1 February 2019, the Group announced the acquisition of an initial 51% controlling stake in Adjarabet, the market leader in online betting and gaming in the regulated Georgian market. The Group, through agreed option agreements, expects to acquire the remaining 49% after three years.

In 2018, Adjarabet generated revenues (unaudited) of 215m Georgian Lari (GEL) (£64m) and EBITDA (unaudited) of GEL68m (£20m). The initial cash consideration being paid by the Group for the 51% stake is £101m. A mechanism has also been agreed, consisting of call and put options, which enables the Group to acquire the remaining 49% after three years at a valuation equivalent to 7 times 2021 EBITDA. The call/put option consideration can be settled, at the Group's election, in cash or shares. The acquisition-date fair value accounting exercise had not been completed as at 5 March 2019.

Legacy German & Greek tax assessments

On 13 February 2019, the Group provided an update on two separate disputed legacy tax assessments. The first relates to the Betfair Exchange in Germany, which operated there until November 2012, and the second relates to the paddypower.com business in Greece.

The Hessen Fiscal Court provided the Group with its decision relating to the Group's appeal of a 2012 German tax assessment relating to the Betfair Exchange, which operated in Germany until November 2012. The Fiscal Court found against the Group and deemed that a tax liability of approximately €40m (£36m) is payable (including accrued interest). This represents a multiple of the revenues generated by the Exchange during the assessment period.

Separately, the Group was recently issued with a Greek tax assessment for financial years 2012, 2013 and 2014, relating to paddypower.com's Greek interim licence. This assessment concluded that the Group is liable to pay €15m (£13m) in taxes including penalties and interest. This is substantially higher (by multiples) than the total cumulative revenues ever generated by paddypower.com in Greece.

The Group strongly disputes the basis of these assessments, and in line with the legal and tax advice we have received, is confident in our grounds to appeal. We therefore intend to do so. Accordingly, we have not provided for these amounts in our financial statements. Pending the outcome of these appeals, we paid the total Greek liability in January 2019 while we await clarity with respect to the timing of any cash payment in Germany.

Share buyback

On 20 August 2018, the Group commenced a £300m share buyback programme which was ongoing at 31 December 2018. Between 31 December 2018 and 6 February 2019, shares valued at £85m were repurchased and this share buyback programme is now complete.

34. Changes in accounting policies

Following the adoption of IFRS 9 *Financial Instruments* as outlined in Note 2, the impact of the changes on the consolidated statement of financial position as of 31 December 2017 is as follows:

	31 December 2017 As reported under previous accounting policies £m	31 December 2017 As reported under new accounting policies £m
Investments at fair value through profit or loss	0.1	15.1
Available-for-sale financial assets	15.0	–

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 retains and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through Profit and Loss ('P&L'). The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the date of initial application to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 *Financial Instruments: Recognition and Measurement*. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

Adoption of this standard did not impact the Group other than how the Group presents movements in investments in equity instruments. Under IAS 39, these instruments are categorised as available-for-sale and the movement in fair value is booked to OCI. Per IFRS 9, such instruments are required to be measured at fair value through profit or loss unless the irrevocable option at initial application to present changes in fair value in OCI is chosen. This designation is made on an instrument by instrument basis.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 £m	31 December 2017 £m
Assets			
Property, plant and equipment	5	**37.9**	35.7
Intangible assets	6	**0.6**	0.4
Goodwill	7	**18.0**	17.1
Financial assets	8	**5,023.8**	5,009.4
Other receivables	10	**333.4**	189.4
Deferred tax assets	12	**0.1**	0.1
Total non-current assets		**5,413.8**	5,252.1
Current assets			
Trade and other receivables	10	**286.9**	289.4
Cash and cash equivalents	11	**12.7**	24.2
Total current assets		**299.6**	313.6
Total assets		**5,713.4**	5,565.7
Equity			
Issued share capital and share premium		**424.8**	423.0
Treasury shares	13	**(4.2)**	(4.2)
Shares held by employee benefit trust	13	**(8.6)**	(15.6)
Other reserves		**186.0**	178.2
Retained earnings		**3,735.5**	4,366.2
Shareholders' funds – all equity interests		**4,333.5**	4,947.6
Liabilities			
Trade and other payables	15	**1,087.8**	551.6
Derivative financial liabilities	15	**8.0**	1.7
Borrowings	16	**0.4**	–
Total current liabilities		**1,096.2**	553.3
Trade and other payables	15	**–**	0.3
Derivative financial liabilities	15	**0.7**	2.3
Borrowings	16	**283.0**	62.2
Total non-current liabilities		**283.7**	64.8
Total liabilities		**1,379.9**	618.1
Total equity and liabilities		**5,713.4**	5,565.7

Notes 1 to 26 on pages 168 to 185 form an integral part of these financial statements.

On behalf of the Board of Directors

Peter Jackson
Chief Executive Officer

Jonathan Hill
Chief Financial Officer

5 March 2019

COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year – all attributable to equity holders of the Company		**34.2**	24.9
Tax expense		**5.6**	5.8
Financial expense		**3.7**	2.1
Depreciation and amortisation		**8.0**	7.0
Employee equity-settled share-based payments expense		**2.0**	0.4
Profit on disposal of property, plant and equipment		**(0.5)**	–
Foreign currency exchange loss		**8.8**	17.0
Cash from operations before changes in working capital		**61.8**	57.2
(Increase)/decrease in trade and other receivables		**(141.2)**	(5.1)
Increase in trade, other payables and provisions		**447.8**	284.2
Cash generated from operations		**368.4**	336.3
Tax paid		**(4.8)**	(6.6)
Net cash from operating activities		**363.6**	329.7
Purchase of property, plant and equipment	5	**(9.9)**	(7.1)
Purchase of intangible assets	6	**(0.5)**	–
Proceeds from disposal of property, plant and equipment		**0.5**	–
Purchase of businesses	9	**(0.9)**	(0.2)
Payment of contingent deferred consideration	9	**(0.1)**	–
Net cash used in investing activities		**(10.9)**	(7.3)
Proceeds from the issue of new shares		**2.3**	5.8
Purchase of own shares including direct purchase costs		**(415.0)**	–
Purchase of shares by employee benefit trust		**–**	(2.5)
Dividends paid	14	**(169.0)**	(152.1)
Net amounts drawn down/(repaid) on borrowings facility		**223.1**	(159.7)
Fees in respect of borrowing facility		**(2.4)**	–
Interest paid		**(3.1)**	(2.1)
Net cash used in financing activities		**(364.1)**	(310.6)
Net (decrease)/increase in cash and cash equivalents		**(11.4)**	11.8
Cash and cash equivalents at start of year		**24.2**	12.6
Foreign currency exchange loss on cash and cash equivalents		**(0.1)**	(0.2)
Cash and cash equivalents at end of year	11	**12.7**	24.2

Notes 1 to 26 on pages 168 to 185 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Attributable to equity holders of the Company (see Note 13)								
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Undeno-minated capital £m	Foreign exchange translation reserve £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018	*86.5*	423.0	1.8	130.0	(4.2)	(15.6)	46.4	4,366.2	4,947.6
Profit for the year	–	–	–	–	–	–	–	34.2	34.2
Shares issued (Note 13)	*0.5*	2.3	–	–	–	–	–	–	2.3
Own shares acquired by the Group	*(5.6)*	(0.5)	0.5	–	–	–	–	(501.8)	(501.8)
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	19.6	–	19.6
Equity-settled transactions – vestings	–	–	–	–	–	7.0	(6.7)	0.3	0.6
Transfer to retained earnings on exercise of share options (Note 13)	–	–	–	–	–	–	(5.6)	5.6	–
Dividends to shareholders (Note 14)	–	–	–	–	–	–	–	(169.0)	(169.0)
Total contributions by and distributions to owners of the Company	*(5.1)*	1.8	0.5	–	–	7.0	7.3	(664.9)	(648.3)
Balance at 31 December 2018	*81.4*	424.8	2.3	130.0	(4.2)	(8.6)	53.7	3,735.5	4,333.5

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of the Company (see Note 13)								
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Undeno-minated capital £m	Foreign exchange translation reserve £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	*86.0*	417.2	1.8	127.4	(4.2)	(30.9)	37.5	4,493.5	5,042.3
Profit for the year	–	–	–	–	–	–	–	24.9	24.9
Shares issued (Note 13)	*0.5*	5.8	–	–	–	–	–	–	5.8
Own shares acquired by employee benefit trust	–	–	–	–	–	(2.5)	–	–	(2.5)
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	26.1	–	26.1
Equity-settled transactions – vestings	–	–	–	2.6	–	17.8	(16.3)	(1.0)	3.1
Transfer to retained earnings on exercise of share options (Note 13)	–	–	–	–	–	–	(0.9)	0.9	–
Dividends to shareholders (Note 14)	–	–	–	–	–	–	–	(152.1)[1]	(152.1)
Total contributions by and distributions to owners of the Company	*0.5*	5.8	–	2.6	–	15.3	8.9	(152.2)	(119.6)
Balance at 31 December 2017	*86.5*	423.0	1.8	130.0	(4.2)	(15.6)	46.4	4,366.2	4,947.6

1 Note, the difference between the dividends paid in 2017 in the Company financial statements of £152.1m and that in the Consolidated financial statements of £149.4m relates entirely to the change in functional currency of the Company at 1 January 2018. In the Company financial statements, as per the requirements of IAS 21 *The Effect of Changes in Foreign Exchange Rates* in respect of a change in functional currency, the dividends paid in 2017 were translated at the FX rate at 31 December 2017 whereas in the Consolidated financial statements the dividends were translated at the prevailing rate on the date of payments.

Notes 1 to 26 on pages 168 to 185 form an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Basis of preparation and summary of significant accounting policies

The Company changed its functional currency and presentation currency from euro to pound sterling with effect from 1 January 2018 to better reflect its cash flow management and financing. The 2017 comparatives were converted to pounds sterling from euro using the following procedures:

- Assets, liabilities and equity, with the exception of the share capital, share premium, treasury shares and shares held by the employee benefit trust were translated into pounds sterling at the relevant closing rate of exchange at 31 December 2017, being EUR1 = GBP0.887.
- All P&L and equity transactions in 2017 with the exception of the movements in the equity accounts noted above were translated into pound sterling at the relevant closing rate of exchange at 31 December 2017, being EUR1 = GBP0.887.
- Share capital, share premium, treasury shares and shares held by the employee benefit trust were translated at the FX rates used to translate these balances at 1 January 2015 when the Group changed its presentation currency from Euro to pounds sterling and at the prevailing FX rates thereafter. The difference on retranslation between these rates and the rate at 31 December 2017 has been taken to the foreign currency translation reserve.

The financial statements as reported have been rounded to the nearest million. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

As permitted by section 304 of the Companies Act 2014, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of £34.2m (2017: £24.9m).

Revenue

The services provided by the Company comprise sports betting and business-to-business services as well as services provided to other group companies. Revenue is stated exclusive of value-added tax. The costs of customer promotions (including free bets) and bonuses are deducted from revenue.

The Company's activities, with the exception of business-to-business services and services to other group companies on which fees are earned, are classified as derivative financial instruments.

Revenue from betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the income line as this represents the Company's principal activity. Commission and other fee income earned is also recorded within revenue.

Revenue from business-to-business services and services to other group companies represents fees charged for the services provided in the period.

Financial assets

Interests in subsidiary undertakings are stated in the Company statement of financial position as financial assets, at cost less, where necessary, provisions for impairment.

Included within financial assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within the income statement.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 – 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if significant, is reassessed annually.

Intangible assets

Intangible assets, principally comprising licences and computer software, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences) and licences for electronic point of sale ("EPOS") system software.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Licences	2 – 20 years
Computer software	2 – 5 years

Goodwill

Acquisitions of businesses are accounted for using the acquisition method. The value of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised under Irish Generally Accepted Accounting Practice ("GAAP") prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2014, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS, is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the fair values of the relevant net assets acquired is dealt with through retained earnings.

Costs relating to the acquisition of businesses that occurred since 1 January 2014 are expensed to the income statement when incurred. Costs relating to the acquisition of non-controlling interests are recognised directly in retained earnings.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Impairment

Financial assets (including receivables) – applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured at 12-month ECLs.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full or the financial asset is significantly past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the third party;
- a breach of contract such as a default;
- the restructuring of a balance by the Group on terms that the Group would not consider otherwise;
- it is probable that the third party will enter bankruptcy or other financial reorganisation; or

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

1. Basis of preparation and summary of significant accounting policies (continued)

Financial assets (including receivables) – effective in comparative period

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Other non-derivative financial instruments

Other non-derivative financial instruments comprise cash and cash equivalents, deposits, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual right to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7, *'Statement of Cash Flows'*, these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Subsequent to initial recognition, cash and cash equivalents, deposits and trade and other payables are measured at amortised cost.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Derivative financial instruments

The Company holds certain derivative financial instruments which are initially recognised at fair value.

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Company on initial recognition as financial liabilities at fair value through profit or loss.

Borrowings

Borrowings are recorded at the fair value of the proceeds received, net of any directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

Employee benefits

Pensions

The Company operates a number of defined contribution schemes under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the service is received. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Share-based payments

The Company operates equity-settled long term and medium term incentive plans for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and/or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve in equity. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Company operates an equity-settled share save scheme ("SAYE") for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Company has operated equity-settled share option schemes for employees under which employees acquired options over Company shares. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions, other than non-market performance conditions, upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Income tax

Income tax in the income statement comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

Foreign currency transactions

Transactions in foreign currencies are translated at the relevant foreign exchange rate ruling at the date of the transaction. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into GBP at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

1. Basis of preparation and summary of significant accounting policies (continued)

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Transaction costs relating to the purchase by the Company of its own shares are recognised directly in retained earnings. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and any resulting surplus on the transaction is recognised in share premium.

Where the Company purchases its own shares and subsequently cancels those shares, the cost of the shares cancelled is written off directly to retained earnings. The nominal value of the shares cancelled is transferred from share capital to the undenominated capital.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 33 to the consolidated financial statements.

2. Employee expenses and numbers

	2018 £m	2017 £m
Wages and salaries	**34.5**	32.8
Social security costs	**3.6**	3.3
Defined contribution pension and life assurance costs	**0.4**	0.4
Share-based payments expense (see below)	**2.0**	0.4
Other staff costs	**1.3**	1.1
Total	**41.8**	38.0
The average number of persons employed by the Company (including Executive Directors), all of whom were involved in the provision of betting services, during the year was:	**1,411**	1,401

Details of the remuneration of Directors are set out in the Directors' Remuneration Report on pages 74 to 95.

Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2018 £m	2017 £m
The Paddy Power plc Sharesave Scheme	**0.1**	0.1
The Paddy Power Betfair plc Long Term Incentive Plan ("LTIP") and Restricted Share Plan	**1.3**	–
The Paddy Power Betfair plc Sharesave Scheme	**0.6**	0.3
Total	**2.0**	0.4

Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2018 was 101,046 (2017: 69,767). The Paddy Power plc sharesave options had exercise prices ranging from €39.60 to €75.21 (2017: €27.79 to €75.21).

For the year ended 31 December 2018:	Options outstanding at 1 January 2018	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2018
The Paddy Power plc Sharesave Scheme	**20,656**	**–**	**(1,862)**	**(9,306)**	**9,488**
The Paddy Power Betfair plc Sharesave Scheme	**49,111**	**–**	**(10,152)**	**(10)**	**38,949**
The Paddy Power Betfair plc Long Term Share Incentive Plan ("LTIP")	**–**	**41,442**	**–**	**–**	**41,442**
The Paddy Power Betfair plc Restricted Share Plan	**–**	**11,167**	**–**	**–**	**11,167**
Total	**69,767**	**52,609**	**(12,014)**	**(9,316)**	**101,046**

For the year ended 31 December 2017:	Options outstanding at 1 January 2017	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2017
The Paddy Power plc Sharesave Scheme	53,314	–	(2,318)	(30,340)	20,656
The Paddy Power Betfair plc Sharesave Scheme	27,694	31,707	(10,290)	–	49,111
Total	81,008	31,707	(12,608)	(30,340)	69,767

Summary of share awards outstanding under the Paddy Power Long Term Incentive Plan

The total number of share awards outstanding at 31 December 2018 was nil (2017: 4,753). The movements in share awards during the years ended 31 December 2018 and 2017 (excluding related dividends awarded as shares) were as follows:

For the year ended 31 December 2018:	**Share awards outstanding at 1 January 2018**	**Share awards granted during year**	**Share awards lapsed during year**	**Share awards vested during year**	**Share awards outstanding at 31 December 2018**
2013 LTIP scheme	**4,753**	**–**	**–**	**(4,753)**	**–**

For the year ended 31 December 2017:	Share awards outstanding at 1 January 2017	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2017
2013 LTIP scheme	50,640	–	–	(45,887)	4,753

3. Financial income and expense

	2018 £m	2017 £m
Recognised in profit or loss:		
Financial expense:		
On financial liabilities at amortised cost		
Interest on borrowings, bank guarantees and bank facilities, and other interest payable	**3.7**	2.1

4. Statutory information

	2018 £m	2017 £m
Auditor's remuneration	**0.5**	0.5
Depreciation of property, plant and equipment	**7.7**	6.8
Amortisation of intangible assets	**0.3**	0.2
Foreign currency exchange loss – monetary items	**8.8**	17.0
Operating lease rentals, principally premises	**9.1**	9.0
Operating lease income (representing sub lease income)	**(0.2)**	(0.2)

The Auditor's remuneration of £0.5m (2017: £0.5m) relates to the audit of Group and subsidiary financial statements. It comprises £0.1m (2017: £0.1m) for the audit of the Company. Further details on Auditor's remuneration is disclosed in Note 7 to the consolidated financial statements.

4. Statutory information (continued)

Auditor remuneration to Company External Auditor (KPMG Ireland)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the Auditor's remuneration figures presented below represent fees paid to KPMG Ireland only and are exclusive of value-added tax. Audit relates to the audit of the Company financial statements only. Audit fees borne by the Company in relation to the audit by KPMG Ireland of the Group and subsidiary companies are classified as other assurance services. In 2017, the Group external auditor was KPMG LLP.

	2018 £m	2017 £m
Audit	**0.1**	0.1
Other assurance services	**0.4**	0.4
Total	**0.5**	0.5

Other assurance services includes £0.4m (2017: £0.4m) in respect of fees incurred by the Company for the audit of the Group financial statements, £0.1m (2017: £0.1m) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company.

5. Property, plant and equipment

	Land, buildings and leasehold improvements £m	Fixtures and fittings £m	Computer equipment £m	Total £m
Cost				
Balance at 1 January 2017	38.6	68.0	9.6	116.2
Additions (including business combinations)	0.2	5.0	1.9	7.1
Balance at 31 December 2017	**38.8**	**73.0**	**11.5**	**123.3**
Additions (including business combinations)	**–**	**6.0**	**3.9**	**9.9**
Disposals	**(0.1)**	**–**	**–**	**(0.1)**
Balance at 31 December 2018	**38.7**	**79.0**	**15.4**	**133.1**
Depreciation				
Balance at 1 January 2017	21.6	52.0	7.2	80.8
Depreciation charges	1.5	4.3	1.0	6.8
Balance at 31 December 2017	**23.1**	**56.3**	**8.2**	**87.6**
Depreciation charges	**1.4**	**4.7**	**1.6**	**7.7**
Disposals	**(0.1)**	**–**	**–**	**(0.1)**
Balance at 31 December 2018	**24.4**	**61.0**	**9.8**	**95.2**
Net book value				
At 31 December 2017	15.7	16.7	3.3	35.7
At 31 December 2018	**14.3**	**18.0**	**5.6**	**37.9**

The net book value of land, buildings and leasehold improvements at 31 December 2018 includes £10.8m (2017: £11.7m) in respect of leasehold improvements.

The Directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

6. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise licences and computer software, were as follows:

	Licences £m	Computer software £m	Total £m
Cost			
Balance at 1 January 2017	1.4	4.0	5.4
Additions	–	–	–
Balance at 31 December 2017	**1.4**	**4.0**	**5.4**
Additions	**–**	**0.5**	**0.5**
Balance at 31 December 2018	**1.4**	**4.5**	**5.9**
Amortisation			
Balance at 1 January 2017	1.4	3.4	4.8
Amortisation charges	–	0.2	0.2
Balance at 31 December 2017	**1.4**	**3.6**	**5.0**
Amortisation charges	**–**	**0.3**	**0.3**
Balance at 31 December 2018	**1.4**	**3.9**	**5.3**
Net book value			
At 31 December 2017	–	0.4	0.4
At 31 December 2018	**–**	**0.6**	**0.6**

7. Goodwill

	£m
Balance at 1 January 2017	16.9
Arising on acquisitions during the year (Note 9)	0.2
Balance at 31 December 2017	**17.1**
Arising on acquisitions during the year (Note 9)	**0.9**
Balance at 31 December 2018	**18.0**

The goodwill balance as at 31 December 2017 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and subsequent acquisitions of licenced book making shops in Ireland. Additional goodwill in 2018 arose on the acquisition of a number of licenced bookmaking shops in Ireland. The goodwill balance as at 31 December 2018 is attributable to the Irish Retail cash generating unit, being the lowest level of asset for which there are separately identifiable cash flows (see Note 12 to the consolidated financial statements).

The accumulated amortisation balance at 31 December 2018 is £4.1m (2017: £4.1m). Under IFRS, goodwill is not amortised but is instead tested for impairment annually. The most recent test for impairment was performed at 31 December 2018 and is detailed in Note 12 to the consolidated financial statements.

8. Financial assets

	Unlisted investments in subsidiary companies £m	Capital contributions £m	Total £m
Balance at 1 January 2017	4,889.5	97.5	4,987.0
Share-based payments	–	22.4	22.4
Balance at 31 December 2017	**4,889.5**	**119.9**	**5,009.4**
Share-based payments	**–**	**14.4**	**14.4**
Balance at 31 December 2018	**4,889.5**	**134.3**	**5,023.8**

In the opinion of the Directors, the value to the Company of the unlisted investments in and capital contributions to subsidiary companies at 31 December 2018 is not less than the carrying amount of £5,023.8m (2017: £5,009.4m). The Company's principal subsidiaries are listed in Note 32 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve relating to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

9. Business combinations

Year ended 31 December 2018

Shop property business acquisitions

In 2018, the Company, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking shops in Ireland.

Goodwill arising on the acquisitions amounted to £0.9m. Property, plant and equipment acquired amounted to £0.1m.

The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Paddy Power Betfair group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the year ended 31 December 2018 has not been presented on the basis of immateriality.

During 2018, the Company settled deferred consideration liabilities of £0.1m in relation to prior years' acquisitions.

Year ended 31 December 2017

Shop property business acquisitions

In 2017, the Company, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking shops in Ireland.

Goodwill arising on the acquisitions amounted to £0.2m. Property, plant and equipment acquired amounted to £0.1m. The consideration was comprised of £0.2m cash consideration and £0.1m contingent deferred consideration.

The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Paddy Power Betfair group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the year ended 31 December 2018 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets for the 12 months following the date of acquisition.

During 2017, the Company did not settle any deferred consideration liabilities in relation to prior years' acquisitions.

10. Trade and other receivables and derivative financial assets

Non-current assets

	31 December 2018 £m	31 December 2017 £m
Other receivables		
Amounts owed by fellow Group companies	**333.4**	189.4

The Company has provided a long term loan to subsidiary companies.

Current assets

	31 December 2018 £m	31 December 2017 £m
Trade and other receivables		
Prepayments	**4.4**	4.7
Amounts owed by fellow Group companies	**280.7**	283.7
Corporation tax receivable	**1.8**	1.0
Total	**286.9**	289.4

Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

11. Cash and cash equivalents

There was no cash on deposit at 31 December 2018 and 31 December 2017.

Cash and cash equivalents are analysed by currency as follows:

	31 December 2018 £m	31 December 2017 £m
GBP	**1.1**	0.9
EUR	**11.3**	22.5
AUD	**0.1**	0.4
USD	**0.1**	–
Other	**0.1**	0.4
Total	**12.7**	24.2

12. Deferred tax assets

Deferred tax is attributable to the following:

	31 December 2018 £m	31 December 2017 £m
Property, plant and equipment	**0.1**	0.1
Net asset	**0.1**	0.1

Movement in temporary differences during the year

	2018 £m	2017 £m
Balance at 1 January	**0.1**	0.2
Recognised in income	**–**	(0.1)
Balance at 31 December	**0.1**	0.1

All of the above deferred tax balances are in respect of Irish corporation tax.

13. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2017: 150,000,000 ordinary shares of €0.09 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

The movement in the number of issued ordinary shares during the year was as follows:

During the year ended 31 December 2018, 474,236 ordinary shares (2017: 560,732) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £2.3m (2017: £5.8m).

The £200m share buyback programme announced on 29 May 2018 was completed in August 2018. On completion of this programme, the Group commenced a second buyback programme of £300m which was ongoing at 31 December 2018. Overall in 2018 the Group's brokers repurchased 5,635,089 ordinary shares of €0.09 each. The total cost of the shares repurchased comprised £414.7m for the shares themselves and a further £1.3m for other transaction related costs. Cash payments of £413.7m had been made in respect of the repurchases with the outstanding £1.0m settlement made at the beginning of January 2019. This £1.0m together with the remaining value of the buyback programme (including associated fees) of £85.8m was recorded as a liability at 31 December 2018. The shares bought back are being cancelled and the nominal value of these shares is transferred to undenominated capital. The nominal value of the shares cancelled at 31 December 2018 was £0.5m. As described further in Note 33 of the Consolidated Financial Statements, the £300m share buyback programme was completed in February 2019.

A total of 225,000 ordinary shares were held in treasury as of 31 December 2018 (31 December 2017: 225,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to £4.2m as of 31 December 2018 (31 December 2017: £4.2m).

At 31 December 2018, the Paddy Power Betfair plc Employee Benefit Trust ("EBT") held 99,741 (2017: 200,973) of the Company's own shares, which were acquired at a total cost of £8.6m (2017: £15.6m), in respect of potential future awards relating to the Group's employee share plans (see Note 18 of the Consolidated Financial Statements). The Company's distributable reserves at 31 December 2018 are restricted by this cost amount. In the year ended 31 December 2017, the EBT purchased 29,342 Paddy Power Betfair plc ordinary shares for a total consideration of £2.5m. No shares were purchased in 2018. In 2018, 101,232 shares with an original cost of £7.0m (2017: 306,761 shares with an original cost of £17.8m) were transferred from the EBT to the beneficiaries of the EBT.

Other reserves comprise undenominated capital of £2.1m (2017: £1.6m) which relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled, and the nominal value of shares in the Company cancelled as part of the return of capital to shareholders, and an amount of £0.2m (2017: £0.2m) which arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

The foreign exchange translation reserve of £130.0m arose as a result of the Company changing its functional currency and presentation currency from Euro to pound sterling with effect from 1 January 2018. See Note 25 of the Company financial statements.

In 2018, an amount of £5.6m (2017: £0.9m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings.

14. Dividends paid on ordinary shares

	2018 £m	2017 £m
Ordinary shares:		
– Final dividend of £1.35 per share for the year ended 31 December 2017 (31 December 2016: £1.13)	**114.0**	97.8
– Interim dividend of £0.67 per share for the year ended 31 December 2018 (31 December 2017: £0.65)	**55.0**	54.3
Amounts recognised as distributions to equity holders in the year	**169.0**	152.1

The Directors have proposed a final dividend of 133.0 pence per share which will be paid on 21 May 2019 to shareholders on the Company's register of members at the close of business on the record date of 12 April 2019. This dividend, which amounts to approximately £104m, has not been included as a liability at 31 December 2018.

Note, the difference between the dividends paid in 2017 in the Company financial statements of £152.1m and that in the Consolidated financial statements of £149.4m relates entirely to the change in functional currency of the Company at 1 January 2018. In the Company financial statements, as per the requirements of IAS 21 *The Effect of Changes in Foreign Exchange Rates* in respect of a change in functional currency, the dividends paid in 2017 were translated at the FX rate at 31 December 2017 whereas in the Consolidated financial statements the dividends were translated at the prevailing rate on the date of payments.

15. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2018 £m	31 December 2017 £m
Trade and other payables		
Trade payables	1.4	1.6
PAYE and social welfare	0.7	0.9
Value-added tax	1.6	0.4
Betting duty	2.8	2.7
Amounts owed to fellow Group companies	980.7	532.2
Contingent deferred consideration – business combinations (Note 22)	0.1	0.2
Liability to purchase own shares	86.8	–
Accruals and other liabilities	13.7	13.6
Total	1,087.8	551.6
Derivative financial liabilities		
Sports betting open positions (Note 22)	8.0	1.7

Non-current liabilities

	31 December 2018 £m	31 December 2017 £m
Trade and other payables		
Accruals and other liabilities	–	0.3
Derivative financial liabilities		
Sports betting open positions (Note 22)	0.7	2.3

16. Borrowings

Current liabilities

	31 December 2018 £m	31 December 2017 £m
Accrued interest on borrowings	0.4	–

Non-current liabilities

	31 December 2018 £m	31 December 2017 £m
Revolving credit facility	285.0	62.2
Less: expenses relating to revolving credit facility	(2.0)	–
Total	283.0	62.2

See Note 22 to the consolidated financial statements for further information on the terms of the borrowings.

17. Financial risk management

The Company's risk exposures, and what its objectives, policies and processes are for managing those risks, are set out in Notes 18 to 21, and Note 23 to the consolidated financial statements.

18. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2018 £m	31 December 2017 £m
Cash and cash equivalents	**12.7**	24.2

19. Liquidity risk

The following are the contractual maturities of financial liabilities as at 31 December:

	31 December 2018						
	Carrying amount £m	**Contractual cash flows £m**	**6 months or less £m**	**6 to 12 months £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 years and over £m**
Non-derivative financial liabilities							
Trade and other payables	**1,087.7**	**1,087.7**	**1,087.7**	**–**	**–**	**–**	**–**
Contingent deferred consideration	**0.1**	**0.1**	**0.1**	**–**	**–**	**–**	**–**
Borrowings – Revolving Credit Facility and Interest	**285.4**	**295.4**	**1.6**	**1.6**	**3.1**	**3.1**	**286.0**
	1,373.2	**1,383.2**	**1,089.4**	**1.6**	**3.1**	**3.1**	**286.0**
Derivative financial liabilities							
Sports betting open positions	**8.7**	**8.7**	**6.3**	**1.7**	**–**	**–**	**0.7**
Total	**1,381.9**	**1,391.9**	**1,095.7**	**3.3**	**3.1**	**3.1**	**286.7**

	31 December 2017						
	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 years and over £m
Non-derivative financial liabilities							
Trade and other payables	551.4	551.4	551.1	–	0.3	–	–
Contingent deferred consideration	0.2	0.2	0.1	0.1	–	–	–
Borrowings – Revolving Credit Facility	62.2	63.7	0.3	0.4	0.7	62.3	–
	613.8	615.3	551.5	0.5	1.0	62.3	–
Derivative financial liabilities							
Sports betting open positions	4.0	4.0	1.5	0.2	0.4	–	1.9
Total	617.8	619.3	553.0	0.7	1.4	62.3	1.9

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, and may vary depending on the future performance of the acquired businesses.

20. Currency risk

Currency risk exposure

As of 31 December 2018 and 2017, the Company's foreign currency risk exposure was as follows:

	31 December 2018				31 December 2017			
	EUR £m	**AUD £m**	**USD £m**	**Other £m**	GBP £m	AUD £m	USD £m	Other £m
Cash and cash equivalents	**11.3**	**0.1**	**0.1**	**1.2**	0.9	0.4	–	0.4
Non-derivative financial liabilities	**(16.5)**	**–**	**(0.3)**	**–**	(0.9)	–	(0.1)	–
Gross statement of financial position exposure	**(5.2)**	**0.1**	**(0.2)**	**1.2**	–	0.4	(0.1)	0.4

The Company changed its functional currency from EUR to GBP at 1 January 2018. Further details on this is included in Note 1 and Note 25.

The following are the significant exchange rates that applied during the year:

	Average rate		31 December (mid-spot rate)	
To 1 GBP:	**2018**	2017	**2018**	2017
EUR	**1.130**	1.141	**1.118**	1.127
AUD	**1.760**	1.681	**1.813**	1.730

Sensitivity analysis

A ten per cent increase and decrease in the value of pound sterling (Euro in 2017) against the following currencies at 31 December 2018 and 2017 would have increased/(decreased) profit by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	10% increase £m	10% decrease £m
31 December 2018		
GBP	**(0.5)**	**0.5**
31 December 2017		
EUR	–	–

21. Interest rate risk

Profile

At 31 December 2018 and 31 December 2017 the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2018 £m	31 December 2017 £m
Variable rate instruments		
Financial assets – cash	**12.7**	24.2
Borrowings – Revolving Credit Facility and Interest	**(285.4)**	(62.2)
Total	**(272.7)**	(38.0)

Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ("bps") in interest rates at 31 December 2018 and at 31 December 2017 would have (decreased)/increased profit for a full year by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	50 bps increase £m	50 bps decrease £m
31 December 2018		
Variable rate instruments	**(1.4)**	**1.4**
31 December 2017		
Variable rate instruments	(0.2)	0.2

22. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities carried at amortised cost in the statement of financial position:

	31 December 2018		31 December 2017	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Assets				
Amounts owed by fellow Group companies	**614.1**	**614.1**	473.1	473.1
Cash and cash equivalents	**12.7**	**12.7**	24.2	24.2
Total	**626.8**	**626.8**	497.3	497.3
Liabilities				
Trade and other payables	**(1,087.7)**	**(1,087.7)**	(551.7)	(551.7)
Borrowings – Revolving Credit Facility and Interest	**(285.4)**	**(285.4)**	(62.2)	(62.2)
Total	**(1,373.1)**	**(1,373.1)**	(613.9)	(613.9)
Net	**(746.3)**	**(746.3)**	(116.6)	(116.6)

Fair value hierarchy

- Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows: Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Derivative financial liabilities	**–**	**–**	**(8.7)**	**(8.7)**
Non-derivative financial liabilities	**–**	**–**	**(0.1)**	**(0.1)**
Total	**–**	**–**	**(8.8)**	**(8.8)**

	31 December 2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial liabilities	–	–	(4.0)	(4.0)
Non-derivative financial liabilities	–	–	(0.2)	(0.2)
Total	–	–	(4.2)	(4.2)

Basis for determining fair values

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Financial instruments carried at amortised cost

Cash and cash equivalents (Level 2)

The fair value of cash and cash equivalents is based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

Trade and other payables (Level 2)

The fair value of trade and other payables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Borrowings (Level 2)

The fair value of borrowings is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Financial instruments carried at fair value

Derivative financial instruments (Level 3)

Derivative financial instruments comprise sports betting open positions. The fair value of open sports bets at the year-end has been calculated using the latest available prices on relevant sporting events.

Non-derivative financial liabilities (Level 3)

Non-derivative financial liabilities includes contingent consideration. The contingent consideration payable is determined with reference to forecast performance for the acquired businesses during the relevant time periods and the amounts to be paid in such scenarios. The fair value was estimated by assigning probabilities to the potential payout scenarios. The significant unobservable inputs are forecast performance for the acquired businesses.

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value

The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2018 and 2017.

Sports betting open positions

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. There are no reasonably probable changes to assumptions and inputs that would lead to material changes in the fair value methodology although final value will be determined by future sporting results.

Contingent consideration

The fair value of contingent consideration is primarily dependent on forecast performance of the acquired businesses against predetermined targets. There are no reasonably probable changes to assumptions and inputs that would lead to a material change in the fair value of the total amount payable.

22. Fair values (continued)

Movements in the year in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	Sports betting open positions £m	Contingent deferred consideration £m	Total £m
Balance at 1 January 2017	(2.8)	(0.1)	(2.9)
Arising on acquisition	–	(0.1)	(0.1)
Recognised in the income statement	141.3	–	141.3
Settlements	(142.5)	–	(142.5)
Balance at 31 December 2017	**(4.0)**	**(0.2)**	**(4.2)**
Recognised in the income statement	**135.4**	**–**	**135.4**
Settlements	**(140.1)**	**0.1**	**(140.0)**
Balance at 31 December 2018	**(8.7)**	**(0.1)**	**(8.8)**

23. Pension arrangements

The Company operates defined contribution pension schemes for certain employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were £0.3m (2017: £0.3m) and the amount due to the schemes at 31 December 2018 amounted to £0.1m (2017: £0.1m).

24. Commitments and contingencies

(a) Guarantees

The Company has uncommitted working capital overdraft facilities of £9.6m (2017: £9.6m) with Allied Irish Banks p.l.c. These facilities are secured by cross-guarantees within the Group.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

As mentioned in Note 22 to the consolidated financial statements, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

(b) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred was as follows:

	31 December 2018 £m	31 December 2017 £m
Property, plant and equipment	**4.8**	–
Total	**4.8**	–

(c) Operating lease commitments

The Company leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately six years left to run (if the Company was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2018 and 2017, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2018 £m	31 December 2017 £m
Within one year	**9.0**	8.9
Between two and five years	**24.7**	23.3
After five years	**16.4**	19.2
Total	**50.1**	51.4

The Group has a small number of shop properties that are sublet. Sublease payments of £0.2m (2017: £0.2m) are expected to be received during the year ended 31 December 2019.

During 2018, an amount of £9.1m was recognised in profit or loss in respect of operating leases (2017: £9.0m). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to £0.2m in 2018 (2017: £0.2m).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Company has determined that the leases are operating leases.

(d) Section 357 guarantees

Pursuant to the provisions of Section 357 of the Companies Act 2014, the Company has guaranteed the liabilities and commitments of its wholly owned subsidiary undertakings in the Republic of Ireland for the financial year ended 31 December 2018 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of the Companies Act 2014.

25. Change in functional currency

The Company changed its functional currency and presentation currency from euro to pound sterling with effect from 1 January 2018 to better reflect its cash flow management and financing. The 2017 comparatives were converted to pounds sterling from euro using the following procedures:

- Assets, liabilities and equity, with the exception of the share capital, share premium, treasury shares and shares held by the employee benefit trust were translated into pounds sterling at the relevant closing rate of exchange at 31 December 2017, being EUR1 = GBP0.887.
- All P&L and equity transactions in 2017 with the exception of the movements in the equity accounts noted above were translated into pound sterling at the relevant closing rate of exchange at 31 December 2017, being EUR1 = GBP0.887.
- Share capital, share premium, treasury shares and shares held by the employee benefit trust were translated at the FX rates used to translate these balances at 1 January 2015 when the Group changed its presentation currency from Euro to pounds sterling and at the prevailing FX rates thereafter. The difference on retranslation between these rates and the rate at 31 December 2017 has been taken to the foreign currency translation reserve.

26. Approval of Financial Statements

The Financial Statements of the Company for the year ended 31 December 2018 were approved by the Board of Directors on 5 March 2019.

FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group for the five years ended 31 December 2018 is set out below.

	Statutory 2018[1] £m	Statutory 2017[1] £m	Proforma 2016[2] £m	Proforma 2015[2] £m	Statutory 2016[1] £m	Statutory 2015[3] £m	Statutory 2014[3] £m
Revenue	**1,873.4**	1,745.4	1,550.8	1,318.1	1,500.8	794.3	710.7
EBITDA (before separately disclosed items)	**451.0**	473.2	400.2	295.7	387.0	170.9	170.7
EBITDA: Separately disclosed items	**(28.0)**	(7.4)	(137.4)	(9.1)	(123.1)	(7.4)	–
EBITDA (after separately disclosed items)	**423.0**	465.8	262.8	286.6	263.9	163.5	170.7
Operating profit (before separately disclosed items)	**360.5**	391.9	330.3	228.6	319.1	132.5	132.0
Operating profit: Separately disclosed items	**(155.9)**	(141.9)	(318.0)	(9.1)	(303.7)	(7.4)	–
Operating profit (after separately disclosed items)	**204.6**	250.0	12.3	219.5	15.4	125.1	132.0
Profit before tax	**218.7**	246.6	8.6	217.3	11.9	124.5	134.3
Profit/(loss) for the year	**180.7**	217.7	(10.7)	184.5	(5.7)	108.2	116.8

1. Statutory numbers reported.
2. Proforma numbers represent the results of the Group as if the Merger with Betfair Group plc had occurred on 1 January 2015. A reconciliation between the proforma numbers and statutory numbers for 2015 is provided on page 52 of the 2016 Annual Report.
3. As reported in the 2014 Annual Report and translated into GBP using the average exchange rates of 1.2405.

SHAREHOLDER INFORMATION

Paddy Power Betfair plc is a public limited company incorporated and domiciled in the Republic of Ireland. It has a primary listing on the London Stock Exchange and a secondary listing on Euronext Dublin.

Corporate website

The Company's corporate website provides shareholders with a broad range of information including investor information such as the Annual Report and Accounts, current and historic share prices, AGM materials, events and governance information:

paddypowerbetfair.com

Dividends

Dividend payments

Details of the Company's dividends for the financial years ended 31 December 2018 and 31 December 2017 can be found on page 98 and at:

paddypowerbetfair.com/investor-relations

Dividend withholding tax ("DWT")

As an Irish resident company, all dividends paid by the Company are subject to DWT, currently at the rate of 20% unless a shareholder is entitled to an exemption. Shareholders entitled to the exemption must have submitted a properly completed exemption form to the Company's Registrar by the relevant record date for the dividend. Non-Irish resident shareholders and certain Irish companies, trusts, pension schemes, investment undertakings, companies resident in any member state of the European Union and charities may be entitled to claim exemption from DWT. If you require any further assistance or information on the relevant form to be completed, please contact the Registrar. Forms are available on the Irish Tax & Customs Revenue website:

www.revenue.ie/en/companies-and-charities/dividend-withholding-tax/exemptions-for-non-residents.aspx

Shareholders should note that DWT will be deducted from dividends where a properly completed form has not been received by the relevant record date for a dividend.

Dividend mandates

We encourage shareholders to have their dividends paid directly into their bank account to ensure efficiency of payment on the payment date and reduce the instances of lost or out-of-date unclaimed cheques. Please contact the Registrar to avail of this.

Out-of-date/unclaimed dividends

If you have out-of-date dividend cheques or unclaimed dividends, please contact the Registrar.

FINANCIAL CALENDAR

	2018
2017 Final Dividend: Record date	**13 April**
2017 Final Dividend: Payment date	**29 May**
2018 Interim Dividend: Record date	**24 August**
2018 Interim Dividend: Payment date	**24 September**
Financial year end	**31 December**

	2019
2018 Preliminary Results	**6 March**
2018 Final Dividend of 133p per share: Ex-dividend date	**11 April**
2018 Final Dividend: Record date	**12 April**
2019 Q1 Trading Update	**May**
2019 Annual General Meeting	**15 May**
2018 Final Dividend: Payment date	**21 May**
2019 Interim Results announcement	**August**
2019 Q3 Trading Update	**November**
Financial year end	**31 December**

Electronic shareholder communications

We encourage you to be notified by email or letter when shareholder communications such as the Annual Report or Notice of Annual General Meeting are available to be viewed online on our website at:

www.paddypowerbetfair.com

This allows the Company to have a positive effect on the environment by significantly reducing the volume of paper used in the production of shareholder mailings, save substantial printing and postal costs in addition to speeding up the provision of information to you as a shareholder.
You can elect to receive email notifications by contacting the Registrar.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name should contact the Registrar to request their accounts be amalgamated.

Shareportal

Shareholders may access their accounts online at:

paddypowerbetfairshares.com

This facility allows shareholders to check their shareholdings and dividend payments, change address, change dividend instructions, register email addresses, appoint proxies electronically and also download standard forms and documents to initiate other changes in details held by the Registrar.

Shareholder security

Please be aware that organisations, typically from overseas, sometimes make unsolicited contact with shareholders offering to buy their shares or to sell shares on their behalf at prices which can be significantly higher than the market price of the shares.

If you are in receipt of an unsolicited call from someone offering to buy your shares, you should remain vigilant; take a note of the name of the person and organisation that has contacted you; not respond to high pressure tactics to provide bank details or arrange to transfer money if you are unsure of the bona fide nature of the caller; check if the company or individual is appropriately authorised to operate as an investment firm with your local regulatory authority (Central Bank of Ireland for shareholders resident in Ireland and the Financial Services Authority ("FSA") for shareholders resident in the UK); and obtain independent advice from a qualified advisor or stockbroker.

Share dealing

If you wish to buy or sell shares in the Company you can do this by using the services of a stockbroker or high street bank.

You can also use Link Share Dealing Services: on lo-call 1890 946 375 or if calling from the UK, 0871 664 0445 (calls cost 10p per minute plus network extras. Lines are open 8.00am – 4.30pm: Mon – Fri) or visit:

www.linksharedeal.com

Please note the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt you should contact an independent financial adviser.

Contacts

Registered office

Power Tower, Belfield Office Park,
Beech Hill Road, Clonskeagh,
Dublin 4, Ireland
Tel: +353 1 905 1000
www.paddypowerbetfair.com

General

To contact the Investor Relations team email:

investor.relations@paddypowerbetfair.com

To contact the Company Secretariat team email:

cosec@paddypowerbetfair.com

Our brands

More information on each of our brands is available at:

Paddy Power: www.paddypower.com
Betfair: www.betfair.com
Sportsbet: www.sportsbet.com.au
TVG: www.tvg.com and us.betfair.com
FanDuel: www.fanduel.com
Adjarabet: www.adjarabet.com

Registrar

Shareholders with queries concerning their holdings, dividend information or administrative matters should contact the Company's Registrar:

Link Asset Services
Link Registrars Limited,
2 Grand Canal Square, Dublin 2
D02 A342, Ireland
Tel: +353 1 553 0050
Fax: +353 1 224 0700
Email: enquiries@linkgroup.ie

Other information

Directors and Company Secretary

Biographies of our current Directors can be found on pages 56 and 57. The Company Secretary is Edward Traynor.

Company Number

16956

Brokers

Goldman Sachs International
Goodbody Stockbrokers

Legal advisers

Arthur Cox, Earlsfort Centre,
Earlsfort Terrace, Dublin 2, Ireland

Freshfields Bruckhaus Deringer LLP,
65 Fleet Street, London EC4Y 1HS, UK

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St. Stephen's Green, Dublin 2, Ireland

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Bank of Ireland Group plc
Barclays Bank Ireland PLC
Lloyds Bank PLC
National Australia Bank Limited
Santander UK plc
The Royal Bank of Scotland Group plc
Ulster Bank Ireland Limited

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