27 February 2020

Flutter Entertainment plc - 2019 Preliminary Results

Flutter online growth of 18%; FanDuel biggest US online sportsbook and casino

Flutter Entertainment plc (the "Group") announces preliminary results for the year ended 31 December 2019

	2019 £m	2018 £m	YoY %	Adjusted for taxes and regulatory changes[4] YoY%
Revenue	2,140	1,873	+14%	+16%
Underlying Group EBITDA excluding US (pre IFRS 16) [1,2]	426	465	-9%	+19%
Underlying EBITDA (pre IFRS 16) [1,2]	385	451	-15%	+12%
Reported profit before tax	136	219	-38%	
Reported earnings per share	183.2p	241.7p	-24%	
Underlying[1] earnings per share	303.3p	379.3p	-20%	
Proposed full-year dividend per share	200p	200p	Flat	
Net debt at year end	265	162		

Differences due to rounding

Financial and operational highlights (in constant currency[3]):

- **Group:** Underlying[1] EBITDA[2] of £426m (excluding US) and £40m loss in the US, in line with guidance
  - **PPB Online:** 6% revenue growth impacted by our enhanced responsible gambling initiatives
  - **Australia:** 14% revenue growth offsetting much of the material tax increases
  - **US:** #1 online sportsbook and #1 online casino; 44% online share in states where FanDuel was live during 2019
  - **Group:** Online revenue growth of 18% (2018: 11%), materially offsetting year-on-year impact of £107m in incremental taxes and regulatory changes
- Proposed full year dividend maintained at 200p
- Strong balance sheet with a leverage ratio of 0.7 times (31 December 2018: 0.4)
- Enhancement of our in-house responsible gambling capabilities and interventions

Outlook and strategic update:

- 2020 has begun strongly, with good customer and revenue momentum across all divisions
- New UK credit card restrictions from April and further responsible gambling/compliance improvements
- Integration planning progressing well for our proposed combination with The Stars Group
  - Working closely with relevant competition authorities globally to obtain the necessary clearances
  - Continue to expect transaction to close in Q2 or Q3 2020

Peter Jackson, Chief Executive, commented:

"2019 was a very significant year for Flutter, with further successful expansion in the United States, enhancement of responsible gambling initiatives within our business and the announcement in October of our proposed merger with The Stars Group. I am immensely proud of the Group's performance given the complex regulatory environment. The entrepreneurial culture of our business and the quality of our people are continuing to drive our global expansion while providing our teams with the opportunities they seek to develop their careers and gain new experiences.

Responsible gambling is a critical component of our strategy. This is why we continue to raise our standards as a socially progressive operator and to help to lead the industry in a race to the top when it comes to responsible gambling practices. While these changes are reducing our growth in the short-run, we know that they are the right thing to do for our customers and for the sustainability of our business and the industry in the long-run.

In the US, FanDuel finished 2019 as the largest online sportsbook and casino, less than 18 months after the launch of our sports betting operations. Our online market share during 2019 of 44% in the states where we have gone live is testament to the quality of our products, brand and team. We remain as confident as ever in the size of the prize in the US and in our strategic approach which positions us well for the future.

The new financial year is off to a strong start with good momentum across all our brands. We are very excited about the Group's prospects and in particular our proposed combination with The Stars Group, which will help us to build a more diversified global business."

Notes:

[1] The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and have therefore been reported as "separately disclosed items" (see note 4 and page 37 to the financial statements).

[2] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure. EBITDA throughout this Operating and Financial Review excludes the impact of IFRS 16. See Appendix 5 for a reconciliation to IFRS 16 compliant numbers.

[3] Constant currency ("cc") growth throughout the Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2018 at 2019 exchange rates (see Appendix 4).

[4] The impact of tax and regulatory change is calculated by adjusting the prior year comparative to reflect the same regulatory and tax rules that exist in the current period. This includes the impact of changes to Australian point of consumption taxes and product fees, UK machine staking limits, UK online remote gaming duty and Irish betting duty.

Analyst briefing:

The Group will host a presentation for institutional investors and analysts this morning at 9:00am (GMT). The presentation will be webcast live on the Group's corporate website (www.flutter.com) and a conference call facility will also be available. To dial into the conference call, participants should dial 0800 783 0906 or 01296 480 100 from the UK, (01) 2421074 from Ireland and +44 1296 480 100 from elsewhere.

The passcode is 238 428 79.

A replay facility will be available later today on our corporate website: https://www.flutter.com/investors

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Business Review

Flutter grew revenues by 14% during 2019 to over £2 billion as we took a leadership position in the US online sports betting and gaming market, executed strongly in Australia and expanded our European presence through the acquisition of Georgian market leader, Adjarabet. Group underlying EBITDA[1,2] for the year was £385m, down 15% on the prior year, reflecting incremental tax/regulatory changes of £107m and our investment in the nascent US market. Excluding the impact of the tax and regulatory changes, underlying EBITDA[1,2] increased 12%.

The Group's four pillar strategy that we laid out last year remains in place and good progress has been made against each pillar during 2019. In our core markets we remain strongly positioned. Internationally we have made progress in improving the Betfair proposition and have added to our podium positions with the acquisition of Adjarabet. In the US, our business goes from strength to strength.

The external regulatory and tax backdrop

While executing on our strategy remains a key focus, it is important that we reflect on the future direction of our business and the sector more broadly. Our Group operates in a fast-paced, highly competitive industry, that is governed by a multitude of national regulatory and tax frameworks which are continuously evolving. Regulatory change presents the Group with great opportunities but also poses real potential challenges and risks. To be well positioned to deal with such change, we believe that global scale and diversification are key.

In 2019 we saw examples of both. The expansion of the regulated sports betting market in the US continues apace, an opportunity that we believe is transformational for the Group. In our core markets of the UK, Ireland and Australia we also incurred significant tax increases while our international operations experienced several unexpected market closures in the first half of the year. In addition, the introduction of a £2 staking limit on UK gaming machines changed the unit economics for UK shop operators, equating to an annualised profitability impact of £30m for our retail estate.

As we look to the future, we believe that we have reached a pivotal time when it comes to responsible gambling. To better protect potentially vulnerable customers and to put our business on a more sustainable footing, it is clear that we must do more in this area both as an operator and as an industry.

<u>As an operator…</u>

During 2019 we improved two key aspects of our responsible gambling program:

- How we identify customers who need to be protected: we improved our in-house technology by significantly increasing the number of behaviours that we monitor to determine whether customers are using our products responsibly.
- How we interact with our customers: we more than trebled the size of our responsible gambling team over the last 18 months, investing in specialist training to ensure that our people are interacting with our customers at an early stage. This positively influences behaviours and aims to ensure that customers do not spend more than they can afford on our products.

The results of these initiatives have been encouraging to date with an 84% increase in customers choosing to set deposit limits while delivering a 56% increase in real time contact with customers.

Notwithstanding the progress made, we have more to do and we must continuously seek to raise our standards when it comes to responsible gambling and compliance procedures. For example, as part of our ongoing review of business relationships, we have taken the decision to stop taking business from a number of Exchange B2B partners where we felt their compliance policies were no longer sufficiently aligned with those of the Group. This decision is likely to lead to a reduction in our Exchange revenues during 2020.

As an industry…

Collaboration between industry leaders is essential to put the sector on a more sustainable footing. We must promote a mindset that encourages a race to the top when it comes to responsible gambling best practice.

During 2019, we worked with several leading operators in the UK to introduce safer gambling commitments. To ensure that these commitments are delivered with the transparency and authenticity intended, the newly established Betting and Gaming Council will regularly report publicly on the progress we are making against them. Arising from these commitments, the industry is now working alongside the Gambling Commission on three specific areas of focus. These are:

- VIP code: development of a code to ensure loyalty schemes do not incentivise behaviour which puts customers at risk
- Advertising technology: review of online advertising to enhance protection of vulnerable people
- Responsible game design: setting a framework to ensure products and game design does not drive high risk behaviours

Future regulation

On January 14th, the UK Gambling Commission announced that it would introduce a ban on gambling by credit card from 14th April this year. In our submission to the UK Gambling Commission on credit cards, we had acknowledged that there was a need for some change in this area and we will be in a position to implement the required changes on schedule. In addition, the UK Government has announced that it will review the 2005 Gambling Act in the months ahead and we are hopeful that the emphasis of future UK regulation will be on player protection with a clear focus on affordability. In Ireland, we remain supportive of the Government's work on the Gambling Control Bill which seeks, among other things, to establish a dedicated regulator for the gambling sector in Ireland.

PPB Online and Retail

Paddy Power enjoyed good momentum across all products during 2019. Leveraging our iconic brand we rolled out several attention grabbing campaigns such as the Rhodri Giggs "Loyalty is dead" and our "Don't think you're special" campaigns. Both drove good customer acquisition and engagement with customer growth of 12% during the year, excluding the World Cup. In addition, we improved the Paddy Power product offering with 'ACCA insurance', leading the market with this offering. This has contributed to Paddy Power ranking best-in-class in the market when it comes to promotions. We have also been pleased with how our PPB Retail business has responded to the £2 staking limit on Fixed Odd Betting Terminals, with signs that we are winning market share as competitors reduce the size of their retail estates.

During 2019, Betfair was the business most impacted by regulatory change and the initiatives we introduced to re-shape our business. Positively we continue to invest in the brand and deliver product enhancements. We launched our new Clive Owen Betfair brand campaign which uses simple analogies to explain the concept of the Betfair Exchange to new customers. The campaign has a greater focus on digital channels to achieve greater marketing efficiency. Our international business benefitted from a multitude of product improvements including rolling out country specific pricing (CSP) in Q1 and the addition of four new payment options and five new currencies during the year. We have been pleased with the underlying momentum within our international business, with underlying Exchange customer growth of 23% during 2019 and an uplift in contribution from both CSP and marketing efficiencies achieved.

In line with our international strategy to secure podium positions in new markets, we acquired a 51% stake in Adjarabet in February, giving us a leadership position in another regulated market. Integration has gone well with the business now able to access the Group's sports betting expertise. Very strong organic growth since acquisition has reinforced our view that local scale and focus is vital to winning in international markets.

Australia

The Sportsbet team delivered a strong performance during 2019. While substantial increases in taxes and product fees reduced gross profit margins, most of this was recovered through strong top line growth as a result of continued investment in product, value and marketing. The business maintained operating cost discipline, extending its strong track record of delivering operating leverage.

We continued to pursue our 2018 strategy of prioritising customer generosity with positive results. Sportsbet has been recognised as having some of the best and most generous promotions in the market. This drove customer growth of 9% during the year (excluding the World Cup), while the number of online bettors using Sportsbet as their main mobile account of choice remains almost twice that of our nearest competitor.

The US

The growth opportunity in the US has continued to unfold quickly during 2019. We have been encouraged by the pace of regulation to date, with 14 individual states having now passed sports betting legislation. These 14 states account for c.24% of the US population and with more states expected to follow, we are now increasingly confident that the total US addressable market for our products could exceed $10bn.

To take advantage of this opportunity, we continue to believe that certainty of market access in each state is key, ideally via "first skin" access agreements. First skin refers to having the right to use the first online/mobile licence that a land-based partner is granted in a particular state. Some states have only granted one skin per operator, for example Michigan, which is why securing first skin access is a priority. We recently secured additional first skin market access deals with The Cordish Company in Maryland and Twin River in Colorado. We now have first skin market access deals in 15 US states. Looking ahead, we believe that the strength of our market share performance to date will make us an attractive potential partner in further states.

During 2019, we successfully leveraged our key US assets to acquire 285,000 additional sports betting customers, bringing our total US sports-betting customer base to over 350,000. Those key assets are:

- **A strong starting position** with established businesses in the US performing strongly, growing contribution and absorbing a portion of the cost base.
- **A US database of 8.5 million customers**, a rich source of customer cross sell; 42% of our sports betting customers have come from the Daily Fantasy Sports database to date and cross sell into the New Jersey casino has accelerated significantly since we embedded gaming content into our sports app. We rolled out our online casino product in Pennsylvania in January 2020 and the early trends to date have been very encouraging.
- **The FanDuel brand** which resonates strongly, benefitting from a marketing investment of $130m during 2019 alone and over $600m to date. In the sportsbook markets in which we currently operate, FanDuel has the highest unaided brand awareness and leadership in Google search trends, highlighting how the brand has mass appeal beyond its traditional DFS base. This has ultimately resulted in a very attractive average customer acquisition cost[8] of less than $250 since the sportsbook was launched.

- **A high quality and broad product range** which we continue to innovate. We were the first operator to offer same game parlay betting and continue to be the only operator to offer it on NFL games. In addition, the integration of our risk and trading functions with our global business allows us to offer significantly more betting markets than our competitors.
- **A team that has true scale;** our US team now numbers over 1,000. This scale is unrivalled in the US online market. Over 70 experienced employees from Flutter's global team have joined our US business over the last 18 months.

The combination of favourable customer acquisition economics and our leading product offering means that we have experienced average customer payback of less than 12 months in New Jersey, benefitting from cross-sell to casino. Furthermore, we believe that the standalone New Jersey sportsbook will be structurally contribution positive in 2020.

In 2020, we expect to go live online in at least three additional states (Colorado, Tennessee and Iowa) and we also plan to progress our work on our proprietary technology stack, utilising Group assets to ensure we have sufficient scale and flexibility to deal with individual state requirements.

Balance sheet strength

The ongoing strength of the Group's balance sheet has meant that we have been very well positioned to take advantage of market opportunities as they arise. Following the acquisition of a 58% stake in FanDuel during 2018, we announced the acquisition of a 51% stake in Adjarabet in early 2019 and then the proposed transformational combination with The Stars Group in October. Our strong balance sheet has been a key enabler and an asset during the negotiation of each deal.

With this in mind, the Group continues to target a medium-term leverage range of between 1x and 2x net debt to EBITDA[2]. Over the last 12 months the Group has progressed towards this leverage target via (i) continued investment in growing our US business, (ii) enhanced returns to shareholders and (iii) the acquisition of the Adjarabet stake. As a result, at 31 December 2019 the Group had net debt of £265m representing 0.7 times underlying EBITDA[1,2].

The proposed combination with The Stars Group will see the Group's leverage ratio increase to c. 3.5 times proforma[4] underlying EBITDA[1,2] post completion, above our target range. As such, we are proposing maintaining our annual ordinary dividend at 200p per share until the Group's net debt to EBITDA[2] returns below 2x.

Stars Group combination update

We have commenced our integration planning work ahead of our proposed merger with The Stars Group and remain excited about the opportunities that the deal will create for the Group. In Australia, the Australian Competition and Consumer Commission has confirmed that it has granted its informal approval. The proposed transaction remains subject to approval by the Australian Foreign Investment Review Board as well as further international regulatory bodies in Australia.

We are continuing to work with the various competition authorities elsewhere globally to obtain the necessary approvals ahead of completion of the transaction. We still expect that the completion date will be in either Q2 or Q3 2020.

Operating and Financial Review

Group Income Statement

	2019 £m	2019 £m (pre IFRS 16)	2018 £m	Change % (pre IFRS 16)	Proforma[4] CC[3] Change %	Adjusted for tax and regulatory changes[7] YoY
Sports revenue	1,667	1,667	1,474	+13%	+10%	
Gaming revenue	473	473	399	+19%	+6%	
Total revenue	**2,140**	**2,140**	**1,873**	**+14%**	**+9%**	**+16%**
Cost of sales	(650)	(650)	(470)	+38%	+32%	
Cost of sales as a % of net revenue	*30.4%*	*30.4%*	*25.1%*	*+530bps*	*+540bps*	
Gross profit	**1,490**	**1,490**	**1,403**	**+6%**	**+1%**	
Sales and marketing	(465)	(465)	(406)	+15%	+7%	
Contribution	**1,025**	**1,025**	**997**	**+3%**	**-2%**	
Product and technology	(166)	(171)	(144)	+19%	+9%	
Operations	(378)	(409)	(343)	+19%	+12%	
Central costs	(55)	(60)	(59)	+1%	+2%	
Other operating costs	(599)	(639)	(546)	+17%	+10%	
Underlying EBITDA[1,2]	**425**	**385**	**451**	**-15%**	**-17%**	**+12%**
Underlying EBITDA[1,2] margin	*19.9%*	*18.0%*	*24.1%*	*-610bps*	*-560bps*	
Depreciation and amortisation	(145)	(108)	(90)	+19%	+16%	
Underlying[1] operating profit	**281**	**277**	**360**	**-23%**	**-25%**	
Underlying[1] net interest expense	(14)		(4)	+294%		
Separately disclosed items	(131)		(138)	-5%		
Profit before tax	**136**		**219**	**-38%**		
Underlying[1] earnings per share	**303p**		**379p**	**-20%**		
Dividends per share	**200p**		**200p**			

During 2019 Flutter expanded its presence in both the US and Europe, with the roll-out of online sports betting in 3 additional US states and the acquisition of Adjarabet, the market leader in online gaming in Georgia. These developments, coupled with good organic growth in our core operations, drove Group revenue growth of 14% to £2.1 billion. On a proforma[4], constant currency[3] basis, Group revenue growth was 9%.

Cost of sales were adversely affected by the increased gaming taxes in Ireland, the UK and Australia. The year-on-year impact of these was £73m, and this was the primary driver of cost of sales as a percentage of revenues increasing by 530bps to 30.4%.

Other operating costs increased by 17%, or 10% on a proforma[4] constant currency[3] basis. The majority of this increase reflected additional investment in the US with the equivalent organic growth for the Group (excluding US) up 3% year-on-year.

Underlying EBITDA[1,2] declined 15% to £385m, partly reflecting the ongoing investment in the US (an incremental EBITDA[2] loss of £26m) as well as additional tax and regulatory changes which cost the Group approximately £107m year-on-year. Excluding these items, Group EBITDA[2] (excluding US) would have been 19% higher.

Depreciation and amortisation increased by 19% reflecting our ongoing investment in product and technology, with a major proportion of this in the US. As a result of the factors above, operating profit of £277m was 23%

lower. Increased interest expense during 2019 reflects in equal measure the increased average gross debt during the year and the implementation of IFRS 16. Separately disclosed items include the amortisation of acquisition related intangible assets relating to the Paddy Power Betfair merger and costs associated with the proposed combination with The Stars Group.

The Group delivered a profit before tax of £136m (2018: £219m) after separately disclosed items, which do not relate to the usual business activity of the Group. Underlying[1] earnings per share reduced by 20% to 303 pence.

PPB Online

Pre IFRS 16	**2019 £m**	**2018 £m**	**Change %**
Sportsbook stakes	**5,184**	**5,453**	**-5%**
Sportsbook net revenue margin	*8.1%*	*7.7%*	*+40bps*
Sports revenue	666	678	-2%
Gaming revenue	340	270	+26%
Total revenue	**1,006**	**948**	**+6%**
Cost of sales	(283)	(231)	+23%
Cost of sales as a % of net revenue	*28.1%*	*24.4%*	*+380bps*
Gross profit	**723**	**717**	**+1%**
Sales and marketing	(240)	(242)	-1%
Contribution	**483**	**475**	**+2%**
Product and technology	(99)	(95)	+5%
Operations	(76)	(64)	+20%
Other operating costs	(176)	(158)	+11%
Underlying EBITDA[1,2]	**307**	**316**	**-3%**
Underlying EBITDA[1,2] margin	*30.5%*	*33.4%*	*-280bps*
Depreciation and amortisation	(45)	(42)	+8%
Underlying[1] operating profit	**263**	**275**	**-4%**

Our online division includes the online brands of Paddy Power, Betfair and Adjarabet along with a number of B2B partnerships.

PPB Online revenues grew by 6% to just over £1bn during 2019, benefitting in part from the acquisition of Adjarabet. Revenues were flat on a proforma basis. There were a number of significant factors that drove this outcome, including:

- Good underlying growth in daily active customers across our three brands of 8%
- An improvement in expected net revenue margin across sportsbook following the roll-out of country specific pricing
- The impact of enhanced responsible gambling measures which saw the Group materially reduce its revenues from high-value customers
- The impact of a series of unanticipated international market switch offs

At a brand level, good performance across Paddy Power and Adjarabet was offset by the changes we are making at Betfair. Looking at growth by product, sports revenues declined by 2% while gaming revenues grew 26%. On a proforma[4], constant currency basis[3], gaming revenues were up 7%.

Sportsbook revenue was flat and 6% higher excluding the impact of the World Cup in 2018. Net revenue margin of 8.1% was 20bps above expected margin. The combination of the introduction of country specific pricing in Q1 (which had a material impact on low value international staking), the ongoing refinement of our risk management capabilities and changes in our customer bet mix led to expected margin improving by 90 bps during the year. It should be noted that the prior year had benefitted from favourable sports results with actual margin 70bps higher than expected margin.

Exchange and B2B revenues were down 5% with market switch offs having a material impact. Adjusting for switch offs and World Cup, Exchange and B2B revenues were up 1%.

Gaming revenues grew 26%, reflecting the strong performance of Adjarabet. Gaming momentum in Paddy

Power also continued to be strong with increased customer acquisition following the launch of our “Don’t think you’re special” campaign. Combined gaming actives across Paddy Power and Betfair were up 14% during the year. Our increased focus on responsible gambling is building a more sustainable revenue base, though this clearly reduces revenues in the short term as higher value customers are replaced with lower spending recreational customers.

Cost of sales were primarily adversely affected by the year-on-year increase in Irish betting duty and UK remote gaming duty, which cost an incremental £23m.

Sales and marketing costs reduced during 2019 due to World Cup spend in the prior year. Other operating costs increased by 11%, reflecting increased investment in product and technology during the year and the addition of Adjarabet within the Online division.

Underlying EBITDA[1,2] reduced by just 3% to £307m despite the material tax and regulatory changes , equating to an EBITDA[2] margin of 30.5% compared to 33.4% in the prior year.

Australia[6]

Pre IFRS 16	2019 £m	2018 £m	Change % £	Change % A$
Sportsbook stakes	**4,298**	**4,308**	**Flat**	**+3%**
Sportsbook net revenue margin	*10.4%*	*9.4%*	*+100bps*	*+100bps*
Total revenue	**446**	**403**	**+11%**	**+14%**
Cost of sales	(182)	(121)	+50%	+54%
Cost of sales as a % of net revenue	*40.7%*	*30.1%*	*+1060bps*	*+1070bps*
Gross profit	**264**	**282**	**-6%**	**-3%**
Sales and marketing	(73)	(82)	-11%	-9%
Contribution	**191**	**199**	**-4%**	**-1%**
Product and technology	(21)	(20)	+5%	+7%
Operations	(45)	(42)	+7%	+10%
Other operating costs	(67)	(62)	+7%	+9%
Underlying EBITDA[1,2]	**125**	**137**	**-9%**	**-6%**
Underlying EBITDA[1,2] margin	*28.0%*	*34.0%*	*-600bps*	*-590bps*
Depreciation and amortisation	(21)	(18)	+22%	+25%
Underlying[1] **operating profit**	**103**	**119**	**-13%**	**-11%**

Sportsbet performed very well during 2019 against the backdrop of a step change in gaming taxes that saw cost of sales as a percentage of revenue rise from 30.1% to 40.7%. In advance of this change, the Group increased investment in customer generosity during 2018 and this strategic decision, coupled with further personalisation of the Sportsbet product offering, delivered excellent customer and revenue growth during 2019. Sportsbet grew its active customers by 9% (excluding World Cup) which in turn helped to drive revenue growth of 14%.

Stakes increased by 3% year-on-year with less customer recycling due to more bookmaker friendly results. Excluding the benefit of the World Cup, stakes were up 5%. Expected margin increased by 90 bps year-on-year, reflecting further refinement of our risk and trading capabilities as well as ongoing changes in product mix, with customers favouring higher margin products such as same game multis. Favourable sports results during 2019 resulted in a further boost of 80 bps in margin though we responded to these results by giving more back to customers via increased generosity, meaning that the net increase in margin was 100 bps year-on-year.

While personalisation work led to other operating costs being 9% higher during 2019, this was more than offset by savings at the sales and marketing line where we shifted spend from traditional channels to personalised digital channels. Examples of this type of promotional spend during the year include our popular “Justice Refund” campaign where we returned money to our customers through free bets. Sales and marketing costs therefore reduced 9% compared with 2018.

Underlying EBITDA[2] reduced by £12m to £125m, offsetting much of the additional £50m in incremental taxes and product fees. Adjusting for these additional costs, underlying EBITDA[2] was 49% higher in constant currency terms.

US[6]

	Reported		Proforma[4] Basis			
					Change	Change
Pre IFRS 16	2019	2018	2019	2018	%	%
	£m	£m	£m	£m	£	US$
Sportsbook stakes	2,326	423	2,326	423	+450%	+446%
Sportsbook net revenue margin	*4.4%*	*2.6%*	*4.4%*	*2.6%*	*+180bps*	*+180bps*
Sports revenue	325	172	325	216	+51%	+45%
Gaming revenue	51	20	51	20	+160%	+149%
Total revenue	**376**	**191**	**376**	**236**	**+60%**	**+54%**
Cost of sales	(116)	(45)	(116)	(50)	+132%	+124%
Cost of sales as a % of net revenue	*30.8%*	*23.3%*	*30.8%*	*21.2%*	*+960bps*	*+960bps*
Gross Profit	**261**	**147**	**261**	**186**	**+40%**	**+35%**
Sales & marketing	(145)	(75)	(145)	(95)	+53%	+47%
Contribution	**115**	**72**	**115**	**91**	**+27%**	**+22%**
Product & technology	(44)	(23)	(44)	(32)	+36%	+30%
Operations	(112)	(63)	(112)	(73)	+52%	+47%
Other operating costs	(156)	(86)	(156)	(106)	+47%	+42%
Underlying EBITDA[1,2]	**(40)**	**(14)**	**(40)**	**(15)**	**n/a**	**n/a**
Underlying EBITDA[1,2] margin	*-10.7%*	*-7.6%*	*-10.7%*	*-6.3%*	*-450bps*	*-450bps*
Depreciation and amortisation	(20)	(11)	(20)	(13)	+61%	+55%
Underlying[1] operating loss	**(60)**	**(25)**	**(60)**	**(27)**	**n/a**	**n/a**

Our US division is comprised of FanDuel, our US sportsbook and daily fantasy sports (DFS) businesses; TVG our leading horseracing TV and wagering network and our online casino brands in New Jersey.

Our merger with FanDuel and the regulation of sports betting has transformed the US division. 2019 saw us expand our online sportsbook offering into 3 new states. The DFS database provided 42% of our sportsbook customers, while cross sell to casino drove a 149% increase in gaming revenue. Ongoing investment in customer growth (350,000 sportsbook customers by year-end) resulted in an underlying EBITDA[1,2] loss of £40m.

Sportsbook: The FanDuel sportsbook generated more than £100m in sportsbook revenues during 2019 compared with £11m generated in 2018. This equated to a combined online market share of 44% in the 4 states in which FanDuel is live. By December 2019, FanDuel had become the largest national sportsbook in the US. Net revenue margin increased by 180 bps reflecting the benefits of a more geographically diverse customer base and improvements in risk and trading operations.

Casino: Our online casino materially benefited from sports betting cross-sell. Growth accelerated once we embedded casino content in the sports betting app in July and by December, 54% of casino revenues were coming from sportsbook customers. This resulted in Q4 gaming revenues trebling year on year, equating to a 19% share of the New Jersey casino market in Q4. This was 7% higher than the comparable period in 2018.

TVG/DFS: Our established sports businesses of daily fantasy sports and TVG grew proforma[4] revenue by 4%. On a combined basis, these businesses delivered double digit contribution growth, providing significant resources for investment in sportsbook customer acquisition.

The proforma[4], constant currency[3] sales and marketing cost increase of 47% represents our investment in sportsbook customer acquisition, supplementing our existing spend on established products including daily fantasy sports. In tandem with driving daily fantasy sports revenues, this spend allows us to acquire potential future sports betting customers prior to a state regulating sports betting. On a proforma[4] basis, contribution increased from £91m in 2018 to £115m in 2019.

Excluding sales and marketing, other operating costs increased by 42% in proforma[4], constant currency[3] terms as we expanded our operating capabilities, invested in product and technology, and brought our US headcount to circa 1,000 employees.

PPB Retail

Pre IFRS 16	**2019 £m**	**2018 £m**	**Change %**
Sportsbook stakes	**1,793**	**1,779**	**+1%**
Sportsbook net revenue margin	*12.8%*	*12.5%*	*+30bps*
Sports revenue	230	222	+4%
Machine gaming revenue	82	110	-25%
Total revenue	**312**	**331**	**-6%**
Cost of sales	(70)	(73)	-5%
Cost of sales as a % of net revenue	*22.4%*	*22.1%*	*+30bps*
Gross profit	**242**	**258**	**-6%**
Sales and marketing	(7)	(7)	+4%
Contribution	**235**	**252**	**-7%**
Product and technology	(6)	(6)	+5%
Operations	(175)	(174)	+1%
Other operating costs	(182)	(180)	+1%
Underlying EBITDA[1,2]	**53**	**72**	**-26%**
Underlying EBITDA[1,2] margin	*17.1%*	*21.6%*	*-450bps*
Depreciation and amortisation	(22)	(21)	+4%
Underlying[1] operating profit	**32**	**51**	**-38%**
Shops at year end	623	626	n/a

Our Retail division operates 623 Paddy Power betting shops across the UK and Ireland.

In 2019 the introduction of a £2 staking limit on fixed odds betting terminals led to a 34% decline in gaming revenues from the 1st of April 2019 (when the change came into effect). This revenue trend has improved during the year as competitors have reduced the size of their retail estates with gaming revenues 21% lower in Q4.

Sportsbook revenue across the estate increased by 4%, with stakes growth of 1% and a 30bps improvement in net revenue margin. In UK retail, sportsbook staking was particularly strong in Q4 as our shops benefitted from competitor closures. We have continued to expand our offering in retail with the roll-out of our next generation screens across the Irish estate, providing customers with a more immersive betting experience.

The change in FOBT regulation, coupled with an increase in Irish betting duty, cost the Group £34m in EBITDA[2], resulting in a 26% reduction in underlying EBITDA[1,2].

Taxation

Corporate income tax

The total effective tax rate for the Group after separately disclosed items was 17.5% (2018: 17.4%). This was driven by an increase in the Group's underlying[1] effective tax rate to 15.9% (2018: 14.9%). The underlying[1] effective tax rate is materially impacted by the geographic mix of profits within the Group and the incremental US loss incurred during 2019 which is not recognised for deferred tax purposes. Excluding the US, the effective tax rate was 12.8% (2018: 13.7%).

Indirect tax updates – key markets

The following tax changes which impact the profitability of the Group were implemented or announced during 2019:

1) UK

Following publication by the UK Government of its Review of Gaming Machines and Social Responsibility Measures in May 2018 the rate of remote gaming duty increased from 15% to 21% on 1 April 2019 (payable on gross online gaming revenues from UK customers).

2) Ireland

From 1 January 2019, the betting duty payable by Irish customers on sports betting stakes increased from 1% to 2% while the duty on betting exchange revenues increased from 15% to 25%.

3) Australia

Throughout 2018, various state governments announced the introduction of point of consumption taxes ('POC') and from 1 January 2019 these came into effect in New South Wales, Victoria, Western Australia and Australian Capital Territory. The overall impact of additional taxes in 2019 for the Group was an almost 11 percentage point increase in cost of sales as a % of net revenue in Australia.

During 2019 Tasmania also announced a new POC which came into effect on 1 January 2020.

4) Other regulated markets

The following tax increases were effective 1 January 2019 in less material Flutter markets:

- Online tax on sports betting in Italy increased from 22% to 24% and from 20% to 25% on online gaming
- An online gambling tax of 18% was introduced in Sweden
- Romania introduced a new 2% tax on deposits along with the 16% online revenue tax already payable

Separately disclosed items

	2019 £m	2018 £m
Amortisation of acquisition related intangible assets	(113)	(101)
Transaction fees	(18)	-
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	(131)	(138)

Separately disclosed items do not relate to the usual business activity of the Group and therefore are excluded from underlying[1] profits.

During 2019, these included £113m of amortisation of acquired intangible assets recognised on accounting for the 2016 merger of Paddy Power and Betfair, the 2018 combination of the Group's US assets with FanDuel and the 2019 acquisition of Adjarabet.

Transaction fees during 2019 relate to costs associated with the proposed combination with The Stars Group.

Cash flow and financial position

As at 31 December 2019, the Group had net debt of £265m, excluding customer balances.

Pre IFRS 16 adjustments	**2019 £m**	**2018 £m**
Underlying EBITDA[1,2]	385	451
Capex	(136)	(107)
Working capital	86	(38)
Corporation tax	(41)	(60)
Underlying[1] free cash flow	**295**	**247**
Cash flow from separately disclosed items	(13)	(1)
Free cash flow	**282**	**246**
Dividends paid	(156)	(169)
Share buyback	(87)	(415)
Acquisitions (2019 Adjarabet; 2018 FanDuel)	(102)	(71)
Legacy Greek and German tax	(40)	-
Interest and other borrowing costs	(7)	(4)
Net proceeds from issue of shares	4	10
Other	3	-
Net decrease in cash	**(104)**	**(403)**
Net (debt)/cash at start of year	**(162)**	**244**
Foreign currency exchange translation	1	(2)
Net debt at year end[5]	**(265)**	**(162)**

Net debt increased by £103m during 2019, with strong positive cash flows from operations, primarily offset by enhanced shareholder returns and the acquisition of Adjarabet.

The Group had £136m of capital expenditure during 2019 (2018: £107m). The year-on-year increase reflects on-going product development work in our online businesses and investment in additional market access in the US.

Working capital during 2019 was positively affected by material prepayments in relation to European marketing assets and US sports betting assets (c. £30m) in 2018, the expansion of our US business and the effect of incremental taxes that were introduced or increased in 2019.

Corporation tax payments reduced during 2019 to £41m, reflecting the timing of tax payments and the lower taxable profits of the Group.

Cash flow from separately disclosed items relates to costs associated with the proposed combination with The Stars Group.

During the year, £243m was returned to shareholders via dividends and share buybacks.

Payment was made to the German and Greek tax authorities relating to two contested legacy tax issues. The Group remains confident of our grounds to appeal both of these cases.

At 27 February 2019 the Group had net debt of £265m, equivalent to a leverage ratio of 0.7 times.

Dividend

The Board has proposed a final divided of 133p per share, equating to a full year dividend for 2019 of 200p (2018: 200p). The ex-dividend date will be 9 April 2020, the record date will be 14 April 2020 and payment will be on 22 May 2020.

Outlook

2020 has begun strongly, with good customer and revenue momentum across all of our divisions.

Euro 2020 presents an excellent opportunity to engage with and acquire customers across multiple markets and we therefore anticipate that sales and marketing for PPB Online will be c. 25% of net revenue in 2020 (2019: 23.9%). Offsetting the cost of this marketing investment is our performance in retail gaming which is running ahead of our initial expectations.

PPB Online will see a number of regulatory changes this year. The annualised revenue impact of the recently announced restriction on UK credit card deposits will be c.£20-25m. We estimate that the decision to switch off a small number of B2B partners will result in a reduction in Exchange revenues, equivalent to less than 1% of Group revenues in 2020.

In the US, FanDuel continues to enjoy very strong momentum. With plans to launch and invest in our online sportsbook in at least 3 additional states in 2020 we currently expect the US EBITDA[2] outcome for 2020 to be similar to 2019.

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[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 37 to the financial statements).

[2] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure. EBITDA throughout this Operating and Financial Review excludes the impact of IFRS 16. See Appendix 5 for a reconciliation to IFRS 16 compliant numbers. 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 financial statements.

[3] Constant currency ("cc") growth throughout this Operating and Financial Review is calculated by retranslating non-sterling denominated component of 2018 at 2019 exchange rates (see Appendix 4).

[4] The Adjarabet and FanDuel transactions completed on 1 February 2019 and 10 July 2018 respectively. The 'Proforma' results include the Adjarabet and FanDuel fantasy sports businesses as if they had always been part of the Group, incorporating in addition to the reported results, results from pre-acquisition periods in 2018 and 2019.

[5] Net debt at 31 December 2019 is comprised of gross cash excluding customer balances of £108.1m and gross borrowings of £367.3m. The comparative balance shown as at 31 December 2018 is comprised of gross cash excluding customer balances of £123.7m and borrowings of £285.4m (see Appendix 3).

[6] Growth rates in the commentary are in local currency.

[7] The impact of tax and regulatory change is calculated by adjusting the prior year comparative to reflect the same regulatory and tax rules that exist in the current period. This includes the impact of changes to Australian point of consumption taxes and product fees, UK machine staking limits, UK online remote gaming duty and Irish betting duty.

[8]Average customer acquisition cost is the total sportsbook media and digital marketing spend divided by the total number of customers acquired.

Appendix 1: Divisional Key Performance Indicators

£m	PPB Online			Australia				PPB Retail			US				Group			
Pre IFRS 16 adjustments	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**	**A$ % Change**	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**	**US$ % Change**	**2019**	**2018**	**% Change**	**CC[1]% Change**
Sportsbook stakes	5,184	5,453	-5%	4,298	4,308	Flat	+3%	1,793	1,779	+1%	2,326	423	+450%	+446%	13,601	11,962	+14%	+15%
Sportsbook net revenue margin	*8.1%*	*7.7%*	*+40bps*	*10.4%*	*9.4%*	*+100bps*	*+100bps*	*12.8%*	*12.5%*	*+30bps*	*4.4%*	*2.6%*	*+180bps*	*+180bps*	*8.8%*	*8.8%*	*Flat*	*Flat*
Sports revenue	666	678	-2%	446	403	+11%	+14%	230	222	+4%	325	172	+89%	+83%	1,667	1,474	+13%	+14%
Gaming revenue	340	270	+26%	-	-	-	-	82	110	-25%	51	20	+160%	+149%	473	399	+19%	+18%
Total revenue	**1,006**	**948**	**+6%**	**446**	**403**	**+11%**	**+14%**	**312**	**331**	**-6%**	**376**	**191**	**+97%**	**+90%**	**2,140**	**1,873**	**+14%**	**+15%**
Cost of sales	(283)	(231)	+23%	(182)	(121)	+50%	+54%	(70)	(73)	-5%	(116)	(45)	+159%	+151%	(650)	(470)	+38%	+39%
Cost of sales as a % of net revenue	*28.1%*	*24.4%*	*+380bps*	*40.7%*	*30.1%*	*+1060bps*	*+1070bps*	*22.4%*	*22.1%*	*+30bps*	*30.8%*	*23.3%*	*+750bps*	*+740bps*	*30.4%*	*25.1%*	*+530bps*	*+530bps*
Gross Profit	**723**	**717**	**+1%**	**264**	**282**	**-6%**	**-3%**	**242**	**258**	**-6%**	**261**	**147**	**+77%**	**+72%**	**1,490**	**1,403**	**+6%**	**+6%**
Sales & marketing	(240)	(242)	-1%	(73)	(82)	-11%	-9%	(7)	(7)	+4%	(145)	(75)	+93%	+86%	(465)	(406)	+15%	+14%
Contribution	**483**	**475**	**+2%**	**191**	**199**	**-4%**	**-1%**	**235**	**252**	**-7%**	**115**	**72**	**+61%**	**+57%**	**1,025**	**997**	**+3%**	**+3%**
Product & technology	(99)	(95)	+5%	(21)	(20)	+5%	+7%	(6)	(6)	+5%	(44)	(23)	+90%	+83%	(171)	(144)	+19%	+19%
Operations	(76)	(64)	+20%	(45)	(42)	+7%	+10%	(175)	(174)	+1%	(112)	(63)	+78%	+73%	(409)	(343)	+19%	+19%
Unallocated central costs															(60)	(59)	+1%	+2%
Other operating costs	**(176)**	**(158)**	**+11%**	**(67)**	**(62)**	**+7%**	**+9%**	**(182)**	**(180)**	**+1%**	**(156)**	**(86)**	**+81%**	**+76%**	**(639)**	**(546)**	**+17%**	**+17%**
Underlying EBITDA	**307**	**316**	**-3%**	**125**	**137**	**-9%**	**-6%**	**53**	**72**	**-26%**	**(40)**	**(14)**	**+178%**	**+168%**	**385**	**451**	**-15%**	**-14%**
Underlying EBITDA margin	*30.5%*	*33.4%*	*-280bps*	*28.0%*	*34.0%*	*-600bps*	*-590bps*	*17.1%*	*21.6%*	*-450bps*	*-10.7%*	*-7.6%*	*-310bps*	*-310bps*	*18.0%*	*24.1%*	*-610bps*	*-600bps*
Depreciation & amortisation	(45)	(42)	+8%	(21)	(18)	+22%	+25%	(22)	(21)	+4%	(20)	(11)	+92%	+84%	(108)	(90)	+19%	+20%
Underlying operating profit	**263**	**275**	**-4%**	**103**	**119**	**-13%**	**-11%**	**32**	**51**	**-38%**	**(60)**	**(25)**	**+142%**	**+133%**	**277**	**360**	**-23%**	**-22%**

[1] Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2018 at 2019 exchange rates (see Appendix 4). Half-yearly and quarterly divisional key performance indicators are available on our corporate website: https://www.flutter.com/investors

	Proforma Basis							
£m	**US**				**Group**			
Pre IFRS 16 adjustments	**2019**	**2018**	**% Change**	**US$ % Change**	**2019**	**2018**	**% Change**	**CC[1]% Change**
Sports revenue	325	216	+51%	+45%	1,667	1,525	+9%	+10%
Gaming revenue	51	20	+160%	+149%	478	455	+5%	+6%
Total revenue	**376**	**236**	**+60%**	**+54%**	**2,145**	**1,980**	**+8%**	**+9%**
Cost of sales	(116)	(50)	+132%	+124%	(652)	(497)	+31%	+32%
Cost of sales as a % of net revenue	*30.8%*	*21.2%*	*+960bps*	*+960bps*	*30.4%*	*25.1%*	*+530bps*	*+540bps*
Gross Profit	**261**	**186**	**+40%**	**+35%**	**1,493**	**1,483**	**+1%**	**+1%**
Sales & marketing	(145)	(95)	+53%	+47%	(466)	(433)	+8%	+7%
Contribution	**115**	**91**	**+27%**	**+22%**	**1,027**	**1,050**	**-2%**	**-2%**
Product & technology	(44)	(32)	+36%	+30%	(171)	(156)	+9%	+9%
Operations	(112)	(73)	+52%	+47%	(410)	(365)	+12%	+12%
Unallocated central costs					(60)	(59)	+1%	+2%
Other operating costs	**(156)**	**(106)**	**+47%**	**+42%**	**(641)**	**(581)**	**+10%**	**+10%**
Underlying EBITDA	**(40)**	**(15)**	**n/a**	**n/a**	**386**	**470**	**-18%**	**-17%**
Underlying EBITDA margin	*-10.7%*	*-6.3%*	*-450bps*	*-450bps*	*18.0%*	*23.7%*	*-570bps*	*-560bps*
Depreciation & amortisation	(20)	(13)	+61%	+55%	(108)	(93)	+16%	+16%
Underlying operating profit	**(60)**	**(27)**	**n/a**	**n/a**	**278**	**377**	**-26%**	**-25%**

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

£m	Revenue				Underlying EBITDA *Pre IFRS 16*			
	2019	2018	YoY %	CC YoY %	2019	2018	YoY %	CC YoY %
Reported	**2,140**	**1,873**	**+14%**	**+15%**	**385**	**451**	**-15%**	**-14%**
Inclusion of pre-acquisition Adjarabet and FanDuel results	5	107			1	19		
Proforma	**2,145**	**1,980**	**+8%**	**+9%**	**386**	**470**	**-18%**	**-17%**

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 and the use of the underlying EBITDA on a pre-IFRS 16 basis, as reconciled in the table below.

£m	**Presented cash flow** (pre IFRS 16 adjustments)		**Adjustment to include borrowings and IFRS 16**		**Reported cash flow**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Underlying EBITDA[1]	385	451	40	-	425	451
Capex[2]	(136)	(107)	-	-	(136)	(107)
Working capital[3]	86	(38)	1	-	87	(38)
Corporation tax	(41)	(60)	-	-	(41)	(60)
Underlying free cash flow	**295**	**247**	**41**	**-**	**336**	**247**
Cash flow from separately disclosed items[4]	(13)	(1)	-	-	(13)	(1)
Free cash flow	**282**	**246**	**41**	**-**	**323**	**246**
Dividends paid	(156)	(169)	-	-	(156)	(169)
Share buyback	(87)	(415)	-	-	(87)	(415)
Acquisitions (2019 Adjarabet; 2018 FanDuel)	(102)	(71)	-	-	(102)	(71)
Legacy Greek and German tax	(40)	-	-	-	(40)	-
Interest and other borrowing costs[5]	(7)	(4)	-	-	(7)	(4)
Net proceeds from issue of new shares[6]	4	10	-	-	4	10
Other	3	-	-	-	3	-
Lease liabilities paid	-	-	(41)	-	(41)	-
Net amounts drawn down / (repaid) on borrowings	-	-	88	223	88	223
Net (decrease)/increase in cash	**(104)**	**(403)**	**88**	**223**	**(16)**	**(180)**
Net cash at start of the year	**(162)**	**244**	**285**	**62**	**124**	**307**
Foreign currency exchange translation	1	(2)	(1)	(1)	-	(3)
Net (debt)/cash at year end	**(265)**	**(162)**	**373**	**285**	**108**	**124**

[1]Underlying EBITDA (pre IFRS 16) includes the following line items in the statutory cash flow: Profit for the period, separately disclosed items, tax expense before separately disclosed items, financial income before separately disclosed items, financial expense before separately disclosed items and depreciation and amortisation before separately disclosed items. EBITDA throughout this Operating and Financial Review excludes the impact of IFRS 16. See Appendix 5 for a reconciliation to IFRS 16 compliant numbers.

[2] Capex includes purchase of property, plant and equipment, purchase of intangible assets, purchase of businesses net of cash acquired (excluding Adjarabet and FanDuel acquisitions shown separately in presented cash flow), capitalised internal development expenditure, payment of contingent deferred consideration and loss on disposal of property, plant and equipment and intangible assets.

[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 restructuring, transaction fees 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.

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

Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2018 at 2019 exchange rates as per the table below.

£m *Pre IFRS 16 adjustments*	**2019**	**2018**	**% Change**	**2018 FX impact**	**2018 CC**	**CC% Change**
Sports net revenue	1,667	1,474	+13%	(7)	1,467	+14%
Gaming net revenue	473	399	+19%	1	400	+18%
Total net revenue	**2,140**	**1,873**	**+14%**	**(7)**	**1,867**	**+15%**
Cost of sales	(650)	(470)	+38%	2	(467)	+39%
Gross Profit	**1,490**	**1,403**	**+6%**	**(4)**	**1,399**	**+6%**
Sales & marketing	(465)	(406)	+15%	-	(407)	+14%
Product & technology	(171)	(144)	+19%	-	(143)	+19%
Operations	(409)	(343)	+19%	1	(343)	+19%
Unallocated central costs	(60)	(59)	+1%	-	(59)	+2%
Operating costs	**(1,105)**	**(953)**	**+16%**	**1**	**(951)**	**+16%**
Underlying EBITDA	**385**	**451**	**-15%**	**(3)**	**448**	**-14%**
Depreciation & amortisation	(108)	(90)	+19%	-	(90)	+20%
Underlying operating profit	**277**	**360**	**-23%**	**(3)**	**357**	**-22%**
Revenue by division						
PPB Online	1,006	948	+6%	(1)	947	+6%
Australia	446	403	+11%	(11)	392	+14%
PPB Retail	312	331	-6%	(1)	330	-6%
US	376	191	+97%	6	198	+90%
Underlying EBITDA by division						
PPB Online	307	316	-3%	2	318	-3%
Australia	125	137	-9%	(4)	133	-6%
PPB Retail	53	72	-26%	-	71	-25%
US	(40)	(14)	+178%	(1)	(15)	+168%
Unallocated central costs	(60)	(59)	+1%	-	(59)	+2%

Appendix 5: Reconciliation of underlying EBITDA and EBIT to reported statutory EBIT by division

From 1 January 2019, IFRS 16 – Leases replaced IAS 17 – Leases. This means for leases previously classified as operating leases, a right of use asset and associated lease liability will be recognised going forward. The nature of the operating lease expense also changes as IFRS 16 replaces the previous operating lease expense with a depreciation charge on the asset and an interest expense on the liability. As a Group we have adopted the modified retrospective approach by not restating the comparative period. Therefore, in the Operating and Financial Review, in order to maintain comparability with the prior period, we have shown underlying EBITDA on a consistent basis with the prior period, i.e. on a pre-IFRS 16 basis with the relevant operating lease expense included within EBITDA. The impact of IFRS 16 on Group profit before tax was immaterial in the period.

£m	**PPB Online**			**Australia**			**PPB Retail**			**US**			**Group**		
	Pre IFRS 16 2019	**IFRS 16 adjust-ment**	**Reported 2019**	**Pre IFRS 16 2019**	**IFRS 16 adjust-ment**	**Reported 2019**	**Pre IFRS 16 2019**	**IFRS 16 adjust-ment**	**Reported 2019**	**Pre IFRS 16 2019**	**IFRS 16 adjust-ment**	**Reported 2019**	**Pre IFRS 16 2019**	**IFRS 16 adjust-ment**	**Reported 2019**
Total revenue	**1,006**		**1,006**	**446**		**446**	**312**		**312**	**376**		**376**	**2,140**		**2,140**
Cost of sales	(283)		(283)	(182)		(182)	(70)		(70)	(116)		(116)	(650)		(650)
Gross Profit	**723**		**723**	**264**		**264**	**242**		**242**	**261**		**261**	**1,490**		**1,490**
Operating costs	**(416)**	**5**	**(410)**	**(140)**	**3**	**(137)**	**(189)**	**23**	**(166)**	**(301)**	**4**	**(297)**	**(1,105)**	**40**	**(1,064)**
Underlying EBITDA	**307**	**5**	**313**	**125**	**3**	**127**	**53**	**23**	**76**	**(40)**	**4**	**(36)**	**385**	**40**	**425**
Depreciation & amortisation	(45)	(5)	(50)	(21)	(2)	(24)	(22)	(21)	(43)	(20)	(4)	(24)	(108)	(37)	(145)
Underlying operating profit	**263**	**-**	**263**	**103**	**-**	**104**	**32**	**2**	**33**	**(60)**	**1**	**(60)**	**277**	**3**	**281**
Underlying net interest expense													(9)	(5)	(14)
Separately disclosed items													(131)	-	(131)
Profit before tax													**137**	**(1)**	**136**

CONDENSED CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2019

	Note	Before separately disclosed items 2019 £m	Separately disclosed items (Note 4) 2019 £m	Total 2019 £m	Before separately disclosed items 2018 £m	Separately disclosed items (Note 4) 2018 £m	Total 2018 £m
Continuing operations							
Revenue	3	**2,140.0**	**-**	**2,140.0**	1,873.4	-	1,873.4
Cost of sales		**(650.2)**	**-**	**(650.2)**	(469.9)	-	(469.9)
Gross profit		**1,489.8**	**-**	**1,489.8**	1,403.5	-	1,403.5
Operating costs excluding depreciation, amortisation and impairment		**(1,064.4)**	**(17.6)**	**(1,082.0)**	(952.5)	(28.0)	(980.5)
EBITDA [1]		**425.4**	**(17.6)**	**407.8**	451.0	(28.0)	423.0
Depreciation and amortisation		**(144.8)**	**(113.1)**	**(257.9)**	(90.5)	(100.7)	(191.2)
Impairment		**-**	**-**	**-**	-	(27.2)	(27.2)
Operating profit		**280.6**	**(130.7)**	**149.9**	360.5	(155.9)	204.6
Financial income		**1.0**	**-**	**1.0**	3.9	17.7	21.6
Financial expense		**(15.2)**	**-**	**(15.2)**	(7.5)	-	(7.5)
Profit before tax		**266.4**	**(130.7)**	**135.7**	356.9	(138.2)	218.7
Tax (expense) / credit	5	**(42.4)**	**18.6**	**(23.8)**	(53.1)	15.1	(38.0)
Profit / (loss) for the year		**224.0**	**(112.1)**	**111.9**	303.8	(123.1)	180.7
Attributable to:							
Equity holders of the Company		**238.4**	**(94.4)**	**144.0**	316.1	(114.7)	201.4
Non-controlling interest		**(14.4)**	**(17.7)**	**(32.1)**	(12.3)	(8.4)	(20.7)
		224.0	**(112.1)**	**111.9**	303.8	(123.1)	180.7
Earnings per share							
Basic	6			**£1.832**			£2.417
Diluted	6			**£1.822**			£2.404

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. Note as a result of the adoption of IFRS 16 Leases from 1 January 2019, under the modified retrospective approach, the rent expense which in 2018 was reflected in operating costs excluding depreciation, amortisation and impairment, is no longer recorded as an expense in 2019 but is replaced by a depreciation charge and finance expense which are recorded after EBITDA. There is no restatement of comparative information. See Note 2 for further detail on the impact of IFRS 16.

Notes 1 to 17 on pages 29 to 54 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	**111.9**	180.7
Other comprehensive income / (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**2.6**	-
Fair value of foreign exchange cash flow hedges transferred to income statement	**(0.3)**	-
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated entities	**(33.1)**	26.1
Other comprehensive income / (loss)	**(30.8)**	26.1
Total comprehensive income for the year	**81.1**	206.8
Attributable to:		
Equity holders of the Company	**120.7**	219.3
Non-controlling interest	**(39.6)**	(12.5)
	81.1	206.8

Notes 1 to 17 on pages 29 to 54 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	**31 December 2019**	31 December 2018 [1]
		£m	£m
Assets			
Property, plant and equipment		**298.2**	130.4
Intangible assets		**558.5**	578.1
Goodwill	7	**4,120.3**	4,075.3
Deferred tax assets		**11.9**	10.7
Investments	9	**0.1**	2.4
Other receivables	9	**50.4**	8.9
Total non-current assets		**5,039.4**	4,805.8
Trade and other receivables	9	**64.6**	81.8
Financial assets – restricted cash	10	**189.1**	167.2
Cash and cash equivalents	10	**108.1**	123.7
Total current assets		**361.8**	372.7
Total assets		**5,401.2**	5,178.5
Equity			
Issued share capital and share premium		**428.3**	424.8
Treasury shares	11	**(40.7)**	(40.7)
Shares held by employee benefit trust	11	**(6.1)**	(8.6)
Other reserves		**63.7**	92.4
Retained earnings		**3,539.5**	3,530.1
Equity attributable to owners of the parent		**3,984.7**	3,998.0
Non-controlling interest		**204.9**	213.3
Total equity		**4,189.6**	4,211.3
Liabilities			
Trade and other payables	13	**548.8**	532.8
Derivative financial liabilities	13	**20.4**	20.1
Provisions		**2.9**	4.3
Current tax payable		**20.0**	20.8
Lease liabilities	14	**38.4**	-
Borrowings	14	**255.0**	0.4
Total current liabilities		**885.5**	578.4
Trade and other payables	13	**11.5**	26.2
Derivative financial liabilities	13	**0.7**	0.9
Provisions		**1.1**	1.3
Deferred tax liabilities		**65.0**	77.4
Lease liabilities	14	**132.1**	-
Borrowings	14	**115.7**	283.0
Total non-current liabilities		**326.1**	388.8
Total liabilities		**1,211.6**	967.2
Total equity and liabilities		**5,401.2**	5,178.5

1 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2 for further details.

Notes 1 to 17 on pages 29 to 54 form an integral part of these condensed consolidated financial statements.
On behalf of the Board

Peter Jackson
Chief Executive Officer

Jonathan Hill
Chief Financial Officer

26 February 2020

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year		**111.9**	180.7
Separately disclosed items	4	**112.1**	123.1
Tax expense before separately disclosed items		**42.4**	53.1
Financial income		**(1.0)**	(3.9)
Financial expense		**15.2**	7.5
Depreciation and amortisation before separately disclosed items		**144.6**	90.8
Employee equity-settled share-based payments expense before separately disclosed items		**17.1**	18.9
Foreign currency exchange loss / (gain)		**1.5**	(2.0)
Loss / (profit) on disposal of property, plant and equipment and intangible assets		**0.2**	(0.3)
Cash from operations before changes in working capital		**444.0**	467.9
Decrease / (increase) in trade and other receivables		**13.1**	(30.2)
Increase / (decrease) in trade, other payables and provisions		**56.1**	(24.5)
Cash generated from operations		**513.2**	413.2
Tax paid		**(41.3)**	(59.9)
Net cash from operating activities before transactions fees, restructuring and strategic initiatives costs paid		**471.9**	353.3
Transaction fees paid		**(12.9)**	-
Restructuring and strategic initiative costs paid		**-**	(22.9)
Amounts paid in respect of legacy Greek and German tax assessments		**(39.6)**	-
Net cash from operating activities		**419.4**	330.4
Purchase of property, plant and equipment		**(44.0)**	(31.6)
Purchase of intangible assets		**(33.7)**	(38.5)
Proceeds from disposal of investment		**2.3**	21.9
Cash in acquired businesses	8	**0.2**	20.4
Purchase of businesses	8	**(102.0)**	(12.8)
Capitalised internal development expenditure		**(53.1)**	(30.3)
Payment of contingent deferred consideration	8	**(4.8)**	(6.1)
Proceeds from disposal of property, plant and equipment and intangible assets		**-**	1.0
Interest received		**0.9**	1.7
Net cash used in investing activities		**(234.2)**	(74.3)
Proceeds from the issue of new shares		**3.6**	2.3
Proceeds from the issue of shares to Non-controlling interest		**-**	7.5
Dividends paid	12	**(156.2)**	(169.0)
Payment of lease liabilities	14	**(41.4)**	-
Net amounts drawn down on borrowing facilities	14	**82.8**	223.1
Repayment of FanDuel debt and debt like items	8	**-**	(79.9)
Interest paid	14	**(7.1)**	(3.1)
Fees in respect of borrowing facility	14	**(0.8)**	(2.4)
Purchase of own shares including direct purchase costs	11	**(86.8)**	(415.0)
Net cash used in financing activities		**(205.9)**	(436.5)
Net decrease in cash and cash equivalents		**(20.7)**	(180.4)
Cash and cash equivalents at start of year		**123.7**	306.6
Foreign currency exchange gain / (loss) on cash and cash equivalents		**0.1**	(2.5)
Net Cash and cash equivalents at end of year		**103.1**	123.7
Bank overdraft		**5.0**	-
Cash and cash equivalents at end of year	10	**108.1**	123.7

Notes 1 to 17 on pages 29 to 54 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Cash flow hedge 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
		Attributable to equity holders of the Company (see Note 11)										
Balance at 1 January 2019	***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**
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	**144.0**	**144.0**	**(32.1)**	**111.9**
Foreign exchange translation	-	-	**(25.6)**	-	-	-	-	-	-	**(25.6)**	**(7.5)**	**(33.1)**
Net change in fair value of cash flow hedge reserve	-	-	-	**2.3**	-	-	-	-	-	**2.3**	-	**2.3**
Total comprehensive income / (loss) for the year	-	-	**(25.6)**	**2.3**		-	-	-	**144.0**	**120.7**	**(39.6)**	**81.1**
Transactions with owners of the Company, recognised directly in equity												
Shares issued (Note 11)	***0.3***	**3.6**	-	-	-	-	-	-	-	**3.6**	-	**3.6**
Business combinations (Note 8)	-	-	-	-	-	-	-	-	-	-	**31.2**	**31.2**
Own shares acquired by the Group (Note 11)	***(1.4)***	**(0.1)**	-	-	**0.1**	-	-	-	-	-	-	-
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	**17.1**	-	**17.1**	-	**17.1**
Equity-settled transactions – vestings	-	-	-	-	-	-	**2.5**	**(2.3)**	**(0.2)**	-	-	-
Tax on share-based payments	-	-	-	-	-	-	-	-	**1.5**	**1.5**	-	**1.5**
Transfer to retained earnings on exercise of share options (Note 11)	-	-	-	-	-	-	-	**(20.3)**	**20.3**	-	-	-
Dividends to shareholders (Note 12)	-	-	-	-	-	-	-	-	**(156.2)**	**(156.2)**	-	**(156.2)**
Total contributions by and distributions to owners of the Company	***(1.1)***	**3.5**	-	-	**0.1**	-	**2.5**	**(5.5)**	**(134.6)**	**(134.0)**	**31.2**	**(102.8)**
Balance at 31 December 2019	***80.3***	**428.3**	**(21.5)**	**2.3**	**2.3**	**(40.7)**	**(6.1)**	**80.6**	**3,539.5**	**3,984.7**	**204.9**	**4,189.6**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Attributable to equity holders of the Company (see Note 11)										
	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	-	-	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 11)	*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 8)	-	-	-	-	-	-	-	8.9	8.9	209.0	217.9
Own shares acquired by the Group (Note 11)	*(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 11)	-	-	-	-	-	-	(40.5)	40.5	-	-	-
Dividends to shareholders (Note 12)	-	-	-	-	-	-	-	(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

Notes 1 to 17 on pages 29 to 54 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Flutter Entertainment 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) PPB Online which includes the online brands of Paddy Power, Betfair and Adjarabet, 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) PPB 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 financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") together with an unqualified audit report thereon under Section 391 of the Companies Act 2014, will be annexed to the annual return and filed with the Registrar of Companies.

The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the financial statements of the Company and its subsidiary undertakings and were approved for issue by the Board of Directors on 26 February 2020.

2. Basis of preparation and summary of significant accounting policies

The condensed consolidated financial statements are prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Republic of Ireland's Financial Regulator. The condensed consolidated financial statements are prepared on the historical cost basis except for betting transactions (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 2019.

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 2019:

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures
- Annual improvements to IFRS Standards 2015-2018 Cycle
- Amendments to IAS 19: Plan amendment, Curtailment or Settlement

The adoption of the above new standards and interpretations with the exception of IFRS 16 did not have a significant impact on the Group's consolidated financial statements.

The Group has adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single on-balance sheet accounting model for lessees. As a result, the Group as a lessee has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make lease payments.

2. Basis of preparation and summary of significant accounting policies (continued)

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial recognition is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as reported under IAS 17 and related interpretations. The details of the changes in accounting policies are discussed below.

As a lessee
As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership of the underlying asset. Under IFRS 16, the Group recognises right of use assets and lease liabilities for most leases – i.e. these leases are recorded on the statement of financial position.

However the Group has elected not to recognise the right-of-use assets and lease liabilities for a small amount of leases of low value assets (e.g office equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at deemed cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. It is subsequently measured at cost less accumulated depreciation and impairment in accordance with the Group's accounting policies. It is depreciated over the shorter of the lease term and the useful life of the right-of-use asset, unless there is a transfer of ownership or purchase option which is reasonably certain to be exercised at the end of the lease term. If there is a transfer of ownership or purchase option which is reasonably certain to be exercised at the end of the lease term, the Group depreciates the right-of-use asset over the useful life of the underlying asset.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. To determine the incremental borrowing rate, the Group, where possible, used recent third-party borrowings as a benchmark to determine the borrowing rate that would be attached to a secured borrowing having similar amount, economic environment and duration as the individual lease.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lease that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right of use assets recognised.

Transition
Until 31 December 2018, leases of property, plant and equipment where the group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's

inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease, unless another systematic basis was more appropriate.

The Group leases various licenced 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 transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments discounted at the Group's incremental borrowing rate at 1 January 2019. Right of use assets are measured at either:

- their carrying amounts as if IFRS 16 had been applied since the commencement date, discounted using the leases incremental borrowing rate at the date of initial application.
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term and leases for which the underlying asset is of low value
- Relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review
- Applied portfolio level accounting for leases with similar characteristics
- Excluded initial direct costs from measuring the right of use asset at the date of initial application
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease

As a lessor

The Group has a small number of properties that are sublet. The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

At inception, the Group determines whether each lease is a finance lease or an operating lease, by reference to the transfer of all risks and rewards in connection to ownership of the underlying asset. In this case, the Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

When the Group is an intermediate lessor the sub leases are classified with reference to the right of use asset arising from the head lease, not with reference to the underlying asset.

Under operating leases, the Group recognises the income generated by the lease on an accruals basis over the life of the contract.

2. Basis of preparation and summary of significant accounting policies (continued)

Impact on financial statements

Impact on transition

On transition to IFRS 16, the Group recognised additional right of use assets and additional lease liabilities. The impact on transition is summarised below.

	1 January 2019
	£m
Right of use assets	157.2
Provisions	1.2
Payables	7.6
Lease liabilities	(162.3)
Trade and other receivables including prepayments	(3.7)

As the Group measured the right of use assets at an amount equal to the lease liabilities, no adjustment to retained earnings was required.

The provisions derecognised referred to previously identified onerous leases that under IAS 17 had required, in previous accounting periods, the recognition of a provision which, under IFRS 16, is incorporated in the overall lease liability.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3%.

	1 January 2019
	£m
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	182.1
Less payments not to be included within lease liability	(2.5)
Discounted using the incremental borrowing rate at 1 January 2019	(17.3)
Lease liabilities recognised at 1 January 2019	162.3

Impacts for the period

As a result of initially applying IFRS 16 in relation to the leases that were previously classified as operating leases, the Group recognised £166.0m of right of use assets and £170.5m of lease liabilities as at 31 December 2019. See Note 14 and 15 (d) for further details.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs instead of operating lease expense. During the year ended 31 December 2019, the Group recognised £36.7m of depreciation charges and £5.0m of interest costs from these leases.

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:

- Amendments to references to the Conceptual Framework in IFRS Standards (effective date 1 January 2020)
- Definition of a business (Amendments to IFRS 3) (effective date 1 January 2020)
- Definition of material (Amendments to IAS 1 and IAS 8) (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)

2. Basis of preparation and summary of significant accounting policies (continued)

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.

3. Operating segments

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:

- PPB Online
- Australia
- PPB Retail
- US

The reportable segments reflect the way financial information is reviewed by the Group's Chief Operating Decision Maker ("CODM").

The PPB 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 PPB 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 small number 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 Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the PPB Online, Australia, PPB 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.

3. Operating segments (continued)

Reportable business segment information for the year ended 31 December 2019:

	PPB Online £m	Australia £m	PPB Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	**1,006.2**	**445.8**	**311.7**	**376.3**	**-**	**2,140.0**
Cost of sales	**(283.1)**	**(181.5)**	**(69.8)**	**(115.8)**	**-**	**(650.2)**
Gross profit	**723.1**	**264.3**	**241.9**	**260.5**	**-**	**1,489.8**
Operating costs excluding depreciation, amortisation and impairment	**(410.3)**	**(136.8)**	**(165.6)**	**(296.7)**	**(55.0)**	**(1,064.4)**
Underlying EBITDA [1]	**312.8**	**127.5**	**76.3**	**(36.2)**	**(55.0)**	**425.4**
Depreciation and amortisation	**(49.9)**	**(23.8)**	**(43.0)**	**(23.8)**	**(4.3)**	**(144.8)**
Reportable segment profit / (loss) before separately disclosed items	**262.9**	**103.7**	**33.3**	**(60.0)**	**(59.3)**	**280.6**
Amortisation of acquisition related intangible assets (Note 4)	**(77.2)**	**-**	**-**	**(35.9)**	**-**	**(113.1)**
Reportable segment profit / (loss) after amortisation of acquisition related intangible assets	**185.7**	**103.7**	**33.3**	**(95.9)**	**(59.3)**	**167.5**
Transaction fees [2] (Note 4)						**(17.6)**
Operating profit						**149.9**

Reportable business segment information for the year ended 31 December 2018:

	PPB Online £m	Australia £m	PPB 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)
Underlying 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

3. Operating segments (continued)

1 Underlying EBITDA in the above segment note is defined as profit for the period before separately disclosed items, 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. Note as a result of the adoption of IFRS 16 Leases from 1 January 2019, under the modified retrospective approach, the rent expense which in 2018 was reflected in operating costs excluding depreciation, amortisation and impairment, is no longer recorded as an expense in 2019 but is replaced by a depreciation charge and finance expense which are recorded after EBITDA. There is no restatement of comparative information. See Note 2 for further detail on the impact of IFRS 16.

2 The Group does not allocate transaction fees and restructuring and strategic initiatives to reportable segments.

Reconciliation of reportable segments to Group totals:

	2019	2018
	£m	£m
Revenue		
Total revenue from reportable segments, being total Group revenue	**2,140.0**	1,873.4
Profit and loss		
Operating profit	**149.9**	204.6
Unallocated amounts:		
Financial income	**1.0**	21.6
Financial expense	**(15.2)**	(7.5)
Profit before tax	**135.7**	218.7

Disaggregation of revenue under IFRS 15

Group revenue disaggregated by product line for the year ended 31 December 2019:

	PPB Online	**Australia**	**PPB Retail**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Sports revenue[1]	**666.3**	**445.8**	**229.6**	**325.0**	**1,666.7**
Gaming revenue	**339.9**	**-**	**82.1**	**51.3**	**473.3**
Total Group revenue	**1,006.2**	**445.8**	**311.7**	**376.3**	**2,140.0**

Group revenue disaggregated by product line for the year ended 31 December 2018:

	PPB Online	Australia	PPB Retail	US	Total
	£m	£m	£m	£m	£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

[1] Sports revenue comprises sportsbook, exchange sports betting, daily fantasy sports and pari-mutuel betting.

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.

3. Operating segments (continued)

Group revenues disaggregated by geographical segment for the year ended 31 December 2019:

	PPB Online £m	**Australia £m**	**PPB Retail £m**	**US £m**	**Total £m**
UK	**671.1**	**-**	**173.6**	**-**	**844.7**
Ireland	**98.5**	**-**	**138.1**	**-**	**236.6**
Australia	**-**	**445.8**	**-**	**-**	**445.8**
US	**-**	**-**	**-**	**376.3**	**376.3**
Rest of World	**236.6**	**-**	**-**	**-**	**236.6**
Total Group revenue	**1,006.2**	**445.8**	**311.7**	**376.3**	**2,140.0**

Group revenues disaggregated by geographical segment for the year ended 31 December 2018:

	PPB Online £m	Australia £m	PPB 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

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:

	31 December 2019 £m	31 December 2018 £m
UK	**3,771.2**	3,761.6
Ireland	**157.3**	104.8
Australia	**108.9**	89.9
US	**805.0**	823.3
Rest of World	**185.1**	15.5
Total	**5,027.5**	4,795.1

4. Separately disclosed items

	2019	2018
	£m	£m
Amortisation of acquisition related intangible assets	**(113.1)**	(100.7)
Transaction fees	**(17.6)**	-
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	**(130.7)**	(138.2)
Tax credit on separately disclosed items	**18.6**	15.1
Total separately disclosed items	**(112.1)**	(123.1)

Amortisation of acquisition related intangible assets
Non-cash amortisation of £113.1m has been incurred in the period (2018: £100.7m) as a result of intangible assets separately identified under IFRS 3 as a result of the Merger with Betfair in 2016 and the acquisitions of FanDuel Limited in 2018 and Adjarabet in 2019.

Transaction fees
In the year ended 31 December 2019, this relates to incremental one-off transaction costs resulting from the proposed all- share combination with The Stars Group Inc. See Note 17 for further detail on this combination.

Impairment of goodwill and intangible assets
During the year ended 31 December 2018, non-cash impairments amounting to £27.2m, primarily in relation to goodwill and intangible assets associated with our US DRAFT business were incurred (see Note 7). There were no such impairments in 2019.

Gain on contingent consideration
The movement in the value of contingent consideration during the year ended 31 December 2018 relates to the contingent consideration that the Group has deemed is no longer payable arising in respect of the DRAFT acquisition. No such item was incurred in 2019.

Restructuring and strategic initiatives
The costs incurred during the year ended 31 December 2018 arose from the combination of Betfair US with FanDuel Limited and significant restructuring and strategic changes made following the appointment of a new CEO.

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.

Transaction fees and Restructuring and strategic initiatives 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. Tax expense

	2019 £m	2018 £m
Recognised in profit or loss:		
Current tax charge	**47.7**	53.7
Prior year over provision	**(2.5)**	(4.0)
Total current tax	**45.2**	49.7
Deferred tax credit	**(20.5)**	(12.5)
Prior year (under)/over provision	**(0.9)**	0.8
Decrease in net deferred tax liability	**(21.4)**	(11.7)
Total tax expense in income statement	**23.8**	38.0

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:

	2019 £m	2018 £m
Profit before tax	**135.7**	218.7
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	**17.0**	27.4
Depreciation on non-qualifying property, plant and equipment	**0.9**	1.3
Effect of different statutory tax rates in overseas jurisdictions	**(2.8)**	4.7
Non-deductible expenses	**1.6**	7.0
Effect of changes in statutory tax rates	**(0.1)**	(0.7)
Movement on deferred tax balances not recognised	**10.5**	1.5
Over provision in prior year	**(3.3)**	(3.2)
Total tax expense	**23.8**	38.0

Total tax expense for 2019 includes a credit for separately disclosed items amounting to £18.6m (2018: £15.1m) (see Note 4).

Tax rates

The Group’s consolidated effective tax rate on profits including separately disclosed items for 2019 is 17.5% (2018: 17.4%). 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 Adjarabet as well as other deal related costs. The tax effect of separately disclosed items in the current year amounted to a tax credit of £18.6m (2018: £15.1m).

The Group’s underlying effective tax rate of 15.9% (2018: 14.9%) 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 2019; 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.

6. 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:

	2019	2018
Numerator in respect of basic and diluted earnings per share (£m):		
Profit attributable to equity holders of the Company	**144.0**	201.4
Numerator in respect of adjusted earnings per share (£m):		
Profit attributable to equity holders of the Company	**144.0**	201.4
Separately disclosed items	**94.4**	114.7
Profit for adjusted earnings per share calculation	**238.4**	316.1
Weighted average number of ordinary shares in issue during the year (in 000's)	**78,589**	83,340
Basic earnings per share	**£1.832**	£2.417
Adjusted basic earnings per share	**£3.033**	£3.793
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	**78,589**	83,340
Dilutive effect of share options and awards on issue	**426**	457
Adjusted weighted average number of ordinary shares in issue during the year	**79,015**	83,797
Diluted earnings per share	**£1.822**	£2.404
Adjusted diluted earnings per share	**£3.017**	£3.772

The average market value of the Company's shares of £68.25 (2018: £74.63) 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 464,380 (2018: 447,540).

7. Goodwill

The following cash generating units ('CGU'), being the lowest level of asset for which there are separately identifiable cash flows, have the following carrying amounts of goodwill:

	PPB Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2018	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 8)	-	-	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**
Arising on acquisitions during the year (Note 8)	**69.6**	**-**	**-**	**-**	**-**	**69.6**
Foreign currency translation adjustment	**(5.9)**	**(1.4)**	**(17.3)**	**-**	**-**	**(24.6)**
Balance at 31 December 2019	**3,496.4**	**41.1**	**543.2**	**18.9**	**20.7**	**4,120.3**

The PPB 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, 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 and on 1 February 2019, the acquisition of an initial 51% controlling stake in Adjarabet, the market leader in online betting and gaming in the regulated Georgian market (see Note 8).

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 8). Due to the decision to combine the Group's US assets with FanDuel (see Note 8) 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.

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.

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 2019. Based on the reviews as described above, with the exception of the impairment of USD35.3m (£26.5m) in 2018 of the US DFS business acquired in 2017 and the IAS brand impairment of AUD6.9m initially provided for in 2011, no impairment has arisen.

8. Business combinations

Year ended 31 December 2019

Acquisition of Adjarabet
On 1 February 2019, the Group completed 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.

8. Business combinations (continued)

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 £102m. 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. As a consequence of both the put and call options being only exercisable at fair value being the future EBITDA and earnings multiple which are considered to be two key inputs into valuing the option, it was determined that the fair value was not material and was close to nominal value.

Since the date of acquisition to 31 December 2019, the Adjarabet business has contributed £74.7m of revenue and £21.0m of operating profit. If the Adjarabet acquisition had occurred on 1 January 2019, their contribution to revenue and operating profit would have been £79.6m and £21.7m respectively for the year ended 31 December 2019.
Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Included within the intangible assets were £74.4m of separately identifiable intangibles comprising brand and customer relations acquired as part of the acquisition, with the additional effect of a deferred tax liability of £11.1m thereon. These intangible assets are being amortised over their useful economic lives of up to ten years. Receivables acquired amounted to £1.2m. 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. The goodwill has been allocated to the existing PPB Online CGU and it has been deemed that a separate CGU is not appropriate.

	Fair values as at 1 February 2019 £m
Assets	
Property, plant and equipment	2.6
Intangible assets	75.6
Total non-current assets	78.2
Trade and other receivables	2.7
Financial assets – restricted cash	1.6
Cash and cash equivalents acquired	0.2
Total current assets	4.5
Total assets	82.7
Liabilities	
Trade and other payables	5.7
Customer balances	1.6
Total current liabilities	7.3
Trade and other payables	0.7
Deferred tax liabilities	11.1
Total non-current liabilities	11.8
Total liabilities	19.1
Net assets acquired	**63.6**
Goodwill	69.6
Non-controlling interest measured at the fair value of net assets identified	(31.2)
Consideration	**102.0**
The consideration is analysed as:	
Consideration paid in cash	102.0
Consideration	**102.0**

8. Business combinations (continued)

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 Flutter Entertainment 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 Flutter Entertainment plc shares or via cash. As a consequence of both the put and call options being only exercisable at fair value based on the market value of FanDuel at the date of exercise of the options, it was determined that the fair value was not material and was close to nominal value.

In 2018, subsequent to the above transaction, Boyd Gaming acquired 5% in FanDuel such that Flutter Entertainment plc now has a 58% interest in FanDuel.

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.

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 DFS 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 19 of the preliminary statement. Acquisition related costs of £7.9m were incurred in respect of this transaction and are disclosed within restructuring and strategic initiatives in Note 4 of the Consolidated Financial Statements.

8. Business combinations (continued)

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.

	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**

8. 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 licenced 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 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.

Net cash outflow / (inflow) from purchase of businesses

	31 December 2019 £m	31 December 2018 £m
Cash consideration – acquisitions in the year	**102.0**	12.8
Cash acquired – acquisitions in the year	**(0.2)**	(20.4)
Repayment of FanDuel debt and debt like items	**-**	79.9
Cash consideration – acquisitions in previous years	**4.8**	6.1
Total	**106.6**	78.4
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses	**102.0**	12.8
Cash acquired from acquisitions	**(0.2)**	(20.4)
Repayment of FanDuel debt and debt like items	**-**	79.9
Payment of contingent deferred consideration	**4.8**	6.1
Total	**106.6**	78.4

During 2019, the Group settled deferred consideration liabilities of £4.5m (2018: £3.4m) in relation to Betfair's historical acquisition of HRTV, a horseracing television network based in the US and £0.3m relating to other prior year acquisitions.

9. Investments and trade and other receivables

Non-current assets

	31 December 2019 £m	31 December 2018 £m
Investments	**0.1**	2.4

At 31 December 2018, the Group had a non-controlling interest in Featurespace of 2.38% with a fair value of £2.3m. In 2019, the Group disposed of its remaining 2.38% non-controlling interest in Featurespace for cash consideration amounting to £2.3m.

	31 December 2019 £m	31 December 2018 £m
Other receivables		
Prepayments	**9.0**	8.9
Finance lease receivable (see Note 15)	**2.6**	-
Amounts paid in respect of legacy German and Greek tax assessments (Note A)	**38.8**	-
	50.4	8.9

Current assets

	31 December 2019 £m	31 December 2018 £m
Trade and other receivables		
Trade receivables – credit betting customers	**0.4**	1.7
Trade receivables – other sports betting counterparties	**8.1**	3.4
Trade receivables	**8.5**	5.1
Finance lease receivable (see Note 15)	**0.4**	-
Other receivables	**8.0**	6.9
Value-added tax and goods and services tax	**1.9**	2.1
Prepayments	**45.8**	67.7
Total	**64.6**	81.8

Trade and other receivables are non-interest bearing.

Note A

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 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 €15.0m in taxes including penalties and interest. This is substantially higher (by multiples) than the total cumulative revenues ever generated by paddypower.com in Greece. There is potential that the periods after 2014 could also be subject to further challenge by the Greek tax authorities.

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 successfully appeal them. The appeals process has commenced in both cases. Accordingly, we do not consider that these amounts represent liabilities for the Group and no provision has been made for amounts assessed or potential further assessments. This involves a series of judgements about future events and ultimately the court judgements and therefore the directors may need to re-assess the accounting treatment as matters develop further. Pending the outcome of these appeals, we paid the total Greek tax assessment (including the penalties and interest) and the €30.6m German tax assessment during 2019, with the late payment interest to be paid in due course.

10. Financial assets and cash and cash equivalents

	31 December 2019 £m	31 December 2018 £m
Current		
Financial assets – restricted cash	**189.1**	167.2
Cash and cash equivalents	**108.1**	123.7
Total	**297.2**	290.9

The above cash and cash equivalents figure reconciles to the amount shown in the statement of cash flows at the end of the financial year as follows:

	31 December 2019 £m	31 December 2018 £m
Cash and cash equivalents as above	**108.1**	123.7
Bank overdraft	**(5.0)**	-
Cash and cash equivalents per cash flow	**103.1**	123.7

Financial assets

Included in financial assets – restricted cash at 31 December 2019 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 2019 was 0.6% (2018: 2.28%); these deposits have an average original maturity date of 1 day (2018: 1 day). The bank deposits also have an average maturity date of 1 day from 31 December 2019 (2018: 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 2019 £m	31 December 2018 £m
GBP	**12.9**	21.8
EUR	**38.2**	61.0
AUD	**65.1**	67.0
USD	**154.0**	134.3
Other	**27.0**	6.8
Total	**297.2**	290.9

As at 31 December 2019, £318.2m (31 December 2018: £368.4m) 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.

11. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2018: 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 2019, 279,096 ordinary shares (2018: 474,236) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £3.6m (2018: £2.3m).

The £500m share buyback programme, which commenced on 29 May 2018 completed in February 2019. Under this programme, the Company repurchased for cancellation 6,993,308 ordinary shares for a total consideration of approximately £500m. This consisted of a £200m share buyback programme announced on 29 May 2018 which was completed in August 2018 and in August 2018, the Group commenced a second buyback programme of £300m which was ongoing at 31 December 2018. Overall in 2018 cash payments of £413.7m had been made in respect of the repurchases and a further £1.3m for other transaction related costs were made. Between 31 December 2018 and 6 February 2019 further payments of £86.4m in respect of share purchases and £0.4m for other transaction related costs were made. The nominal value of the shares cancelled during the year ending 31 December 2019 was £0.1m.

A total of 1,965,600 ordinary shares were held in treasury as of 31 December 2019 (2018: 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 2019 (2018: £40.7m). The cost of treasury shares held by the Company at 31 December 2019 was £4.2m (2018: £4.2m), with a further £36.5m of shares being held by the Company's subsidiaries (2018: £36.5m).

At 31 December 2019, the Paddy Power Betfair plc Employee Benefit Trust ("EBT") held 70,397 (2018: 99,741) of the Company's own shares, which were acquired at a total cost of £6.1m (2018: £8.6m), in respect of potential future awards relating to the Group's employee share plans. The Company's distributable reserves at 31 December 2019 are restricted by this cost amount. In 2019, 29,344 shares with an original cost of £2.5m (2018: 101,232 shares with an original cost of £7.0m) were transferred from the EBT to the beneficiaries of the EBT.

The foreign exchange translation reserve at 31 December 2019 had a debit balance of £21.5m (2018: credit balance of £4.1m) and arose from the retranslation of the Group's net investment in Euro, AUD, USD and GEL functional currency entities. The movement in the foreign exchange translation reserve for the year ending 31 December 2019 reflects mainly the weakening of USD and GEL against GBP in the year.

The cash flow hedge reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred at that date. Following the introduction of IFRS 16, the Group has designated the Euro lease liability in its GBP functional currency companies as a hedging instrument in a hedge of its highly probable future Euro revenues. The fair value gain of £2.3m at 31 December 2019 (31 December 2018: nil) arises as the applicable EUR - GBP forward exchange rates were favourable relative to the position at the start of the year.

Other reserves comprise undenominated capital. Undenominated capital at 31 December 2019 of £2.3m (2018: £2.2m) relates to the nominal value of shares in the Company acquired by the Company of £2.1m (2018: £2.0m) and subsequently cancelled and an amount of £0.2m (2018: £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 2019, an amount of £20.3m (2018: £40.5m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of £1.1m of deferred tax relating primarily to the Group's share-based payments was credited to retained earnings in 2019 (2018: charge of £3.6m). An amount of £0.4m of current tax relating to the Group's share-based payments was credited to retained earnings in 2019 (2018: £2.9m).

12. Dividends paid on ordinary shares

	2019 £m	2018 £m
Ordinary shares:		
- final dividend of £1.33 per share for the year ended 31 December 2018 (31 December 2017: £1.35)	**104.0**	**114.0**
- interim dividend of £0.67 per share for the year ended 31 December 2019 (31 December 2018: £0.67)	**52.2**	**55.0**
Amounts recognised as distributions to equity holders in the year	**156.2**	**169.0**

The Directors have proposed a final dividend of 133 pence per share which will be paid on 22 May 2020 to shareholders on the Company's register of members at the close of business on the record date of 14 April 2020. This dividend, which amounts to approximately £104m, has not been included as a liability at 31 December 2019.

13. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2019 £m	31 December 2018 £m
Trade and other payables		
Trade payables	**25.3**	21.3
Customer balances	**179.2**	155.3
PAYE and social security	**9.7**	5.2
Value-added tax and goods and services tax	**3.0**	0.9
Betting duty, data rights, and product and racefield fees	**60.1**	39.5
Employee benefits	**52.3**	43.5
Liability to purchase own shares	**-**	86.8
Contingent deferred consideration – business combinations	**7.4**	4.8
Accruals and other liabilities	**211.8**	175.5
Total	**548.8**	532.8
Derivative financial liabilities		
Sports betting open positions	**20.4**	20.1

Non-current liabilities

	31 December 2019 £m	31 December 2018 £m
Trade and other payables		
Employee benefits	**0.5**	0.6
Contingent deferred consideration – business combinations	**11.0**	17.0
Accruals and other liabilities	**-**	8.6
Total	**11.5**	26.2
Derivative financial liabilities		
Sports betting open positions	**0.7**	0.9

The liability to purchase own shares at 31 December 2018 relates to an obligation arising under a buyback agreement for the purchase of the Company's own shares (see Note 11). The share buyback was completed in full in 2019.

13. Trade and other payables and derivative financial liabilities (continued)

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 £11.0m due to Betfair's historical acquisition of HRTV, a horseracing television network based in the United States. The amount payable at 31 December 2019 in respect of the HRTV acquisition amounted to £18.3m, with £11.0m due after one year from the reporting date.

14. Borrowings and Lease liabilities

Current liabilities

	31 December 2019	31 December 2018
	£m	£m
Term Loan Facility	**250.0**	-
Overdraft facility	**5.0**	-
Accrued interest on borrowings	**0.5**	0.4
Less: expenses relating to term loan facility	**(0.5)**	-
	255.0	0.4
Lease liabilities	**38.4**	-

Non-current liabilities

	31 December 2019	31 December 2018
	£m	£m
Revolving credit facility	**117.3**	285.0
Less: expenses relating to revolving credit facility	**(1.6)**	(2.0)
	115.7	283.0
Lease liabilities	**132.1**	-

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300m provided by a syndicate of banks which was scheduled to expire in May 2020. In 2018, the RCF was amended to an amount of £450m and was extended to expire in April 2023. In May 2019, the RCF was amended to update the financial covenants and margin grid, as per those outlined below. In May 2019, the Group also secured a term loan facility of £250m provided by a syndicate of banks. The term loan facility is for an initial period of 18 months with an option to extend further by up to 12 months.

At 31 December 2019, £79m and €45m of the RCF was drawn down and £250m of the term loan facility was drawn down totalling to £367.3m (31 December 2018: £285m)

Borrowings under the RCF and the term loan facility are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at LIBOR (for borrowings denominated in pounds sterling) and EURIBOR (for borrowings denominated in euro) plus a margin of between 1.10% and 2.50%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings. Borrowings under the term loan facility incur interest at LIBOR plus a margin of between 0.60% and 2.40%.

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 both the RCF and term loan facility, the Group is required to comply with the following financial covenants on a semi-annual basis.

14. Borrowings and Lease liabilities (continued)

- **Net Leverage Ratio:** Consolidated net borrowings shall not be more than 3.5 times underlying consolidated EBITDA (with acquisition spikes in the event of material acquisitions, to 4.0 times for a period of six months, stepping back to 3.75 times for the subsequent six months, before returning to 3.5 times).
- **Interest Cover Ratio:** Underlying consolidated EBITDA shall not be less than 4.0 times net finance charges.

During the year ended 31 December 2019, all covenants have been complied with.

In addition, at 31 December 2019 £5.0m of the Group's bank overdraft facilities were utilised (31 December 2018: £Nil).

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	£m
Balance at 1 January 2019	**283.4**
IFRS 16 Lease liability at 1 January 2019	**162.3**
Adjusted Balance at 1 January 2019	**445.7**
Changes from financing cash flows	
Amounts drawn on Revolving Credit Facility	**393.8**
Amounts drawn on Term Loan Facility	**250.0**
Amounts repaid on borrowing facility	**(561.0)**
Fees in respect of borrowing facility	**(0.8)**
Amounts drawn on overdraft facility	**5.0**
Lease liabilities paid	**(41.4)**
Interest paid	**(7.1)**
Total	**38.5**
Other changes	
Lease liability change - Business Combinations	**0.9**
Lease liability change - remeasurement of lease term	**19.0**
Lease liability change - Additions & Disposals	**29.8**
Interest on borrowings	**7.2**
Interest on leases	**5.0**
Unwinding of capitalised expenses relating to revolving credit facility	**0.7**
Foreign exchange movements	**(5.6)**
Total other changes	**57.0**
Balance at 31 December 2019	**541.2**

15. Commitments and contingencies

(a) Guarantees

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.

The Group has uncommitted working capital overdraft facilities of £19.3m (2018: £10.5m) with Allied Irish Banks p.l.c.. These facilities are secured by a Letter of Guarantee from Flutter Entertainment 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 2019 was £12.5m (2018: £15.7m). No claims had been made against the guarantees as of 31 December 2019 (2018: £Nil). The guarantees are secured by counter indemnities from Flutter Entertainment plc and certain of its subsidiary companies. The value of cash deposits over which the guaranteeing banks hold security was £2.6m at 31 December 2019 (2018: £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 2019, the total value of relevant customer balances attributable to the Australia business segment was £40.4m (AUD76.1m) (2018: £45.5m (AUD82.5m)) and the combined cash and cash equivalent balances held by Sportsbet at that date totalled £66.1m (AUD124.4m) (2018: £65.6m (AUD119m)). In addition, the Group holds cash amounts totalling £148.7m (2018: £121.7m) primarily 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.

As mentioned in Note 14, borrowings under the RCF and Term loan are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

*(b) Contingent liabilitie*s
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 9 for further detail in respect of legacy German and Greek tax assessments.

15. 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 2019	31 December 2018
	£m	£m
Property, plant and equipment	**0.4**	11.3
Intangible assets	**0.7**	9.8
Total	**1.1**	21.1

(d) Leases (See Note 2)
The Group leases various licenced betting and other offices under 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. Leases for licenced 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 had determined that the leases were operating leases in accordance with IAS 17.

For the accounting treatment of such leases under IFRS 16 as opposed to IAS 17, and for the adjustments required at transition date, refer to the applicable accounting policy.

The Group has a small number of properties that are sublet.

Right of use assets

	£m
Balance at 1 January 2019	**157.2**
Business combinations	**0.9**
Depreciation charge for the year	**(36.7)**
Additions – IFRS 16 right-of-use asset	**30.9**
Remeasurement of lease term	**19.0**
Derecognition of right-of-use assets	**(3.8)**
Foreign exchange translation	**(1.5)**
Balance at 31 December 2019	**166.0**

Derecognition of right of use assets is as a result of entering into a finance sub-lease and exiting early from an existing lease.

Leases as lessee
Amounts recognised in profit or loss:

	£m
2019 – Leases under IFRS 16	
Depreciation	**36.7**
Interest on lease liabilities	**5.0**
Income from sub-leasing right of use assets	**(1.2)**
Expense relating to short- term lease	**0.1**

	£m
2018 – Leases under IAS 17	
Lease expense	**39.1**
Contingent rent expense	**0.1**
Sub-lease income	**(1.8)**

15. Commitments and contingencies (continued)

Lease options (See Note 2)

Some property leases particularly in our retail business contain extension and break options to provide operational flexibility. These options are held by the Group and not by the lessors. The Group assesses whether it is reasonably certain to exercise these options at lease commencement date. When assessing these options at the date of transition, the Group was mindful of the regulatory changes in 2019 particularly in the UK and the impact it would have on future shop profitability and whether it could state with reasonable certainty that these options would be exercised. The Group is of the view that other than the underlying trading of the shop, there is no economic incentive to extend a particular lease. For example, the rents are at market rates, there are no significant leasehold improvements and there are no significant costs relating to exiting or relocating.

During 2019, as these regulatory changes have been implemented and the Group has obtained greater knowledge of the potential impact on profitability, it has reassessed the likelihood of lease terms being extended and revised its lease term assumptions.

The Group has estimated that the potential future lease payments should it exercise all options or not exercise any break clauses would result in an increase in the lease asset and liability of £19m.

Leases as lessor

Finance lease
The Group has a small number of properties that are sublet. The following table sets out a maturity analysis of lease receivables showing the undiscounted lease payments to be received after the reporting date. Under IAS 17, the Group did not have any finance leases as a lessor.

	31 December 2019
	£m
Less than one year	**0.8**
Between two and five years	**2.5**
Total undiscounted lease receivable	**3.3**
Unearned finance income	**(0.3)**
Net Investment in finance lease	**3.0**

Operating lease
The Group has a small number of properties that are sublet. Sublease payments of £1.2m (2018: £2.2m) are expected to be received during the year ended 31 December 2020.

16. Related parties

There were no transactions with related parties during the years ended 31 December 2019 and 2018 that materially impacted the financial position or performance of the Group

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

17. 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 22 May 2020. 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 14 April 2020. The total estimated dividend to be paid amounts to £104m.

17. Events after the reporting date (continued)

Proposed combination with The Stars Group Inc

As announced on 2 October 2019, the Group and The Stars Group Inc (“TSG”) reached agreement on the terms of a recommended all-share combination to be implemented through an acquisition of TSG by Flutter pursuant to a plan of arrangement under the Business Corporations Act (Ontario) (the “Combination”).

Under the terms of the Combination, which is subject to the approval of Flutter and TSG shareholders and various regulatory approvals, TSG shareholders will be entitled to receive: 0.2253 new Flutter ordinary shares in exchange for each TSG common share held by them. Immediately following completion of the Combination, Flutter shareholders would own approximately 54.64 per cent. and TSG shareholders would own approximately 45.36 per cent. of the share capital of Flutter (based on the fully diluted share capital of Flutter and the fully diluted share capital of TSG excluding any out of the money options, in each case, as at the date of the announcement of the Combination). Subject to receipt of the required regulatory and shareholder approvals, the Combination is expected to complete in Q2 or Q3 2020.

The Combination will bring together two complementary businesses (the “Combined Group”) to create a global leader in sports betting and gaming. The Combined Group will have a diverse portfolio of leading brands and complementary best-in-class products with a broad geographic reach. Flutter and TSG will each bring to the Combined Group a proven track record in using product and brand leadership to create low-cost customer acquisition channels, while optimising value through product cross-sell. The Combined Group will benefit from both an enhanced global platform and improved reach within local markets. On a pro forma basis, the Combined Group’s annual revenue would have been £3.8bn in 2018, making it the largest online betting and gaming operator globally.

The arrangement agreement entered into between the Group and TSG in order to implement the Combination includes certain circumstances in which the Group or TSG may terminate the arrangement agreement, including circumstances in which a termination payment of approximately £60 million will be payable by either party.