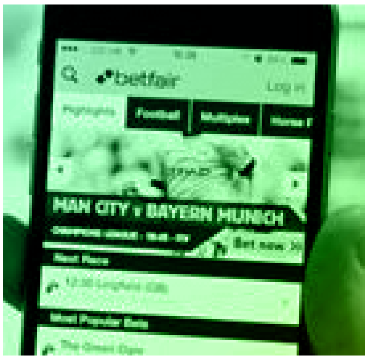
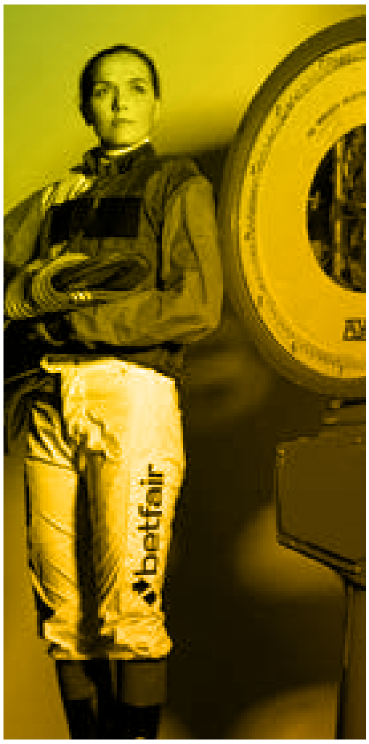
Paddy Power Betfair plc
Annual Report & Accounts 2016





Paddy Power Betfair is one of the world's leading sports betting and gaming operators, formed from the 2016 Merger of Paddy Power plc and Betfair Group plc.

Today we operate four sports betting and gaming brands; Paddy Power, Betfair, Sportsbet and TVG, which bring 'excitement to life' for five million customers worldwide! We are online-led, mobile-led and sports-led: and our proprietary technology, unique products and innovative marketing all combine to offer a superb experience to our customers.

Our spirit, talent and ambition has taken us into the FTSE 100 index of the London Stock Exchange and we now employ over 7,000 people in sixteen locations across the globe; from Dublin to Los Angeles, and London to Melbourne.

If you're interested in joining our team please contact *careers@paddypowerbetfair.com*

PADDYPOWER. betfair sportsbet.com.au TVG

Financial Highlights†

Financial Review
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		Proforma†	Reported statutory results†
Revenue	+18%	**£1,551m**	**£1,501m**
		2015: £1,318m	2015: £794m
EBITDA‡	+35%	**£400m§**	**£264m**
		2015: £296m§	2015: £163m
Operating Profit	+44%	**£330m§**	**£15m**
		2015: £229m§	2015: £125m

Full-year dividend per share¶

165p

1st Interim Dividend: 12p

2nd Interim Dividend: 40p

Final Dividend (subject to shareholder approval): 113p

† The merger of Paddy Power plc and Betfair Group plc completed on 2 February 2016 and is accounted for as an acquisition of Betfair Group plc by Paddy Power plc on that date (the "Merger"). The reported statutory results reflect this accounting treatment in accordance with generally accepted accounting principles ("GAAP") and only include Betfair Group's results since the Merger completion on 2 February 2016 and no Betfair Group results for the 2015 comparative. This Annual Report also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power plc and Betfair Group plc had always been merged, which combines the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The Directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and the non-GAAP proforma, underlying financials is included on page 52.

‡ EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see page 52).

§ The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see Note 4 to the Consolidated Financial Statements and page 52).

¶ The full-year dividend includes closing dividends paid on Merger relating to 1 January 2016 to 1 February 2016 (inclusive) equating to 12p per share, the interim dividend paid in September 2016 of 40p per share and the proposed final dividend of 113p per share.

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"2016 saw us bring together two very successful businesses creating a world-class operator with substantial scale and capabilities that leave us well-placed to serve our customers, stakeholders and attract and retain top-quality employees."

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"The completion of the Merger on 2 February 2016 created a Group with leading positions in the largest regulated online markets as well as increasing exposure to a number of other international markets. The Group has leading, differentiated sports betting products, a portfolio of distinctive, complementary sports-led brands, and significant in-house technology and marketing capabilities."

Chief Executive Officer's Review
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“2016 saw us bring together two very successful businesses creating a world-class operator with substantial scale and capabilities that leave us well-placed to serve our customers, stakeholders and attract and retain top-quality employees.”

Gary McGann
Chairman

Strategic Report

The Strategic Report on pages 6 to 59 was approved by the Board on 7 March 2017.

Breon Corcoran
Chief Executive Officer

Alex Gersh
Chief Financial Officer

Our Business at a Glance

Paddy Power Betfair was formed in 2016 and is an international, multi-channel sports betting and gaming operator. We operate four major brands; Paddy Power, Betfair, Sportsbet and TVG. The Group currently operates across four operating divisions.

Business Model
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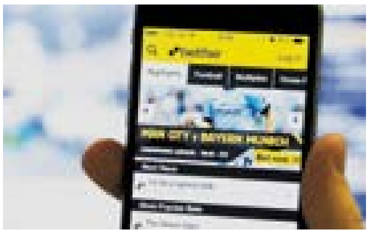
Global Leader

Operating Divisions

Online†

Proforma revenue **£853m** 2015: £748m	↑	+14%
Proforma underlying EBITDA‡§ **£289m** 2015: £227m	↑	+27%
Proforma underlying operating profit§ **£255m** 2015: £191m	↑	+34%



Our Online division is the leading online sports betting operator in the UK and Ireland, with a growing presence throughout Europe. We operate two brands: Betfair, which appeals strongly to value-led sports bettors; and Paddy Power, which appeals to social, entertainment-led customers. Together, these brands cover a wide cross-section of the market, and they form the number one sports betting operator by revenue in the UK and Ireland.

Operating Review Online
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paddypower.com

betfair.com

Australia

Revenue **£312m** 2015: £232m	↑	+34%
Underlying EBITDA‡§ **£94m** 2015: £70m	↑	+35%
Underlying operating profit§ **£84m** 2015: £61m	↑	+38%

Our Australian division, Sportsbet, is the market-leader in the fast-growing Australian online betting market. Sportsbet takes a fun-based approach to sports betting, with innovative products and disruptive marketing around national sports events. Sportsbet employs over 700 people across offices in Melbourne, Sydney and Darwin and contributes over AUD$400m per annum to the Australian economy.

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sportsbet.com.au

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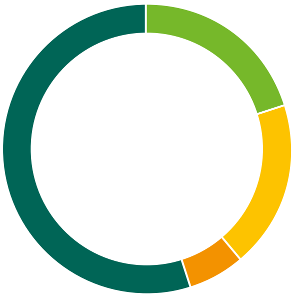
2016 Proforma revenue

By operating division

- **55%** Online
- **20%** Australia
- **19%** Retail
- **6%** US



2016 Proforma underlying operating profit§

By operating division

- **66%** Online
- **22%** Australia
- **12%** Retail
- **1%** US

Retail

Revenue
£295m
2015: £266m
+11%

Underlying EBITDA‡§
£62m
2015: £52m
+21%

Underlying operating profit§
£45m
2015: £36m
+23%

Our Retail division operates over 600 Paddy Power betting shops across the UK and Ireland. We are the largest retail betting operator in Ireland and the fifth-largest retail betting operator in the UK (by number of shops). Our shops offer a fun, social environment focused around live sport and we are continually improving our customer experience with new products and multichannel experiences.

Operating Review Retail
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US†

Proforma revenue
£91m
2015: £71m
+28%

Proforma underlying EBITDA‡§
£12m
2015: £10m
+25%

Proforma underlying operating profit§
£4m
2015: £3m
+39%

Our US division consists of TVG, a horseracing TV channel and online pari-mutuel wagering operator active in over 30 states, and Betfair, an online casino and horse-racing Exchange in New Jersey. Together, these operations process around $2bn of bets a year and hold a strong position in the nascent US online betting market.

Operating Review US
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tvg.com

us.betfair.com

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Brand in review 2016

PADDYPOWER.

“Hello Punters! 2016 had all the hallmarks of a huge one in Power Tower...

...and where better to start than all the fun and games of an Irish General Election in February. With a coalition seemingly on the cards, we turned heads with our poster trailing a potential tie-up between sworn enemies Fine Gael and Fianna Fáil.

Following that, all eyeballs were on Cheltenham, but not before being well and truly assaulted by our latest advertising campaign. We’d be lying if we said there was huge customer demand to see Ruby Walsh, Paddy Power and John McCririck semi-naked on the side of public buildings, but we did it anyway in a series of eye-catching ads trolling the modern genre of selling underwear!

June’s Euro 2016 build-up was hugely exciting for every Football fan, unless you were from Scotland! Our TV ad enabled some of the tartan army’s finest to get involved...betting against England and was voted as the best TV ad of the Euros by a leading UK marketing magazine.

Our putting up posters team was in full swing around Dublin in the Spring

That’s the spirit Scotland... our Euro 2016 TV ad

Ah, the early payout, what could go wrong…

HELLO PUNTERS!

As autumn rolled in, the writing seemed on the wall for Europe in the Ryder Cup when celebrated transatlantic loudmouth Piers Morgan jumped ship early, donning the Stars and Stripes in a Paddy Power video achieving over one million You Tube views. Piers' support seemed a shrewd move as the Yanks 'Mash-Potato-ed' their way to an easy win.

Staying in the US, how better to end the year than a Presidential election. Our political gurus always have their fingers on the pulse here at Power Tower, so what could go wrong with a $1m early payout on Hilary?

Underpinning all this was the world famous social media content that articulates Paddy Power's mischief on a daily basis. Features such as Fan Denial, Sun Lounger Dash and live tweeting from events remain a crucial focal point of our brand differentiation. This was recognised in September when we were recognised as the most influential FTSE 100 brand on Twitter."

Brand in review 2016

"Ready?! Betfair's 2016 started at full speed...

...with the culmination of our "Switching Saddles" campaign with Victoria Pendleton at the Cheltenham Festival. The challenge had been audacious; from complete riding novice to competing in the high-octane Foxhunters' Chase in little more than a year. Very few gave her a chance, but our crack team always believed and Victoria delivered a stunning fifth-place finish aboard the Paul Nicholls-trained Pacha du Polder. The race attracted wall-to-wall coverage across broadcast and print media, raising the profile of both the Betfair brand and the sport.

Cheltenham kicked off a busy year for the Betfair Exchange, with over 1,000 bets matched per second on the Gold Cup itself. Records fell throughout the rest of the year as June's Brexit referendum saw a then-record £127m traded on the Exchange market, which was then well and truly smashed when a staggering £220m was traded on the US Presidential election in November.

Our 'Switching Saddles' campaign with Victoria Pendleton drove significant brand awareness around Cheltenham

FC Barcelona provide a high-profile brand platform in the Spanish market

ady?

We launched our "Ready?" TV campaign around the start of the Premier League season, celebrating those sporting moments when greatness awaits. We have continued partnerships with several Premier League clubs, including Arsenal, and signed up FC Barcelona as a global partner.

Betfair remains pioneering, customer-focused and all about value: 2016 saw us further improve our Sportsbook pricing and significantly increase our coverage of live events, with Betfair now offering live streaming of over 100,000 events every year. We were proud to become British Racing's first "Authorised Betting Partner" in December 2015, and to continue our flagship sponsorship of the Betfair Chase alongside a raft of new partnerships around the UK."

Brand in review 2016

Sportbet's new Multi-Builder product was launched in February 2016, making it easier to build "Multis" within a sport

"Greetings from Australia, or God's country as it's also referred to! As we crack open some ice-cold beers (not warm ones, sorry) by the beach in the beautiful sunshine, we thought we'd share some highlights from the year that was at Sportsbet…

At Sportsbet we always aim to be the punters' champion, and boy were our customers in for some treats in 2016! Sportsbet's new 'Multi-Builder' product was launched in February, making it easier to build 'multis' within a sport or combine them with other sports, and this was quickly followed up with "Same-Game Multis", allowing punters to combine markets within a game. We were also thrilled to launch "PowerPlay" for Racing in time for the Spring Carnival; pressing the blue "PowerPlay" button on your app triggers increased odds on the race of your choice.

Horses parade at Sportsbet Ballarat Cup day in November 2016

Pressing the blue Power Play button unlocks better odds on races of your choice

BIGGER SMILES FOR PUNTERS

2016 will forever be known as the year of the underdog in Australia. The Western Bulldogs ended a 60-year hoodoo when they won the AFL Premiership and the Cronulla Sharks ended almost 50 years of pain by claiming their inaugural NRL title! And let's not forget overseas - Brexit, the Cleveland Cavaliers, Chicago Cubs and of course, Donald Trump winning the US Presidential Election – how about those multi odds!

The Melbourne Cup in November saw Sportsbet win the battle Down Under by the length of the Flemington straight! Close to half a million customers had a flutter with us and our bets-per-minute peaked at 20,000 with turnover, active customers and new punters – over 60,000 of them – all increasing by over 20%! The only downside was another international horse winning our great race – C'mon Aussies, C'mon!

On the commercial side; our wheelers and dealers agreed to a major long-term partnership with the NRL, secured an exclusive racing asset with Best Bets Magazine, and secured Etihad Stadium signage which increases our brand presence amongst AFL punters. We've already enjoyed using these assets to engage with customers and believe they offer a fantastic platform for our brand in 2017 and beyond."

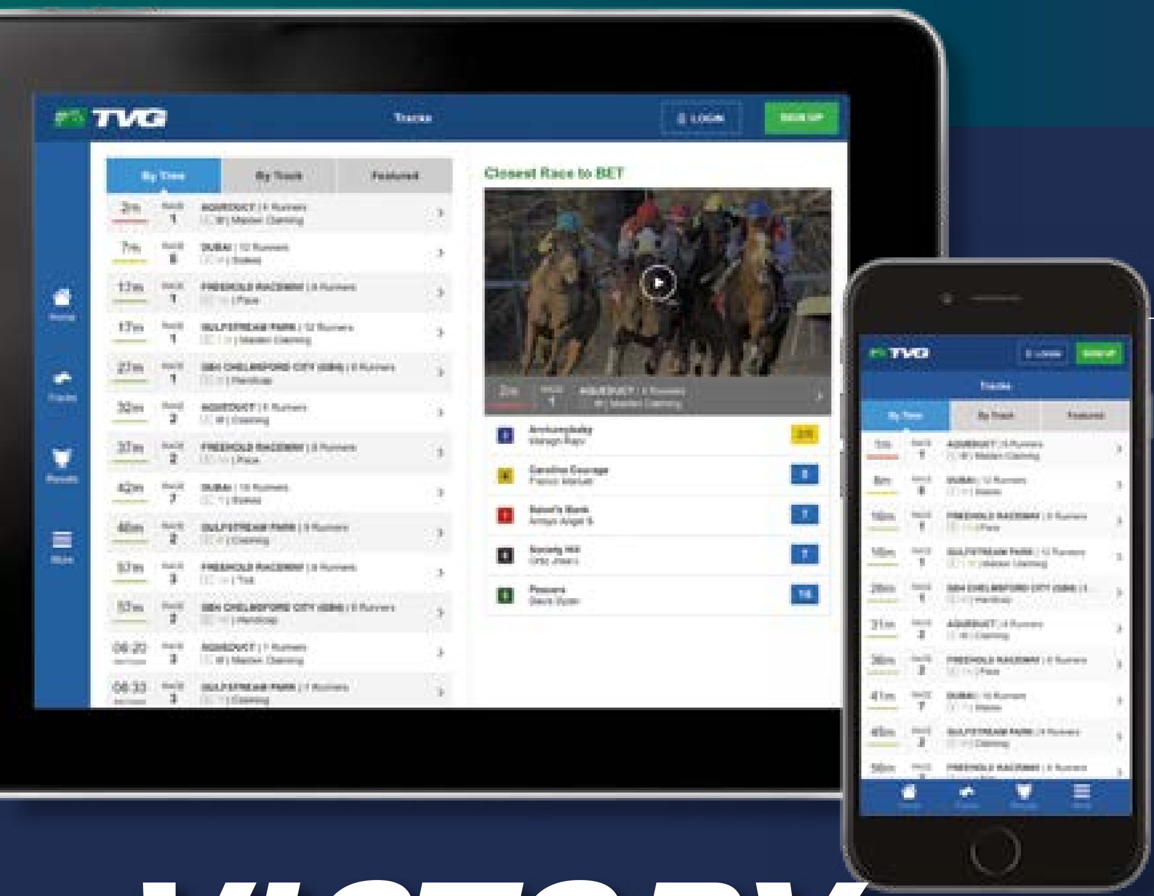
Brand in review 2016

TVG's production team is constantly raising the bar

"TVG is a key player in the US racing industry and 2016 saw us continue to raise the bar in both TV broadcasting and online betting...

TVG has always delivered high-quality racing content, but following the acquisition of rival television network, HRTV, in 2015, we now have two channels, TVG and TVG2, which are available in 43m homes and broadcast live from top tracks including Del Mar, Santa Anita, Keeneland, Saratoga and Gulfstream Park. Running the two channels together enables us to show significantly more live races (over 42,000 in 2016) than either could independently, and our state-of-the-art studio and investment in HD facilities offers an unrivalled experience for US racing viewers.

Presenters gear up for "Trackside" – one of TVG's signature shows



Our new product upgrades combine enhanced functionality with better streaming

VICTORY STARTS HERE

Alongside our broadcast capability, we have improved the TVG betting experience by redesigning all TVG wagering products: *TVG.com*, TVG mobile and TVG iOS. The updates feature enhanced streaming, upgrades in usability and provide better integration with handicapping form. We have also recently launched Paypal as a deposit method, bringing us into one of the largest global payment communities.

In addition to improving the TVG experience for current fans we are always working on getting new ones. In April 2016, we launched the first independent live stream of TVG on *TVG.com/live*. This enables people who can't access TVG on television to watch live racing on their computer screens. In November, we launched a new distribution agreement with AT&T U-verse in HD, bringing TVG into approximately three million new homes and marking our first-ever HD deal with a major carrier. We were also selected as one of the initial launch networks for Directv NOW, AT&T's new streaming service that launched on 30 November 2016.

Alongside TVG, our Betfair-branded operations in New Jersey continue to excite. We were proud to launch the US' first ever horse-racing betting exchange and our Betfair Casino site continues to perform well, supported by a new TV marketing campaign focused on "Real People, Real Money".

Chairman's Statement

Dear Shareholder

I am pleased to update you on what has been a transformational year for your Group. 2016 saw us bring together two very successful businesses creating a world-class operator with substantial scale and capabilities that leave us well-placed to serve our customers, stakeholders and attract and retain top-quality employees.

The integration of the two businesses has progressed ahead of schedule and we are focused on three key strategic priorities to help use the scale of the business to compete in both domestic and international markets. These three priorities, set out on page 27, are central to our objective to drive value for shareholders in the period ahead.

Corporate culture

The Board has placed an emphasis on our distinct corporate culture and is focused on ensuring the culture is clear, shared throughout the organisation, and understood by all our stakeholders. We believe a strong shared culture is central to long-term business success and in the management of business risk. Our corporate culture, together with our Purpose, Vision and Values, are set out on pages 36 to 39.

Governance and oversight

High standards of corporate governance are fundamental to the way we operate and central to the effective oversight of the business. During 2016, we commissioned an independent externally facilitated evaluation to ensure that, from the outset, we are functioning effectively as stewards of your business. That evaluation concluded that the Board provides strong and effective leadership, with the necessary balance of knowledge and experience among our Directors. Critical to our long-term success is ensuring we maintain the breadth and balance of skills to suit both the existing shape of the business and to support our future growth. On this basis, we intend to further refresh the Board in 2017.

During 2016, as part of engagement with shareholders, Pádraig Ó Ríordáin, as Chairman of the Remuneration Committee, and I met with many of our major shareholders to discuss governance matters in general, including remuneration matters (see page 69).

Board composition and leadership

Following completion of the Merger in February 2016, a new Board and leadership team were established. In April 2016, Andy McCue, Chief Operating Officer, stepped down and we would again like to thank him for his significant

contribution to the business over the period of his service and, in particular, for his efforts in bringing the Merger to fruition in his role as Chief Executive Officer of Paddy Power plc.

In August 2016, Stewart Kenny, retired from his role as a Non-Executive Director. Stewart was a co-founder of Paddy Power and was Group Chief Executive from 1988 until 2002, Chairman from 2002 to 2003 and a Non-Executive Director for the past 13 years. He was instrumental in creating the highly successful international business that Paddy Power became and retired after many years of enormous service to the Company and the industry, for which we sincerely thank him.

On 1 March 2017, we announced that Danuta Gray, will retire as a Non-Executive Director effective from the AGM in May 2017. I would like to thank Danuta for her valuable contribution over the past four years.

As part of ongoing succession planning of the Board and its Committees, we are well-advanced in our search process to appoint a new Non-Executive Director and a further announcement will be made in due course.

Responsible Gambling
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Corporate Social Responsibility
page 33

Operating responsibly

Operating responsibly is essential to the ongoing sustainability of our business and consistent with our commitment to good governance practice. All of our customers across our multiple brands and geographies must be able to use our products in a safe and enjoyable way and we aim to positively impact the societies in which we operate. We recognise the importance of this area for the business and, on Merger, we extended the Risk Committee's remit to include greater oversight and scrutiny of key reputational issues, including responsible gambling and corporate social responsibility.

We have also continued to develop our systems and processes towards greater transparency and responsibility in 2016. We have standardised and expanded our online and retail tools, enabling customers to better manage their play. We also continue to participate in a wide-range of industry and Government initiatives to promote responsible gambling, including being members of the Senet Group.

Sport is also vital to our core business and to the communities in which we operate. Alongside our commercial partnerships, sponsorships and betting integrity services, we support grassroots sports activities.

Dividends

The business has performed very well in 2016 and that performance is set out in greater detail by our Chief Executive Officer, Breon Corcoran.

The business is strong and highly cash-generative. At the year end, the Group had £36m of net cash, excluding customer balances. Reflecting the cash generative nature of the business and our attractive prospects, the Group's dividend policy continues to target a dividend pay-out ratio of approximately 50% of underlying profits after tax. We have accordingly proposed a final dividend for 2016 of 113p per ordinary share (subject to shareholder approval) taking the full-year dividend to 165p per ordinary share.

Our people

Finally, I would like to take this opportunity to thank all of our employees, including those who have left the Group during 2016, for their invaluable contribution to the business. My own visit to our offices in Cluj, Romania, and the Board's visit to Sportsbet in Australia during 2016, provided an invaluable opportunity to meet our employees who are based there, as well as gaining an insight into the local operations and market first-hand. The hard work and commitment of our people over recent years has been a significant contributor to us achieving the strong competitive position we now enjoy.

We look forward with confidence to the coming year.

Gary McGann
Chairman
7 March 2017

Corporate Governance Report

Our Corporate Governance Report, together with each Board Committee's Report (including the Directors' Remuneration Report) and the Directors' Report, sets out our approach to governance.

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Chief Executive Officer's Review

The completion of the Merger on 2 February 2016 created a Group with leading positions in the largest regulated online markets as well as an increasing exposure to a number of other international markets. The Group has leading, differentiated sports betting products, a portfolio of distinctive, complementary sports-led brands, and significant in-house technology and marketing capabilities.

Proforma financial performance[1]

For statutory purposes the Group reported a loss of £5.7m which is primarily due to expenses relating to the merger that have been recognised as separately disclosed items. In addition, the statutory results only reflect the contribution from the Betfair business from the Merger completion date. Accordingly, underlying proforma results have been presented in this Annual Report as this best reflects the performance of the Group. A reconciliation between the statutory and underlying proforma financials is included on page 52.

The Group maintained good trading momentum during a year of considerable operational change. On a proforma basis, revenue was up 18% to £1,551m (2015: £1,318m), with good performances across all four operating divisions. This, combined with efficiencies arising from the integration of the businesses and continued operating leverage, resulted in a 35% increase in proforma underlying EBITDA[2,3] to £400m (2015: £296m).

Integration and delivery of cost synergies

Our key focus in 2016 was on integrating the legacy businesses to achieve an optimal operational structure, to create a distinct corporate culture and identity, and to realise cost synergies.

The integration progressed ahead of schedule and the key integration actions and operational changes required to realise the cost synergies are now complete. Therefore, from the 2017 financial year, we will benefit from total cost synergies of £65m per annum (£35m benefit in 2016). The one-off implementation cost to achieve the synergies was £66m and was fully incurred in 2016.

Strategic update

The merger of two strong businesses provided an opportunity to create an even stronger Group by (i) capitalising on our enhanced

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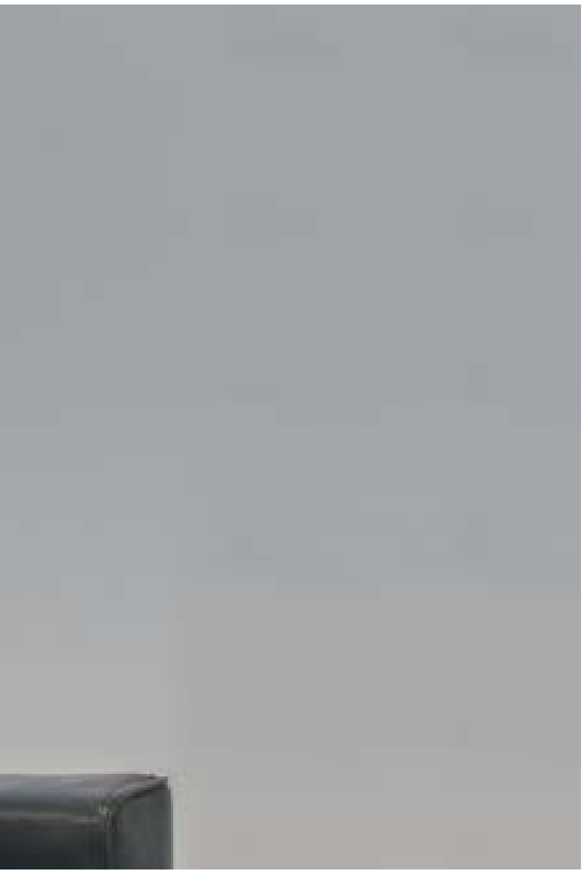
2. EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see page 52).
3. The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see Note 4 to the Consolidated Financial Statements and Appendix 2 on page 52).

Our Strategy
pages 24 to 31

“In addition to driving higher returns within our existing markets, our scale positions us better to withstand regulatory headwinds and when combined with our enhanced technology and operational capabilities, gives us greater capacity to enter new markets as opportunities arise.”



scale, (ii) combining the best people, assets and practices from each business, and (iii) optimising the positioning of our two main brands. Over the last six months, we have made good progress in each of these areas and have also developed technology and product strategies that we believe best position us for long-term success.

1. Capitalising on our enhanced scale

We believe that scale is an important determinant of long-term success in the online betting and gaming industry and that it can facilitate a virtuous cycle of profitable growth. Revenue growth is driven by ongoing investment in the customer proposition and the fixed nature of a significant part of our cost base means that efficiency improves with scale, leading to expansion of operating profit margins and facilitating profitable growth and ongoing investment.

Our enhanced scale, enables us to improve our competitive positioning by investing more as a combined group than either legacy business was able to do alone. For example, we now have over 1,000 in-house product development specialists and invest approximately £300m annually in marketing across the Group.

Increased scale is also improving our operating efficiency. In 2016, the average cost to serve our online customers, defined as operating costs excluding marketing spend, decreased by 18% in constant currency, contributing to a 4 percentage point increase in our online EBITDA margin. Efficiency should further improve when our platform integration work is complete.

In addition to driving higher returns within our existing markets, our scale positions us better to withstand regulatory headwinds and when combined with our enhanced technology and operational capabilities, gives us greater capacity to enter new markets as opportunities arise.

2. Combining the best assets and capabilities of each legacy business

The key operational areas where the relative strengths of each legacy business are being used to create a stronger combined business are technology and product development, risk and trading and digital marketing:

Technology and product development

Our objective is to operate an efficient, scalable and flexible platform that supports our multiple brands, channels and jurisdictions. This will enable us to unlock the full potential of the Group’s scale and deliver a number of key benefits, including increased pace of development, faster roll-out of new product and a reduction in the investment required to enter new markets.

To achieve this, we are enhancing the modular, predominantly in-house architecture of Betfair’s existing platform with key functionality of the Paddy Power platform as well as further developing the platform’s overall capabilities, flexibility and scalability. Once this is completed, the Paddy Power brand will migrate to this platform.

This integration work is progressing well. The integration onto the Betfair platform of Paddy Power’s market-leading proprietary pricing and risk management platforms is substantially complete with the majority of the Betfair sportsbook now traded on the integrated platform. Paddy Power’s proprietary gaming content is available to Betfair customers, representing approximately 30% of its ‘Arcade’ revenues. Other changes that have been completed include the harmonisation and upgrade of cyber security protection, and enhancements in areas such as fraud detection, customer verification and payments processing.

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Chief Executive Officer's Review (continued)

We expect to complete the integration of our European online platforms by the end of 2017. Until then, new product releases on the Paddy Power brand will be relatively limited, but on completion customers will see immediate benefits. These include access to an improved cash out product, a new proprietary desktop, greater promotional flexibility and certain product features that are currently only available to Betfair customers.

Importantly, this also means that new products will be immediately available for use on either of our brands, greatly improving the efficiency of our development spend.

Risk and trading

The integration of our Risk and Trading function is now substantially complete. Moving to an integrated trading platform across the Group is enabling us to operate more efficiently and with greater flexibility across our brands, channels and jurisdictions. The increase in the volume of bets driving our pricing models, the sharing of data and processes between our brands, and the use of our Exchange has improved our overall pricing and risk management capability. Importantly, the platform will have the flexibility that means traders can price an event once and then offer different odds across different brands and/or jurisdictions.

The most significant benefits of the integration are being seen on the Betfair sportsbook which, due to its lack of scale prior to the Merger, used third-party pricing sources for most sports and the majority of its markets. Paddy Power proprietary pricing and risk management tools are now used for over 85% of bets on the Betfair Sportsbook, and for 19 sports. Within the next few months, all markets will operate on the integrated platform.

This change has had two major customer-facing benefits: (i) it has enabled a broader range of markets to be offered with, outside of football and racing, a 70% increase in the number of in-play betting events now offered on the Betfair Sportsbook; and (ii) it significantly improves the accuracy and responsiveness of pricing, allowing us to provide even better value to customers at any given expected gross win margin. This has facilitated our brand pricing strategy, as described below.

Notwithstanding the integration work, we have continued to invest in our proprietary models. In January 2017, we launched the next generation of our in-house football model. This model enables more accurate pricing, reduced in-play market suspension time (to less than one minute over an average football match, down from around five minutes previously), a greater range of markets, and faster bet acceptance and settlement.

Digital marketing

We are now using the best technology systems and processes from each legacy business, resulting in both our brands having access to a stronger shared digital marketing capability.

In CRM, for example, since December 2016 both brands have been operating on a platform that has more advanced algorithms and greater automation, enabling more efficient, targeted and optimised messaging. This is improving the reach and efficacy of our customer retention activity.

Operating two individual brands on an integrated shared function is also proving to be beneficial for efficiency. The pooling of analytics data has improved our econometric modelling, giving us greater insight into the effectiveness of marketing activity and leading to improved optimisation of spend. For example, we can better test the effectiveness of different approaches to promotions on a particular event and up weight activity that is driving the most effective returns. Co-ordinated bidding for assets, such as keywords on paid search, is also improving the efficiency of our marketing spend.

3. Optimising our brand positioning in the UK and Ireland

Within the UK and Ireland we have two leading sports-led brands which appeal to distinct market segments and have limited customer overlap. Accordingly, we believe a dual brand approach is appropriate to that market whilst internationally (excluding Australia and the USA) we will focus exclusively on a single sports brand, Betfair.

In the UK and Ireland we are seeking to maximise growth by optimising the positioning of our two complementary brands across market segments. Accordingly, whilst both brands are supported by shared digital marketing, risk & trading and customer operations, their consumer propositions will remain distinct.

The Betfair brand is primarily focused on customers whose motivations to bet are value-related, and accordingly its marketing communications have a key emphasis on highlighting its strong value proposition along with its leading product functionality. The Paddy Power brand is focused on customers whose primary motivations are social interaction and entertainment, in addition to value. Therefore the brand's marketing communications are focussed on cultivating its distinctive personality, supported by standout headline promotional offers and attractive pricing on the most popular bets.

Each brand's distinct strategy for providing customer value is illustrated by its football proposition. Paddy Power offers market-leading odds on the most-backed Premier League favourites alongside attractive promotions such as the current "2 Up – you win" offer, which pays out immediately when the team you back goes two goals up regardless of the final result. Conversely, the Betfair Exchange and Sportsbook offer consistently strong pricing on all selections, with market leading overrounds on Premier League matches.

Operating dual brands is also advantageous for targeting customers at key events. At Cheltenham, our brands' headline offers appeal to two distinct customer mind-sets with Betfair rewarding customers with a free bet for each winning bet at odds of 3/1 or higher and Paddy Power compensating customers for near misses with its "Money-back if 2nd" offer.

Market research shows that Betfair customers consistently rate Betfair as offering best odds in the market and that Paddy Power customers see the brand as being the most fun and entertaining betting brand. We believe our targeted brand approach allows us to further capitalise on these distinct brand strengths, whilst our overall enhanced product and operations capabilities can also allow both brands to further extend their reach.

Current trading and outlook

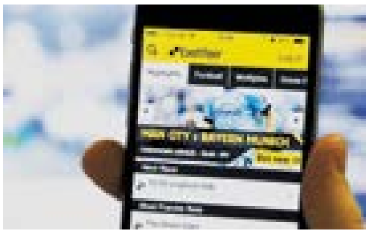
The new financial year has started in line with our expectations. Proforma Group sportsbook stakes in the year to date are up 22% or 12% in constant currency ("cc"), with Online up 13%, (cc 9%), Australia up 47% (cc 19%) and Retail up 15% (cc 7%).

Our industry remains highly competitive and exposed to external factors including the economic and regulatory environment. However, our scale, market positions and leading capabilities position us well for sustainable profitable growth and we look forward to the future with confidence.

Breon Corcoran
Chief Executive Officer
7 March 2017

"We are now using the best technology systems and processes from each legacy business, resulting in both our brands having access to a stronger shared digital marketing capability."

Operating Review Online



The Online division includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships.

page 40

Operating Review Australia

The Australia division operates under the Sportsbet brand and is the market leader in the Australian online betting market.

page 42

Operating Review Retail

The Retail division operates 613 Paddy Power betting shops across the UK and Ireland.

page 44

Operating Review US

The US division combines TVG, America's leading horseracing TV and betting network, Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange.

page 45

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How we create value

By leveraging our unique advantages we deliver an exciting sports betting and gaming experience to our customers while building long-term value for our stakeholders.

Our sources of competitive advantage

In-house technology
Our proprietary technology platforms and in-house product development allow us to roll-out innovative products and retain their exclusivity for longer. We have sports and gaming development centres in Porto, Cluj and Sofia, which develop unique and innovative content for all our brands.

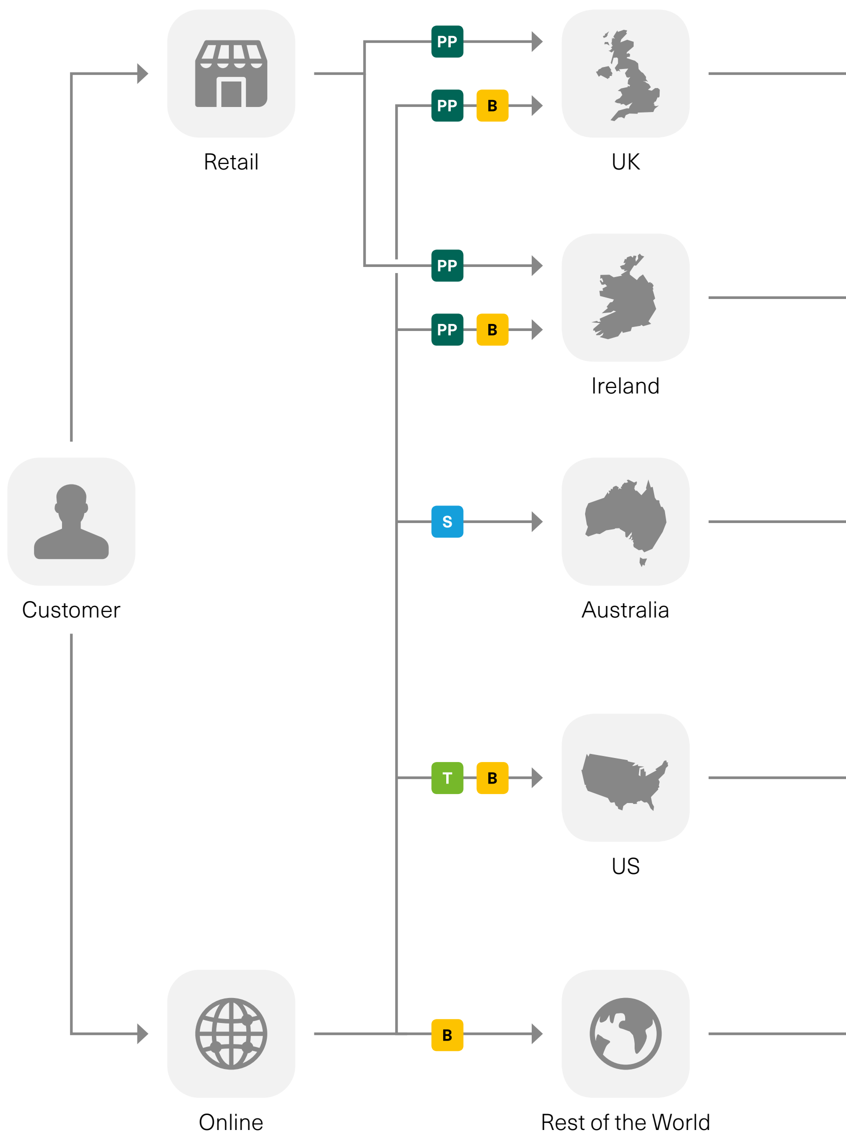
Market-leading pricing and risk management
We possess advanced in-house sportsbook pricing technology which is deployed on our own sites and also sub-licensed to third parties. Our betting Exchange augments our pricing expertise and allows the hedging of unwanted liabilities.

Global and national scale
We have a strong position in the largest regulated online betting markets across the world, with a portfolio of diverse and complementary brands.

The world's largest betting Exchange
In Betfair, the world's largest betting exchange, we have a platform that facilitates betting between customers, typically resulting in better odds and trading capability. This gives our customers more choice and powers a range of exciting products.

Our Process

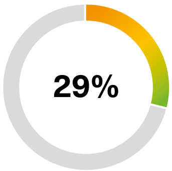
Our Strategy: Market, Focus, Priorities & KPIs
pages 24 to 31



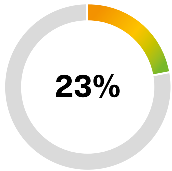
Operating Review Online
page 40

No.1 online operator in all of these markets* (estimated market share):

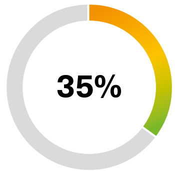
UK & Ireland sports



Australia



US horseracing



Our Culture and People
pages 36 to 39

Number of global employees*	**c.7,300**
Global offices*	**16**
Total proforma gaming, corporation and other taxes paid in 2016	**£314m**

PP Paddy Power **B** Betfair **S** Sportsbet **T** TVG

Margin/Commission

Sports betting

PP B S T

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

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

Gaming

PP B

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

Creating Value

Financial Review
page 46

For Customers
Our five million customers enjoy our products online and they benefit from market-leading innovation, promotions and value.

For Shareholders
We have a track record of delivering strong returns to shareholders.

Dividend: page 50

For Employees
We employ more than 7,300 people across 16 offices and Paddy Power retail betting shops.

Our Culture and People: pages 36 to 39

For Governments
We make a significant financial contribution to the territories within which we operate. In 2016, on a profroma basis, we paid £314m in gaming, corporation and other taxes.

For Sports
We contribute back to Sport via commercial partnerships, sponsorship, betting integrity services and charitable support for grassroots sports activities.

Brands in review: pages 8 to 15
Corporate Social Responsibility: page 33

For Communities
We are committed to making a positive contribution to sport and the communities in which we operate through our corporate social responsibility programmes and participate in a range of industry activities to fund the research, education and treatment of problem gambling.

Responsible gambling: page 32
Corporate Social Responsibility: page 33

* As at 31 December 2016

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Our Strategy

Market*†

Summary and trends

The global betting and gaming market is large and diverse, with a wide range of products, including sports betting, lotteries, casino games, poker and bingo.

These are available to customers across both land-based operations (including betting shops, race tracks and casinos) and online channels. The total global betting and gaming market is estimated to be worth €364bn.

Since it was established in the late 1990s, the online channel has grown strongly and now represents c.11% of the global betting and gaming market, though in mature markets such as the UK, Ireland and Australia this figure is far higher. The online market has benefitted from structural migration from retail betting and has also driven an expansion of the total market. The advent of smartphones has continued both these trends in recent years, with betting apps providing greater convenience and a better experience for customers.

Regulation

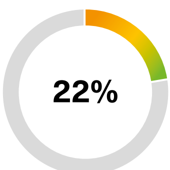
The regulation of both land-based and online betting and gaming varies across the world; from government-run operations, to licensed monopolies, to fully-open commercial markets where a range of operators compete. Within online, many 'grey' markets also exist, where regulation is non-existent and some governments are now moving to legislate. In 2016, the Group derived 95% of total proforma revenue from regulated markets and a description of the key markets within which we operate is detailed below.

Key Markets

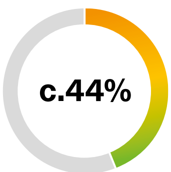
UK & Ireland

PP B

Estimated share of the combined UK & Ireland online betting and gaming market



Percentage of the UK & Ireland betting and gaming market that is online



Together, the UK and Ireland are our largest markets, representing 66% of our total proforma revenue. This is derived from our *paddypower.com* and *betfair.com* websites and a retail estate of over 600 Paddy Power retail betting shops.

The UK is a mature, fully regulated gambling market worth around £9bn (excluding the National Lottery), with online now comprising c.41%. The UK online market is a regulated market and taxed on a 'point of consumption' basis, with 15% paid on gross gaming yield on all sports and gaming products. UK retail shops (also known as Licensed Betting Outlets or LBOs), currently pay 15% gross profits tax on sports betting and 25% tax on machine gaming.

The Irish betting and gaming market consists of land-based operations (sports only) and telephone and online channels (sports and gaming). Retail, telephone and online sports betting are taxed at 1% of stakes with online betting exchanges paying 15% of commission charges. VAT of 23% is paid on online gaming revenues.

The Group is the largest online betting operator across the UK and Ireland with an estimated 29% share of the combined UK and Ireland online sports market. We operate approximately 6% of the LBOs across the UK and Ireland, being the largest retail betting operator in Ireland and the fifth largest retail betting operator in the UK by number of shops.

* As at 31 December 2016

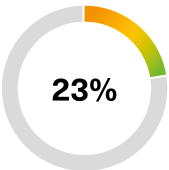
† sources: UK Gambling Commission, H2GC, Agimeg

PP Paddy Power B Betfair S Sportsbet T TVG

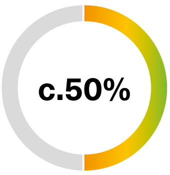
Australia

S

Estimated share of the Australian online sports betting market



Percentage of the Australian sports betting market that is online



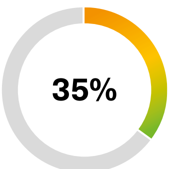
The Australian sports betting market is fully-regulated and mature and is worth an estimated AUD$4.5bn, with online accounting for just over 50%. The online market was first licensed in 2006 and has grown consistently at a rate of around 15% in recent years, driven by technological innovation and increased smartphone penetration. Sports betting remains dominated by horse-racing, but sports such as AFL, NRL and football are increasing in popularity.

The Group holds an estimated 23% share of the Australian online market through our Sportsbet division, which was acquired in 2009. We pay corporate tax of 30% to the federal government, 10% gross sales tax on gross winnings, a license fee to the Northern Territory and in 2016, also paid approximately AUD$150m in product and operating fees to racing and sporting bodies.

US

T B

Estimated share of the US pari-mutuel horseracing market



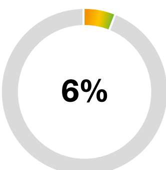
The US is a predominantly land-based, casino betting market, with online betting being available on a more limited basis. The only licensed and regulated forms of online wagering and gaming are pari-mutuel wagering on horse races in certain states, exchange betting on horse races in New Jersey and online gaming in three states: Delaware, New Jersey and Nevada.

The Group owns TVG, which is one of the largest online pari-mutuel horseracing wagering operators in the US, with an estimated 35% market share. We also operate an online Betfair Casino site in New Jersey and, since May 2016, a Betfair horseracing exchange in New Jersey, which is the first (and only) one of its kind. There has been increased focus on the sports betting legalisation debate in the US in recent years, and we believe we are well-placed if the online sports betting market opens up further.

Rest of the World

B

Estimated share of the Italian online betting market



A number of European countries have established licensing regimes for online betting and gaming and the Group currently has licences to operate online in Bulgaria, Denmark, Gibraltar, Greece, Italy, Malta, Romania and Spain.

Italy is the largest continental European online betting market, worth an estimated €987m. The Group currently has an estimated 6% share of the Italian online betting market.

The Spanish online betting market was regulated in 2012 and is worth an estimated €400m. The Group has an estimated 1% market share.

We estimate that we have between 1% to 4% share of the nascent online betting and gaming markets in Denmark, Bulgaria and Romania.

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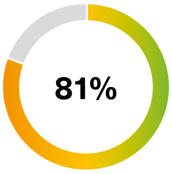
Where we focus

Online-led

Percentage of total proforma revenue derived from online channels in 2016

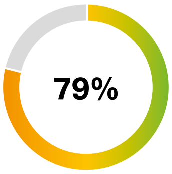


Since being established in the late 1990s, the online channel has been the fastest-growing section of the global gaming market, with both Paddy Power and Betfair independently developing world-class online operations and brands.

The Group derived 81% of total proforma revenue from online channels in 2016 and we are now focused on using our combined expertise to further grow our share of the online market in the territories in which we operate.

Mobile-led

Percentage of proforma Sportsbook revenue from online channels derived from mobile in 2016

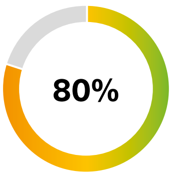


The increasing penetration of smartphones has driven further growth in the online market in recent years, with the mobile channel offering greater convenience, responsiveness and personalisation to customers. Mobile staking now represents the majority of total turnover at most online operators.

The Group was an early adopter of mobile and all our brands subsequently demonstrate relatively high levels of engagement on this channel. We are committed to strengthening our position through continual innovation and app updates.

Sports-led

Percentage of proforma revenue from online channels derived from sports in 2016

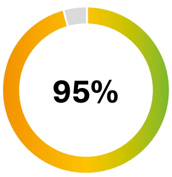


Sports betting is the fastest-growing segment of the online market. In addition, sports betting features strong product differentiation, technology investment and risk management meaning it possesses the highest barriers to entry.

The Group has four leading sports betting brands; Paddy Power, Betfair, Sportsbet and TVG and, in 2016, derived 80% of proforma revenue from online channels from sports. We are focused on further strengthening our position in this fast-growing market.

Regulated markets

Percentage of total proforma revenue derived from regulated markets in 2016



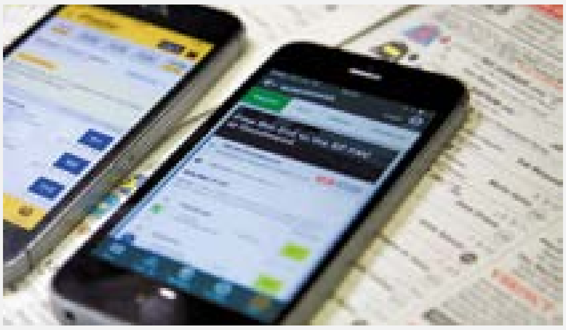
Focussing on regulated jurisdictions, where betting is fully licensed, reduces operational risk and increases certainty of investment returns. The Group focuses on regulated markets and subsequently, in 2016, derived over 95% of its total proforma revenue from regulated markets, namely the UK, Ireland, Australia, US, Spain, Italy, Denmark, Bulgaria, Romania, Malta and Gibraltar and its business-to-business activities. We will continue to focus investment on markets with good regulatory visibility, and continue to take a cautious approach to unregulated markets.

Our key priorities

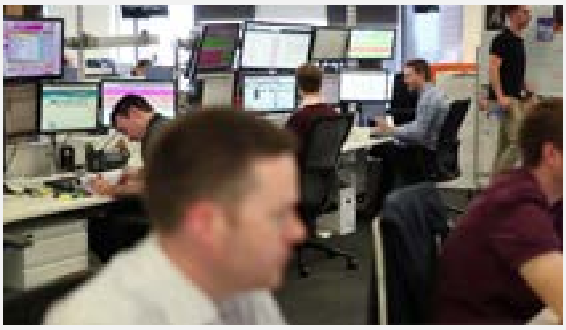
Following the Merger of Paddy Power plc and Betfair Group plc, we are working on three key initiatives to unlock the potential of the combined business:

Chief Executive Officer's Review
page 18

1. Capitalising on our enhanced scale



2. Combining the best assets and capabilities of each legacy business



3. Optimising our brand positioning in the UK and Ireland

Our Strategy (continued)

1.

Capitalising on our enhanced scale

The fixed cost nature of our industry means that larger operators can operate more efficiently and subsequently, invest more money into customer-facing areas such as marketing and product. This becomes a virtuous circle that drives greater revenues, operating leverage and investment.

Since the Merger, we have sought to capitalise on our enhanced scale by combining marketing budgets (investing almost £300m in 2016) and sharing assets across brands. This is enabling us to acquire, and then efficiently utilise, the most attractive marketing assets. We have a significant presence across all key TV networks and, during 2016, our Betfair brand signed a three-year partnership with FC Barcelona and Sportsbet signed a five-year sponsorship deal with the NRL in Australia.

Scale also benefits product development, with the combined business retaining more capability than either legacy business had on its own. This means we can roll-out better products to existing markets and enter new markets at the same time. Our scale spreads development spend across a larger customer base, driving efficient returns.

Case Study

Technology function

Our Technology function has been a key beneficiary of operating at scale and we believe there is more to come.

The combined Group now employs over 1,000 technology and product developers, which is substantially more than either business had individually. This not only means we can develop products at greater pace, but we also now have the capacity to put more resources into our international markets. Previously, entering new markets represented a major distraction to either business.

Joining forces has also given us a truly global footprint from which to build our team. Whilst we retain specialist teams in London and Dublin, we have a significant development presence in Porto, Cluj and Sofia, where we have had success hiring talented engineers. The advantage of this in-house capability is speed and differentiation – we can build front-end products that stand out from the crowd, as well as back-end items (like our own promotions platform) which you simply can't get off-the-shelf.

We believe that the most exciting development is yet to come. We are now moving towards an integrated technology platform, meaning in the future the same development work will be spread over all brands, making for a better customer experience and a far more efficient use of resources.

2.

Combining the best assets and capabilities of each legacy business

In bringing two strong operators together, we have been able to access the best people, assets and practices from each operator to enhance our overall competitive positioning. We are focused on creating a joint operation that combines the best facets of each individual legacy business.

In 2016, this included harmonisation of in-house marketing technology, integration of our Risk & Trading and Customer Operations teams to give a better customer experience across both the Paddy Power and Betfair brands and some sharing of products between these brands.

We are now focused on combining our two existing technology estates into a single, flexible, scalable platform that best positions us for the long term by supporting growth across multiple brands and jurisdictions.

Case Study

Sportsbook features

Combining our Sportsbook operations has already given us the opportunity to broaden the range of product and market coverage on both the Paddy Power and Betfair brands.

There have been two good early examples. First, in May we added Betfair's 'Quick Bets' Football product (where customers can bet on what will happen in the next minute of the game) onto the Paddy Power Sportsbook. These were branded as "Flash Markets" on Paddy Power, and they went on to account for 20% of in-play bets and 11% of in-play stakes on *paddypower.com* at Euro 2016.

Secondly, and significantly, we are integrating Paddy Power's in-house pricing platform into the Betfair Sportsbook, which will provide one trading platform for both brands. This is an ongoing process, but to date, 19 sports have gone live on this platform.

Moving to one trading platform is not only enabling us to run our trading operations more efficiently and improve accumulator price formation, but it has also improved the coverage and depth of the Betfair Sportsbook. For example, Betfair's Tennis offering now has four times more ITF matches and at the 2016 Grand Slam of Darts, Betfair had ten extra outright markets compared with 2015.

Our Strategy (continued)

3.

Optimising our brand positioning in the UK and Ireland

We are seeking to maximise growth in the UK and Ireland by optimising the positioning of our Paddy Power and Betfair brands. Our research shows that Paddy Power and Betfair currently appeal to customers in different areas of the market, with limited overlap between customer bases.

We believe that by focussing each brand more tightly on its key audience, we can both improve the customer experience and increase efficiency. We also believe this sharpened focus, combined with continual investment in product enhancement, will give us a better platform to address some areas of the market where we currently under-index.

We have therefore started to adopt a more targeted approach to messaging and customer proposition on each brand. The Betfair brand will focus on the segment of customers whose motivations to bet are value-orientated, offering a strong value proposition on both the Exchange and Sportsbook. The Paddy Power brand will focus on being the brand its customers love and its proposition will be entertainment-led, in addition to offering attractive promotions and headline pricing.

Brand in review
Paddy Power
page 8

Brand in review
Betfair
page 10

Case Study

TV advertising

The "You Beauty!" and "Ready?" campaigns were the creative results of the strategic brand research that we completed in 2016. It was time we dusted off both brands, examined them against today's target audiences, our own culture, our competitive set... and also against each other.

Betfair's "Ready?" campaign was launched in August 2016 and was born of the brand idea – 'Expect Better'. We're one step ahead and prepared for what's next. We're ready. And we'll ask the same of our customers – Ready?

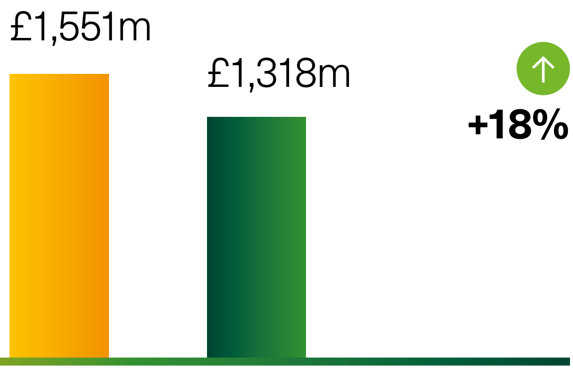
Paddy Power has always been built around being the punters' champion, but we wanted its new campaign to showcase Paddy Power's unique personality traits – sharp-witted, brave and fun. For the "You Beauty" campaign, launched in November 2016, we championed the ridiculous optimism of punters, in a way that only Paddy Power can – through song!

Both campaigns reflect the target audiences identified for each brand; Betfair being an aspirational choice for sophisticated customers and Paddy Power appealing to social punters seeking entertainment. This separation is a long-term strategy to ensure that the brands remain both differentiated and distinctive. It's inevitable that both brands will be active at the same events, so these principles help ensure they don't conflict.

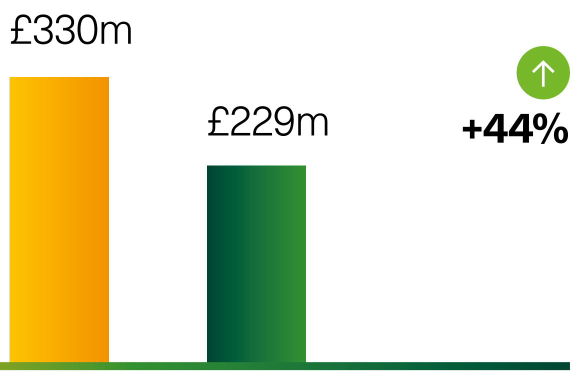
Our Key Performance Indicators ("KPIs")†

2016 | 2015

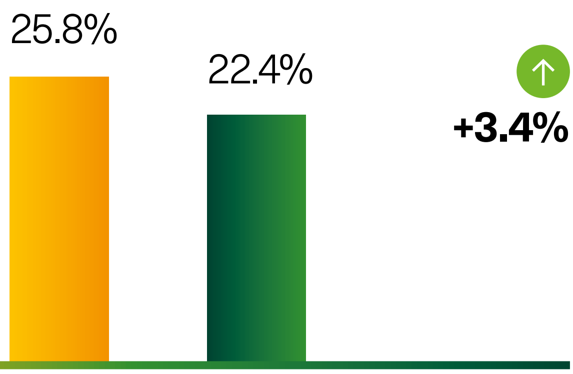
Proforma revenue



Proforma underlying operating profit§



Proforma underlying EBITDA margin‡§



† The merger of Paddy Power plc and Betfair Group plc completed on 2 February 2016 and is accounted for as an acquisition of Betfair Group plc by Paddy Power plc on that date (the "Merger"). The reported statutory results reflect this accounting treatment in accordance with generally accepted accounting principles ("GAAP") and only include Betfair Group's results since the Merger completion on 2 February 2016 and no Betfair Group results for the 2015 comparative. This Annual Report also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power plc and Betfair Group plc had always been merged, which combines the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The Directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and the non-GAAP proforma, underlying financials is included on page 52.

‡ EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see page 52).

§ The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see Note 4 to the Consolidated Financial Statements).

Responsible Gambling

Responsible gambling continues to be a major focus for us and is an important aspect of delivering on our Vision.

Since the Merger, we have created a consistent set of responsible gambling procedures, tools, training and messaging across all of our brands both online and in our retail shops.

Notable examples include:

- harmonising training across our brands and channels with enhanced training for customer-facing employees to enable them to monitor and recognise erratic gambling and support and manage customers showing signs of this;
- putting in place consistent, high-quality responsible gambling messaging across all of our products and services;
- refreshing our responsible gambling microsites;
- enhancing new player awareness systems to monitor customer behaviour and spot erratic play; and
- putting in place better processes for contacting customers who show signs of problem gambling.

We offer a variety of tools to our customers to help them manage their gambling, including:

- Deposit and loss limits
- Reality Checks
- Time out facilities to encourage customers to 'take a break'
- Self-exclusion both online and in our retail shops

In addition to ensuring a high level of support on our own channels, we also participate in a wide range of industry activities to fund the research, education and treatment of problem gambling.

Responsible Wagering Australia ("RWA")

During 2016, Sportsbet helped to establish RWA whose objective is to ensure that "Australia has the best conducted, socially responsible wagering industry in the world." As part of this, RWA supports government regulation in Australia which:

- reduces the level of advertising during sports broadcasts;
- requires operators to offer a broader range of 'time out' options;
- prohibits sign-up offers on a national basis;
- phases out credit betting; and
- prohibits gambling advertising on public transport.

Gambling Therapy

Gambling Therapy provides online counselling and support to problem gamblers throughout Europe. We support Gambling Therapy to develop self-help websites and apps for customers in a variety of European languages.

Senet Group ("Senet")

Paddy Power is one of the founding members of Senet and Betfair also recently became a member. Independent research into the effectiveness of Senet's messaging showed that 75% of regular gamblers surveyed were aware of Senet's campaign, 20% reported that they had warned other people about their gambling (if only jokingly) because of it, and 12% had used the phrase "when the fun stops, stop". All of our UK-facing businesses carry Senet's messaging.

Gamble Aware week

During Gamble Aware week, all of our shop window advertising was dedicated to responsible gambling messaging and customers were asked to consider "how much = too much?" on social media.

Young Gamblers Education Trust ("YGAM")

YGAM is a registered charity which provides peer education programmes to help teachers explain the risks associated with gambling to young people. We support a variety of YGAM's training programmes to equip teachers, youth workers, community mental health workers and volunteers with the skills they need to engage in local communities.

Donations to Gamble Aware and Dunlewey Addiction Services

We donate to Gamble Aware in the UK (formerly the Responsible Gambling Trust) and provide funding to Dunlewey Addiction Services in Ireland.

We are currently involved in two projects designed to increase the scope and effectiveness of UK self-exclusion processes:

Multi-Operator Self-Exclusion Schemes ("MOSES")

MOSES was introduced in 2016 and enables customers to self-exclude from all retail shops in a certain area.

National Online Self-Exclusion Scheme ("NOSES")

NOSES, when introduced, will enable customers to self-exclude from all UK licensed online gambling companies.

Corporate Social Responsibility

Corporate Social Responsibility is overseen by the Board Risk Committee.

Risk Committee Report
page 82

Paddy Power Betfair was recently included in the top 9% of all travel and leisure companies in FTSE Russell's 'FTSE4Good' index by demonstrating strong environmental, social and governance practices.

FTSE4Good

Supporting our communities

We are committed to making a positive contribution to sport and the communities in which we operate through our corporate social responsibility programmes. Some of the notable charitable activities undertaken during 2016 were:

Tomorrow's People
Tomorrow's People is a charity that supports young adults aged 18-24 who face overwhelming barriers to employment. We are helping Tomorrow's People to create a London 'youth hub' to develop the skills required to get a job.

"Back Yourself"
In our "Back Yourself" initiative, challengers get a free bet on themselves to finish their event in their target time. If they do so then we pay out to their chosen charity, if they don't then the stake goes to Cancer Research UK.

"Race to the Races" for Special Olympics Ireland
Employees participated in a two day, two hundred kilometre cycling challenge from Westport to the Galway Races, which in 2016, raised over €20,000.

National Jockey Day
On National Jockey Day we donate £1 for every #NationalJockeyDay tweet or bet placed on the 'Jockey Day Double Market' to the Injured Jockey's Fund.

Stable Staff Week
We hosted a variety of events and challenges as part of "Stable Staff Week" during 2016, culminating with the Betfair Clock Tower Cup at Doncaster.

Orange Pigeon
Orange Pigeon grants special wishes for adults diagnosed with life threatening or terminal illnesses in Australia. On top of an AUS$50,000 donation to the charity, Sportsbet provides mentoring and office space.

Multiple Myeloma Research Foundation ("MMRF")
Our TVG office raised awareness of Multiple Myeloma, a rare and incurable cancer, in support of one of their colleagues.

Romania Walking Month
Our Cluj office challenged themselves to walk as much as possible during Romania's Walking Month at the same time as raising money for Special Maltese Kindergarten, a day care centre in Cluj for children with neuromotor impairments.

Safeguarding the Integrity of Sport
We are able to share suspicious betting patterns and customer details with 70 sports governing bodies including the BHA, UEFA and the International Olympic Committee under memoranda of understanding.

Corporate Social Responsibility (continued)

Committed to sustainability

The Group aims to comply with all relevant environmental legislation, and where no legislation exists, seeks to develop and implement beneficial standards and procedures of its own. Whilst we do not set a specific target on the reduction of carbon emissions, we are committed to reducing the impact of our business operations on the environment, greenhouse emissions and waste through a managed process of continuous improvement. As part of this commitment, for example, we have recently adopted a policy of using only LED lighting in our retail betting shops, which represents the majority of our energy usage, and have commenced the replacement of all existing non-LED lighting in our shops. We also continue to develop environmental initiatives in our corporate offices, examples include:

- an office relocation in Porto, Portugal, utilised technology to lower the carbon footprint of the office by installing solar lamps, LED lights and a VRV HVAC system; and
- creating high density modern office environments in Dublin, London and Malta with motion detector low energy lighting, energy efficient air conditioning systems and power factor correction.

We are taking steps to measure and report our carbon footprint for the business. Our latest results are as follows:

Type of Emissions	Activity	2016		
		Consumption	tCO_2e	% of Total
Direct (Scope 1)	Natural Gas (kWh)	2,047,244	408	1.6%
	Refrigerants (kg)	1,893	3,939	15.5%
	Subtotal		4,347	17.1%
Indirect Energy (Scope 2)	Purchased Electricity (kWh)	37,116,122	17,156	67.3%
	Subtotal		17,156	67.3%
Indirect Other (Scope 3)	Business Travel (km)			
	Flights	15,295,210	3,984	15.6%
	Subtotal		3,984	15.6%
Total (tCO_2e)			25,487	

The above was calculated using some assumptions, exclusions and estimations and full details of these are available on request from *csr@paddypowerbetfair.com*.

Photo: Paulo Nunes dos Santos – New York Times

Our Culture and People

Number of global employees*

7,303

At the heart of our people strategy is a belief that great people will be the source of our continued success.

Since the Merger in February 2016, defining our integrated culture and values and our ways of working, selecting and on-boarding new leaders and talent, and engaging employees have been major priorities. 2016 was a year of significant change and a considerable amount of effort has been focused on supporting our people through that change. That has included making sure those leaving our business are treated fairly and with respect.

Our Purpose, Vision and Values are the glue that connects us across brands, functions and geographies. Whether it's guiding the decisions we make, growing leaders, attracting new talent or recognising outstanding performance, our Purpose, Vision and Values are at the heart of our future.

Purpose, Vision and Values

The Merger created the opportunity to take two successful businesses and build one of the leading global players in betting and gaming. An essential ingredient for our future success is combining our two proud heritages and defining a new, common purpose, and ways of working.

Right from the start, collaboration was key to the process. That's why we asked over 500 colleagues representing our four brands and the various parts of the business to join in the discussion on our Purpose and the right set of Values for the Group. With their input we were able to define our global Purpose: "We bring excitement to life". This guides not only the strategic decisions we make, but how we grow and innovate, the products we offer our customers and the type of culture and workplace we are creating.

As "we bring excitement to life" we're guided by our global Vision of being a world-class betting and gaming business trusted by our customers, colleagues and partners.

Our progress in 2016

- Completed Merger integration restructuring and office consolidation
- Integrated key human resources policies and processes including a new performance management approach
- Defined and rolled out our Vision, Purpose and Values
- Reviewed all aspects of our people strategy and the employee proposition
- Continued to focus on diversity and inclusion
- Maintained our investment in learning and development for all employees

Our priorities for 2017

- Embed our culture and ways of working
- Continue to develop our talent management and succession strategy and plans
- Retain and develop top talent and critical capabilities that will deliver growth and scale advantages
- Roll-out personalised online learning and development capability for all corporate employees

* As at 31 December 2016

OUR VALUES

Our Purpose and Vision give us the 'what', but the 'how' is also an essential part of the culture we are creating.

Our Values define how we go about the work we do. They give us the focus to make the most of our scale while remaining responsive to customers.

The Values work together like a team and were chosen because they represent what we stand for now and into the future. They come from the DNA of each heritage businesses and from employees.

Relentless will to win

We strive to stay ahead of the game and achieve more for our customers and each other, always. It's about being focused on the market and always asking ourselves 'what difference does it make to the customer'. It's about passion for what we do, being curious, and a drive to compete by consistently providing better service, products and brands.

Collaboration

We win by having the best people, working well together and investing in strong relationships across brands, functions and geographies. It's about valuing each other's expertise and learning from each other.

Integrity

We take pride in doing what's right. No exceptions. It's about putting customers and employees' best interests at the heart of our decision-making. It's being hungry for commercial success but not at the expense of ethics. And holding each other to account.

Agility

We continually adapt at pace and with purpose, and thrive amid change. It's about changing direction quickly for competitive advantage and if we fail, we fail fast and learn from it. It's being curious about the outside world and digging into our data to keep moving forward.

Low Ego

We take our work seriously but not ourselves. And we never believe our own hype. It's about listening to others, sharing success collectively and taking pride in what we do. It's about treating each other with respect, humility and fairness.

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Our Culture and People (continued)

Ways of Working

As an employer, we seek to be an employer of choice and endeavour to ensure the employee journey is a positive and supportive one. We continue to review our people policies on a consistent basis to confirm our sufficiency in people practices.

Performance management

The Merger provided an opportunity to review performance management to create the right approach for our business. In 2016, we launched a 6-point rating scale that helps us distinguish performance at quite a granular level. As a result, we have the detail we need to ensure we reward and recognise for top performance. Underpinning the new approach are our Values – the way that we do things is as important as what we actually deliver.

Our business is fast-paced, and we need to stay agile and responsive to win. As a result, it doesn't work for our employees to have a laundry list of goals that stay static for a year. Therefore, our approach is to define the 'Big Ticket Outcomes' in January and to agree the specific goals, deliverables or targets each quarter for the next 90 days that will help to achieve these. Goals are reviewed and updated each quarter to keep us agile and ensure the right balance of pace with purpose. All corporate employees have four performance conversations annually with their line manager to provide feedback and guidance.

Managing Change

There was a considerable amount of change during 2016 as we integrated the businesses. We committed at the outset to treating people with dignity and respect through this. We consulted fully with those who were impacted by the changes and offered a high level of support to those leaving the business, including outplacement support for those made redundant. In many cases we were able to redeploy people into new roles throughout the Group, and in doing so have retained key talent.

We committed to employees that we would make the changes as quickly as possible and were pleased that the large-scale Merger-related restructuring activity was completed by the end of 2016.

Equal opportunities and Diversity

We continue to attract and retain a diverse workforce. We were delighted to be named in the Hampton-Alexander Review 2016 as one of the Top 20 companies in the FTSE 100 for having the highest proportion of females at a senior level – across the Executive Committee and their direct reports. At 31 December 2016, 27.9% of our senior management team were women.

During 2016, we also enhanced our maternity and paternity benefits and flexible working policies, reflecting our commitment to creating a great place to work. We are committed to increasing the diversity of our talent pool going forward and as part of initiatives in this area, we are updating our approach to recruitment activities to ensure we attract a diverse range of candidates, as well as promoting diversity through our internal training and development initiatives. We also continue to be mindful of recent external consultations and reviews in respect of diversity at the senior leadership level.

Learning and Development

We continued to invest in a significant amount of training and development for employees during 2016. Embedding our new Values was a major priority, and we deployed training to hundreds of leaders in all our locations to explain the Values and their importance. We continued to invest in training for managers through the year, with hundreds of new managers attending our bespoke Management Development Programme with a particular focus on change management and performance management.

Local technical and soft skills training continued in all locations during 2016 with all employees having the opportunity to attend sessions throughout the year. Particular effort has been put in to bringing groups of employees together to help meet one another and build understanding and insights across locations, brands and heritage.

Engagement

We are committed to really understanding what our employees think we do well, what we could improve and how likely they are to stay with the business.

We typically conduct an annual engagement survey across all locations and for all employees to share their feedback. In 2016, given the level of change underway in Europe and to ensure careful management of engagement we undertook two short Merger-related employee surveys; one in July and one in December. These enabled us to measure how employees were feeling about the Merger, how clear they were about their role and how engaged they felt about their future. We were pleased that the majority of employees responded to the surveys and shared their suggestions and feedback with us. The responses were generally very favourable with the significant majority reporting that they are excited about the future and intending to be here in one year's time. We intend to continue to measure and react to employee feedback surveys and take action where necessary to ensure our employee proposition really reflects our Values and desired culture.

Recognising the benefit of enabling employees to participate in the Group's performance and align with shareholders' value, we launched a new all employee save as you earn scheme in September 2016 with 30% of all eligible employees participating. Note 18 of the Consolidated Financial Statements sets out further detail on the scheme.

Code of Ethics

For details on our Modern Slavery Statement:
www.paddypowerbetfair.com

We refreshed our Code of Ethics for the merged business in 2016 to ensure we act in accordance with our cultural Values. This encompasses policies on areas such as business conduct, equal opportunities, anti-bribery and corruption and whistleblowing. We also support the United Nations' Universal Declaration of Human Rights.

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

Health and Safety

The Group recognises the importance of health and safety. We are committed to ensuring the well-being and safety of our employees and customers both in our corporate offices and retail betting shops in compliance with all relevant safety, health and welfare at work legislation. In 2016, we continued to strengthen our policies and procedures and ensured compliance with relevant local legislation as appropriate.

Diversity

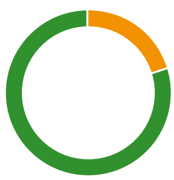
Board diversity: pages 70 and 74

Senior managers are defined in legislation as including both persons responsible for planning, directing or controlling the activities of the Company (or a strategically significant part of the Company); and any other directors of undertakings included in the consolidated accounts. We have separately disclosed our senior management* population and directors of subsidiaries (both excluding Executive Directors). For reporting purposes, as at 31 December 2016, there were 34 subsidiary directors, comprising 7 women and 27 men.

As at 31 December 2016

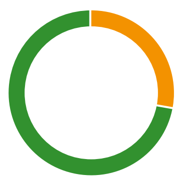
Board

- **20%** (2) Female
- **80%** (8) Male



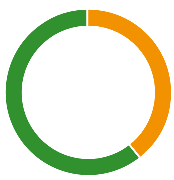
Senior management*

- **27.9%** (19) Female
- **72.1%** (49) Male



All employees

- **39.2%** (2,863) Female
- **60.8%** (4,440) Male



* Our senior management population comprises members of the Executive Committee and their direct reports.

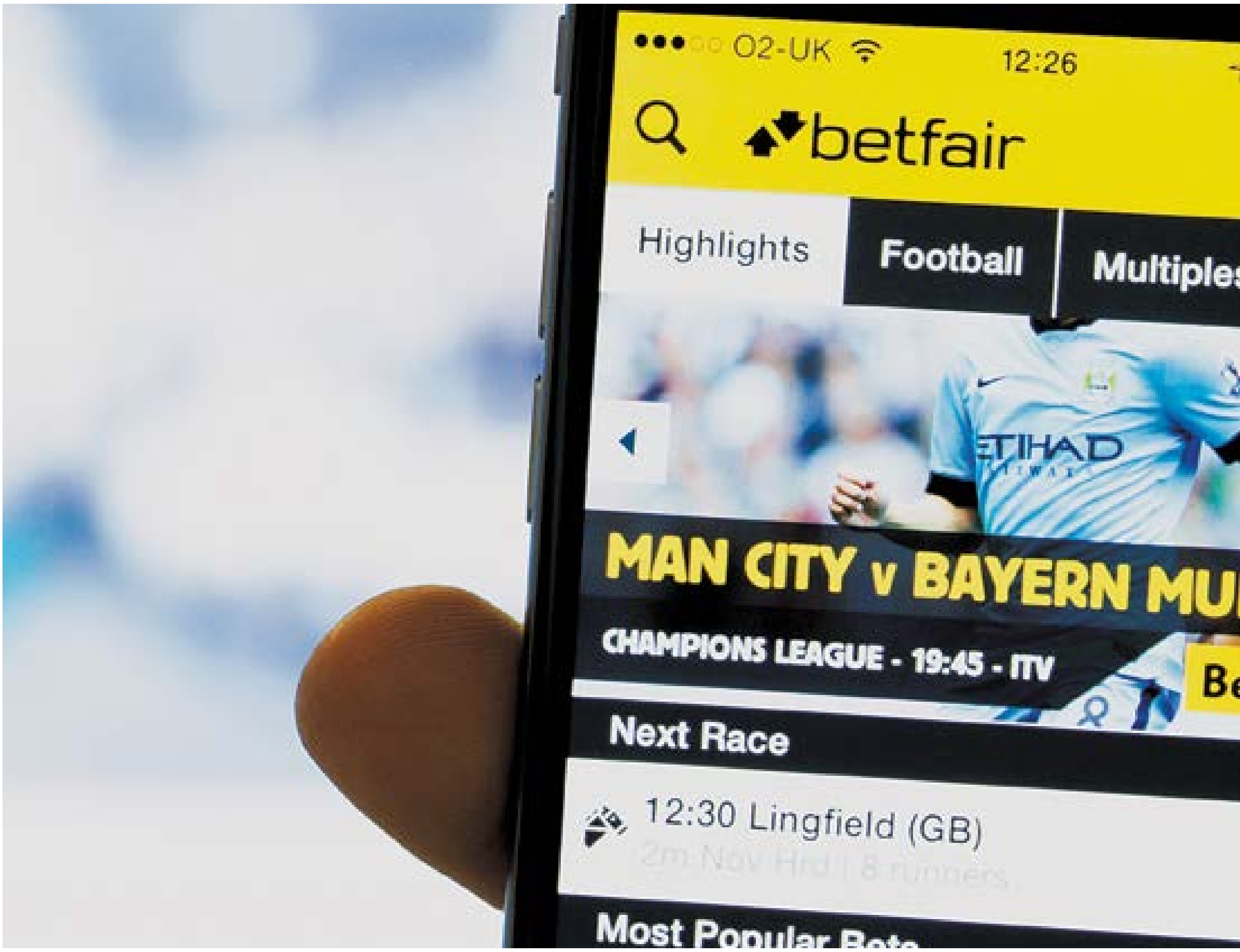
Operating Review[†,1]

Online

The Online division includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of B2B partnerships.

On a proforma basis, revenue increased by 14% to £853m (constant currency "cc"[2] +11%). Within this, revenue from regulated markets was up 16% (cc +13%) and unregulated market revenues fell by 2% (cc -11%), due primarily to the year-on-year impact on the first half from exiting from Portugal in July 2015. Active customers increased by 11% driven by Sportsbook acquisition growth across both our brands, including at Euro 2016.

On a proforma basis, sports revenue increased by 14% to £609m (cc +10%). This was comprised of a 19% (cc +16%) increase in sportsbook stakes and 7% (cc +3%) growth in Exchange and B2B revenues.



† Note throughout this Operating and Financial Review results are reported on a Proforma basis as if the Merger completed on 1 January 2015. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash merger related items, including intangible asset amortisation.

* See footnote details on page 50.

Brand in review Paddy Power
pages 8 and 9

Brand in review Betfair
pages 10 and 11

During the year we continued to launch innovative new betting features such as *'Each Way Edge'* on the Betfair Sportsbook. The feature builds on the success of *'Acca Edge'* and allows customers to choose their own each way terms on a racing bet, to either increase their chances of winning or enhance their potential winning returns. Since launching in December, the product has proved popular, with 15% of racing customers on the Betfair Sportsbook using the feature last month.

We have also enhanced sports streaming from January 2017 on both the Betfair and Paddy Power apps, along with making incremental improvements to our exchange product, including an updated desktop front end, increased personalisation and quicker bet placement.

On a proforma basis, gaming revenue increased 14% to £245m (cc +12%), with growth continuing to be driven by cross-sell from sports and mobile. Gaming growth slowed in the fourth quarter, primarily attributable to lower direct gaming activations on our Paddy Power brand, a reduction in Betfair sports customers cross-sold to gaming and reduced year-on-year VIP activity across both brands. Direct activations on Paddy Power were impacted by a reduction in gaming TV advertising and in response we increased TV advertising from mid-December.

On a proforma basis, underlying EBITDA[3,4] increased by 27% to £289m (cc +28%) and underlying operating profit[4] increased by 34% to £255m (cc +36%). On a proforma basis, total operating costs increased by 8% (cc +3%) versus the 14% (cc +11%) revenue growth, with 23% growth in sales and marketing costs (cc +19%), driven by continued asset inflation and Euro 2016, offset by the benefit of Merger synergies and underlying low cost growth across other cost categories.

Proforma[1]	**2016 £m**	2015 £m	Change %	Constant Currency[2] Change %
Sportsbook stakes	**5,266**	4,416	+19%	+16%
Sportsbook net revenue %	**6.6%**	6.6%	Flat	Flat
Sports revenue	**609**	534	+14%	+10%
Gaming revenue	**245**	214	+14%	+12%
Total revenue	**853**	748	+14%	+11%
Cost of sales	**(193)**	(178)	+8%	+5%
Gross profit	**661**	570	+16%	+12%
Sales and marketing	**(195)**	(159)	+23%	+19%
Product and technology	**(111)**	(117)	-6%	-13%
Operations	**(65)**	(66)	-2%	-8%
Total operating costs	**(371)**	(343)	+8%	+3%
Underlying EBITDA[3,4]	**289**	227	+27%	+28%
Depreciation and amortisation	**(34)**	(36)	-6%	-13%
Underlying operating profit[4]	**255**	191	+34%	+36%
Active customers (000's)^	**3,904**	3,511	+11%	

Online division includes the UK/Ireland telephone business.

^ Active customers throughout this statement are defined as those who have deposited real money and have bet in the reporting period, excluding indirect B2B customers. Note that the active customer numbers have not been adjusted for customers who were active on both the Paddy Power and Betfair brands.

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Operating Review[†,1] (continued)

Australia[7]

The Australia division operates under the Sportsbet brand and is the market leader in the Australian online betting market.

Stakes continued to grow strongly in 2016, up 25% to £2.9 billion, despite the intensified level of competition, and was driven by 25% growth in active customers. Revenue, up 18% to £312m, was impacted by adverse sports results, in particular in horseracing during the first half of the year.

The first nine months of the year benefited from strong growth in telephone in-play betting, driven by our '*Bet Live*' product. This product was released in December 2015 but was withdrawn on 4 October 2016 following regulatory changes. In the first three quarters of 2016 in-play betting contributed 14% of stakes and 7% of revenue versus 6% and 3%, respectively in the prior year. In the fourth quarter, the in-play mix broadly returned to levels seen prior to the launch of '*Bet Live*'.

† Note throughout this Operating and Financial Review results are reported on a Proforma basis as if the Merger completed on 1 January 2015. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

* See footnote details on page 50.

Brand in review
Sportsbet
pages 12 and 13

We continue to invest in Sportsbet's product and marketing to maintain our online market leadership position. Key product releases in 2016 included *'Multibuilder'* and *'Same Game Multi'*, which enhance accumulator betting, and '*Power Play*' which encourages customer loyalty by allowing them to trigger a daily power play that increases the odds on their selection. It was launched on racing ahead of the Spring Carnival and in January 2017 was extended to Big Bash cricket and Australian Open tennis. For the upcoming 2017 seasons we have secured sponsorship of free-to-air TV coverage of AFL to complement our continued sponsorship of the equivalent NRL coverage.

Underlying EBITDA increased by 18% to £94m (2015: £70m). This was driven by 39% growth in the second half of the year which offset a 10% decline in the first half's profits. The improvement in the second half, whilst benefitting from a reduced year-on-year impact from both sports results and product fee rate increases, was primarily driven by a reduction in operating cost growth from 30% to 7%. The slowdown in cost growth partially reflected the lapping of a significant operational expansion during the second half of 2015 but was also due to an increased focus on achieving operating efficiencies.

	2016 £m	2015 £m	Change % £	Change % A$
Sportsbook stakes	**2,911**	2,053	+42%	+25%
Sportsbook net revenue %	**10.7%**	11.3%	-0.6%	-0.6%
Revenue	**312**	232	+34%	+18%
Cost of sales	**(80)**	(58)	+38%	+20%
Gross profit	**231**	174	+33%	+17%
Sales and marketing	**(72)**	(51)	+41%	+28%
Product and technology	**(24)**	(19)	+24%	+11%
Operations	**(41)**	(34)	+22%	+4%
Total operating costs	**(137)**	(104)	+32%	+17%
Underlying EBITDA[3,4]	**94**	70	+35%	+18%
Depreciation and amortisation	**(10)**	(9)	+11%	-2%
Underlying[4] operating profit	**84**	61	+38%	+21%
Active customers (000's)	**956**	767	+25%	

Operating Review[†,1] (continued)

Retail

The Retail division operates 613 Paddy Power betting shops across the UK and Ireland.

Brand in review
Paddy Power
pages 8 and 9

	2016 £m	2015 £m	Change %	Constant Currency[2] Change %
Sportsbook stakes	**1,713**	1,530	+12%	+4%
Sportsbook net revenue %	**11.6%**	11.7%	-0.1%	-0.1%
Sports revenue	**198**	178	+11%	+3%
Machine gaming revenue	**97**	88	+10%	+10%
Total revenue	**295**	266	+11%	+6%
Cost of sales	**(63)**	(58)	+7%	+4%
Gross profit	**233**	208	+12%	+6%
Sales and marketing	**(7)**	(6)	+9%	+3%
Product and technology	**(6)**	(5)	+10%	+5%
Operations	**(158)**	(145)	+9%	+5%
Total operating costs	**(170)**	(156)	+9%	+5%
Underlying EBITDA[3,4]	**62**	52	+21%	+10%
Depreciation and amortisation	**(18)**	(15)	+16%	+10%
Underlying[4] operating profit	**45**	36	+23%	+10%
Shops at year end	**613**	598	+3%	

The business continues to take market share, leading to revenue growth of 11% to £295m (constant currency "cc"[2] +6%). This, along with careful cost control drove a 23% increase in underlying operating profit to £45m (up 10% excluding currency benefit).

Revenues from UK shops increased by 8% and Irish shop revenues were up 2% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like[8] revenues increased by 3% and operating costs increased by 2%. The like-for-like[8] revenue growth was comprised of a 1% increase in both sportsbook stakes and revenues, and a 7% increase in machine gaming growth, primarily driven by growth from B3 slots content.

Our average EBITDA[3] per shop in 2016 was £103,000 which is significantly higher than the average of our major competitors. Our high-quality retail estate has been built around providing a fun, social environment focused around live sport and we are continually improving our customer experience with new products. The launch of our exclusive *'Track My Bet'* service on our Self Service Betting Terminals ("SSBTs"), along with in-store self-service online sign-up tablets and cross-channel promotions of our Hotshot Jackpot game successfully target multi-channel customers. In December, we introduced free WiFi to all our stores and in January 2017 we released a new retail app *'Paddy Power Onside'* which allows us to bring some of the benefits of digital into our retail estate and provides another platform for online cross-sell.

During the year we were able to selectively identify additional shop locations which could further enhance the quality and coverage of our estate and we opened 12 new shops in the UK and four in Ireland. We also closed one UK shop.

† Note throughout this Operating and Financial Review results are reported on a Proforma basis as if the Merger completed on 1 January 2015. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

* See footnote details on page 50.

US[7]

The US division combines TVG, America's leading horseracing TV and betting network (operating in over 30 states), Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange.

Brand in review
TVG
pages 14 and 15

Proforma[1]	**2016 £m**	2015 £m	Change % £	Change % US$
Sports revenue	**79**	64	+24%	+10%
Gaming revenue	**12**	7	+56%	+39%
Total revenue	**91**	71	+28%	+13%
Cost of sales	**(21)**	(16)	+34%	+18%
Gross profit	**70**	55	+26%	+11%
Sales and marketing	**(18)**	(15)	+24%	+14%
Product and technology	**(8)**	(5)	+56%	+44%
Operations	**(31)**	(26)	+21%	+6%
Total operating costs	**(57)**	(45)	+26%	+12%
Underlying EBITDA[3,4]	**12**	10	+25%	+6%
Depreciation and amortisation	**(9)**	(7)	+20%	+5%
Underlying[4] operating profit	**4**	3	+39%	+9%
Active customers (000's)	**139**	131	+6%	

On a proforma basis, revenue increased by 13% to £91m, driven by growth in both our TVG and Betfair New Jersey businesses, and EBITDA increased by 6% to £12m.

In TVG, on a proforma basis revenue increased by 9% as the business continued to increase its market share. The online casino in New Jersey continues to see strong revenue growth, and is now operating at breakeven EBITDA after a couple years of start-up losses.

In May, under the Betfair brand we launched the US market's first online exchange wagering platform for horseracing in New Jersey. Whilst the size of that market is limited, it is a good opportunity to test consumer demand for exchange betting and to attract new customers to the overall horseracing betting market.

Financial Review[†,1]

For statutory purposes the Group reported a loss of £5.7m which is primarily due to expenses relating to the merger that have been recognised as separately disclosed items. In addition, the statutory results only reflect the contribution from the Betfair business from the merger completion date.

Accordingly, underlying proforma results have been presented in this Operating and Financial Review as this best reflects the performance of the Group. This Annual Report also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The Directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and underlying proforma financials is included on page 52.

On a proforma basis, Group revenue increased by 18% to £1,551m, with sports revenues increasing by 19% and gaming revenues increasing by 14%. Revenue growth included a £78m benefit from the translation of non-UK revenues due to the weakness of sterling versus the prior year. On a constant currency ("cc")[2] basis, revenue growth was 11%.

† Note throughout this Operating and Financial Review results are reported on a Proforma basis as if the Merger completed on 1 January 2015. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

* See footnote details on page 50.

Group

Proforma[1]	**2016 £m**	2015 £m	Change %	Constant Currency[2] Change %
Sportsbook stakes	**9,890**	7,999	+24%	+16%
Sportsbook net revenue %	**8.7%**	8.8%	-0.1%	-0.1%
Sports revenue	**1,198**	1,009	+19%	+11%
Gaming revenue	**353**	309	+14%	+12%
Total revenue	**1,551**	1,318	+18%	+11%
Cost of sales	**(357)**	(311)	+15%	+9%
Gross profit	**1,194**	1,007	+19%	+12%
Sales and marketing	**(293)**	(231)	+27%	+21%
Product and technology	**(148)**	(147)	+1%	-7%
Operations	**(296)**	(271)	+9%	+1%
Central costs	**(58)**	(62)	-8%	-14%
Total operating costs	**(794)**	(711)	+12%	+4%
Underlying EBITDA[3,4]	**400**	296	+35%	+31%
Underlying EBITDA margin %	**25.8%**	22.4%	+3.4%	+3.8%
Depreciation and amortisation	**(70)**	(67)	+4%	-5%
Underlying[4] operating profit	**330**	229	+44%	+42%
Separately disclosed items	**(318)**	(9)	n/a	n/a
Operating profit	**12**	219	-94%	-95%
Underlying[4] earnings per share	**330.9p**	229.8p	+44%	
Dividends per share[5]	**165p**	n/a		
Net cash at year end[6]	**£36m**	£84m		

On a proforma basis, sports revenue growth was driven by a 24% increase in sportsbook stakes (cc +16%). During the year, sports results ebbed and flowed between favouring bookmakers and customers. The first quarter saw a high number of favourites winning at the Cheltenham festival, before unfancied results at the Euro 2016 tournament boosted revenues in June and July. The year concluded with customer friendly football results in December. Across the year as a whole, the overall group sportsbook revenue percentage was broadly in line with the prior year but was marginally lower than our normal expectations.

On a proforma basis, revenue from regulated markets represented 95% of total revenues in 2016 (2015: 94%).

On a proforma basis, revenue growth combined with operational leverage led to a 35% increase in proforma underlying EBITDA to £400m (2015: £296m), representing an EBITDA margin of 26% (2015: 22%). Proforma underlying operating profit increased by 44% to £330m (2015: £229m). Proforma underlying EBITDA included an £11m foreign exchange translation benefit and increased by 31% on a constant currency basis.

On a proforma basis, cost of sales were adversely affected by £7m of new taxes and product fees. Proforma total operating costs increased by 12%, or by 4% on a constant currency basis. Within this, sales and marketing spend increased by £62m or 27% (cc +21%), driven by Euro 2016, increased competitive intensity and continued asset inflation. Other operating cost growth, which benefitted from merger synergies, increased by 4%, which represented a 3% reduction in constant currency.

On a proforma basis, after separately disclosed items, which related entirely to the Merger, the Group recorded an operating profit of £12m (2015: £219m).

Financial Review (continued)

Regulatory update

In the UK budget in March 2016, it was announced that from August 2017 the treatment of free bets for online gaming point of consumption tax will change to bring it in line with their non-deductibility for sports. We estimate the impact of this change will be approximately £6m per annum.

The British Government has announced that from April 2017 the statutory Horserace Betting Levy will be extended to cover all operators and it will become mandatory to pay the levy at of rate of 10% of gross winnings from all customers in Great Britain betting on British racing. While our Betfair brand already makes contributions to British racing through the Authorised Betting Partner scheme, we estimate that the net incremental impact of the new scheme will be approximately £10m per annum for the Group.

In October 2016, the UK Government launched its Review of Gaming Machines and Social Responsibility Measures, which is reviewing the maximum stakes and prizes for, and the number and location of, gaming machines across all licensed premises (including licensed betting offices) and also is reviewing social responsibility measures to protect players from gambling-related harm, including reviewing restrictions around gambling advertising.

In October 2016, the UK Competition and Markets Authority ("CMA") announced that it was conducting an investigation into UK online gambling operators. The investigation is part of joint programme of work with the Gambling Commission following concerns raised by the Gambling Commission about potential breaches of consumer law and the fairness of licensees' consumer-facing terms amongst operators. The CMA have indicated that they will be providing a further update in April 2017.

In June 2015, the EU 4th Anti-Money Laundering Directive was published. All EU member states have two years to transpose the directive's requirements into national law and therefore we expect any necessary changes to be published ahead of June 2017.

In April 2016, the Australian Federal Government announced an intention to ban credit betting along with a series of consumer protection measures. We do not anticipate that either of these changes will materially affect our business given the limited use of credit by our customers and our pre-existing responsible gambling measures.

In June 2016, the Government in South Australia announced that it will introduce a 15% place of consumption tax in the state, effective from July 2017.

In 2016, revenues from South Australian customers represented 7% of our total Australian revenues.

Responsible gambling

Operating responsibly is essential to the ongoing sustainability of our business and ensuring our customers, across all of our brands and geographies, bet safely and responsibly is of the highest importance. Following the completion of the Merger we have continued to develop our systems and processes towards greater transparency and responsibility.

We have standardised and expanded our online and retail tools, enabling customers to better manage their play. We also continue to participate in a wide-range of industry and government initiatives to promote responsible gambling, including being a key participant in the Senet Group and a cornerstone partner of a new Multi Operator Self Exclusion Scheme ("MOSES") in Retail.

During 2016, Sportsbet helped to establish Responsible Wagering Australia, an industry group with the objective of ensuring that Australia has the best conducted, socially responsible wagering industry in the world.

Separately disclosed items

Proforma[1]	2016 £m	2015 £m
Merger deal expenses	**(50)**	(6)
Merger integration expenses	**(66)**	-
Restructuring costs (pre-Merger)	**-**	(3)
Non-cash merger related items:		
Intangible asset amortisation	**(174)**	-
Fair value adjustment for replacement share-based payment awards	**(22)**	-
Impairment of assets	**(6)**	-
Total separately disclosed items	**(318)**	(9)

"Operating responsibly is essential to the ongoing sustainability of our business and ensuring our customers, across all of our brands and geographies, bet safely and responsibly is of the highest importance. Following the completion of the Merger we have continued to develop our systems and processes towards greater transparency and responsibility."

All the 2016 separately disclosed items relate specifically to the Merger and therefore are excluded from underlying profits. Merger deal expenses include costs, fees and stamp duty incurred to complete the Merger. These costs totalled £56m, with £50m incurred in the first half of 2016 and £6m incurred in the second half of 2015.

Merger integration expenses are one-off costs incurred to achieve recurring cost synergies. These expenses, totalling £66m, were fully incurred in 2016 and related primarily to the costs associated with the rationalisation of duplicated roles, shifting of technology resources to our existing European development centres, the closure of five offices and the consolidation of our data centres.

The merger is accounted for as an acquisition of Betfair Group plc by Paddy Power plc with the accounting treatment therefore resulting in the recognition of a number of non-cash items. These include amortisation of intangible assets (£174m in 2016), a fair value adjustment on the replacement of legacy Betfair share-based payment awards for equivalent awards in the Group on completion (£22m in 2016) and asset impairments of £6m in relation to assets impaired as a result of integration actions taken.

Taxation

The Group's underlying effective tax rate was 15.5% (2015: 15.6%).

Capital expenditure

The Group had £85m[9] of capital expenditure in 2016 on a proforma basis (2015: £92m). Approximately 20% of the expenditure related to our retail business with the remainder primarily related to technology projects and product development. For statutory purposes, the all-share Merger with Betfair Group plc was accounted for as an acquisition and further detail can be found in Note 13 to the Consolidated Financial Statements.

Financial Review (continued)

Cash flow and financial position

Proforma[1]	2016 £m	2015 £m
Underlying EBITDA[3,4]	**400**	296
Capex[9]	**(85)**	(92)
Working capital and tax	**(63)**	32
Underlying free cash flow	**252**	236
Cash flow from separately disclosed items	**(104)**	(9)
Free cash flow	**148**	227
Dividends paid	**(179)**	(88)
Return of capital (including fees)	**-**	(484)
Interest and other borrowing costs	**(2)**	(1)
Other	**2**	(11)
Net decrease in cash	**(31)**	(357)
Net cash at start of the year	**84**	453
Movement to restricted cash	**(8)**	-
Foreign currency exchange translation	**(9)**	(12)
Net cash at year end[6]	**36**	84

The Group's profits convert strongly into cash flow, with underlying free cash flow on a proforma basis of £252m representing 91% of underlying profit after tax in 2016.

As at 31 December 2016, the Group had net cash of £36m, excluding customer balances.

Dividend and capital structure

In line with our dividend policy, the Board continues to target a pay-out ratio for the Group's dividend of approximately 50% of underlying profits after tax. Accordingly a final dividend of 113p per share has been proposed taking the full year dividend for 2016 to 165p per share[5]. The ex-dividend date will be 6 April 2017, the record date will be 7 April 2017 and payment will be on 24 May 2017.

The efficiency of the Group's capital structure is kept under regular review by the Board. Relevant considerations include the Group's strong cash flow generation, its investment plans and general capital market conditions.

1. The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date (the "Merger"). The reported statutory results reflect this accounting treatment in accordance with generally accepted accounting principles ("GAAP") and only include Betfair results since the Merger completion on 2 February 2016 and no Betfair results for the 2015 comparative. This Annual Report also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and the non-GAAP proforma, underlying financials is included in page 52.
2. Constant currency ("cc") growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2015 at 2016 exchange rates.
3. EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 52).
4. The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see Note 4 to the Consolidated Financial Statements and Appendix 2 on page 52).
5. Full year dividend includes closing dividends paid on Merger relating to 1 January 2016 to 1 February 2016 (inclusive) equating to 12p per share, interim dividend paid in September 2016 of 40p per share and the proposed final dividend of 113p per share.
6. Net cash at 31 December 2016 is comprised of gross cash excluding customer balances of £250m and borrowings of £214m. The comparative balance shown as at 31 December 2015 is comprised of gross cash excluding customer balances of £86m, borrowings of £143m and Betfair's net cash of £141m (see Appendix 3).
7. Growth rates in the commentary are in local currency.
8. Like-for-like growth rates are in constant currency[2] and are calculated by only including in the 2016 results, financial results from shops open prior to 2015 plus the financial results from shops opened during 2015 only from the anniversary of their opening date.
9. Capital expenditure is on a Proforma basis and excludes the intangible assets which were recognised under the accounting for the Merger.

Appendix 1: Divisional Key Performance Indicators

Proforma

£m	Online				Australia				Retail				US				Group			
	2016	2015	% Change	CC[1] % Change	2016	2015	% Change	A$ % Change	2016	2015	% Change	CC[1] % Change	2016	2015	% Change	US$ % Change	2016	2015	% Change	CC[1]% Change
Sportsbook stakes	**5,266**	4,416	+19%	+16%	**2,911**	2,053	+42%	+25%	**1,713**	1,530	+12%	+4%					**9,890**	7,999	+24%	+16%
Sportsbook net rev %	***6.6%***	*6.6%*	*Flat*	*Flat*	***10.7%***	*11.3%*	*-0.6%*	*-0.6%*	***11.6%***	*11.7%*	*-0.1%*	*-0.1%*					***8.7%***	*8.8%*	*-0.1%*	*-0.1%*
Sports net revenue	**609**	534	+14%	+10%	**312**	232	+34%	+18%	**198**	178	+11%	+3%	**79**	64	+24%	+10%	**1,198**	1,009	+19%	+11%
Gaming net revenue	**245**	214	+14%	+12%	**-**	-	-	-	**97**	88	+10%	+10%	**12**	7	+56%	+39%	**353**	309	+14%	+12%
Total net revenue	**853**	748	+14%	+11%	**312**	232	+34%	+18%	**295**	266	+11%	+6%	**91**	71	+28%	+13%	**1,551**	1,318	+18%	+11%
Regulated markets	**782**	676	+16%	+13%	**312**	232	+34%	+18%	**295**	266	+11%	+6%	**91**	71	+28%	+13%	**1,480**	1,246	+19%	+12%
Unregulated markets	**71**	73	-2%	-11%	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**71**	73	-2%	-11%
Total net revenue	**853**	748	+14%	+11%	**312**	232	+34%	+18%	**295**	266	+11%	+6%	**91**	71	+28%	+13%	**1,551**	1,318	+18%	+11%
Cost of sales	**(193)**	(178)	+8%	+5%	**(80)**	(58)	+38%	+20%	**(63)**	(58)	+7%	+4%	**(21)**	(16)	+34%	+18%	**(357)**	(311)	+15%	+9%
Gross Profit	**661**	570	+16%	+12%	**231**	174	+33%	+17%	**233**	208	+12%	+6%	**70**	55	+26%	+11%	**1,194**	1,007	+19%	+12%
Sales & marketing	**(195)**	(159)	+23%	+19%	**(72)**	(51)	+41%	+28%	**(7)**	(6)	+9%	+3%	**(18)**	(15)	+24%	+14%	**(293)**	(231)	+27%	+21%
Product & technology	**(111)**	(117)	-6%	-13%	**(24)**	(19)	+24%	+11%	**(6)**	(5)	+10%	+5%	**(8)**	(5)	+56%	+44%	**(148)**	(147)	+1%	-7%
Operations	**(65)**	(66)	-2%	-8%	**(41)**	(34)	+22%	+4%	**(158)**	(145)	+9%	+5%	**(31)**	(26)	+21%	+6%	**(296)**	(271)	+9%	+1%
Unallocated central costs																	**(58)**	(62)	-8%	-14%
Operating costs	**(371)**	(343)	+8%	+3%	**(137)**	(104)	+32%	+17%	**(170)**	(156)	+9%	+5%	**(57)**	(45)	+26%	+12%	**(794)**	(711)	+12%	+4%
Underlying EBITDA	**289**	227	+27%	+28%	**94**	70	+35%	+18%	**62**	52	+21%	+10%	**12**	10	+25%	+6%	**400**	296	+35%	+31%
Depreciation & amortisation	**(34)**	(36)	-6%	-13%	**(10)**	(9)	+11%	-2%	**(18)**	(15)	+16%	+10%	**(9)**	(7)	+20%	+5%	**(70)**	(67)	+4%	-5%
Underlying operating profit	**255**	191	+34%	+36%	**84**	61	+38%	+21%	**45**	36	+23%	+10%	**4**	3	+39%	+9%	**330**	229	+44%	+42%
Separately disclosed items																	**(318)**	(9)	n/a	n/a
Operating profit																	**12**	219	-94%	-95%

[1] Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2015 at 2016 exchange rates

Notes:

- Sportsbook stakes includes amounts staked via SSBTs and excludes the exchange, gaming, US advance deposit wagering and business-to-business activities.
- Sportsbook net revenue % is calculated after deduction of costs for customer promotions and bonuses.
- Sports net revenue includes sportsbook net revenues, exchange and US advance deposit wagering commissions and revenues from business-to-business activities.
- 'Online' segment includes UK/Ireland telephone business.
- Regulated markets currently include UK, Australia, Ireland, US, Italy, Bulgaria, Denmark, Gibraltar, Malta, Romania, Spain and business-to-business activities.
- Cost of sales primarily comprises betting and gaming taxes, customer payment transaction fees, software supplier costs, sporting levies and other data rights charges.
- Sales & marketing costs include all marketing costs including affiliate commissions and people costs for employees working in marketing roles.

Half-yearly and quarterly divisional key performance indicators are available on our corporate website:
https://www.paddypowerbetfair.com/investor-relations/results-centre/2017

Financial Review (continued)

Appendix 2: Reconciliation of Proforma results to Statutory results

The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016, with the merger accounted for as an acquisition of Betfair by Paddy Power on that date (the "Merger"). The Statutory results reflect this accounting treatment. Proforma results for the Group are prepared as if Paddy Power and Betfair had always been merged and are included in these results, as they best depict the underlying performance of the Group. The difference between the Statutory results and Proforma results is the results of Betfair in the period prior to completion as per the table below.

£m	Proforma results		Betfair results pre-merger completion		Statutory results	
	2016	2015	**2016**	2015	**2016**	2015
Revenue	**1,551**	1,318	**50**	524	**1,501**	794
Cost of sales	**(357)**	(311)	**(11)**	(120)	**(347)**	(191)
Gross Profit	**1,194**	1,007	**39**	404	**1,154**	603
Operating costs	**(794)**	(711)	**(26)**	(279)	**(767)**	(432)
Underlying EBITDA	**400**	296	**13**	125	**387**	171
Depreciation & amortisation	**(70)**	(67)	**(2)**	(29)	**(68)**	(38)
Underlying operating profit	**330**	229	**11**	96	**319**	132
Net interest expense	**(4)**	(2)	**-**	(2)	**(4)**	(1)
Underlying profit before tax	**327**	226	**11**	94	**316**	132
Underlying taxation	**(51)**	(35)	**(2)**	(15)	**(49)**	(20)
Underlying profit for the year	**276**	191	**9**	79	**267**	112
Underlying basic earnings per share (pence)[1]	**330.9**	229.8	**n/a**	n/a	**n/a**	n/a
Underlying operating profit	**330**	229	**11**	96	**319**	132
Separately disclosed items	**(318)**	(9)	**(14)**	(2)	**(304)**	(7)
Operating profit / (loss)	**12**	219	**(3)**	94	**15**	125
Net interest expense	**(4)**	(2)	**-**	(2)	**(4)**	(1)
Profit / (loss) before tax	**8**	217	**(3)**	93	**12**	124
Taxation	**(19)**	(32)	**(2)**	(16)	**(18)**	(16)
(Loss) / profit for the year	**(11)**	185	**(5)**	77	**(6)**	108
Basic (loss) / earnings per share (pence)[1]	**(12.8)**	223.0	**n/a**	n/a	**(7.2)**	239.9
Revenue by operating segment						
Online	**853**	748	**44**	452	**809**	296
Australia	**312**	232	**-**	-	**312**	232
Retail	**295**	266	**-**	-	**295**	266
US	**91**	71	**6**	71	**85**	-
Gross Profit by operating segment						
Online	**661**	570	**35**	349	**626**	221
Australia	**231**	174	**-**	-	**231**	174
Retail	**233**	208	**-**	-	**233**	208
US	**70**	55	**5**	55	**65**	-

1. In the Proforma results, in 2016 the weighted average number of shares is taken for the period from Merger completion, 2 February 2016, to the end of the year, 31 December 2016 (83.4 million shares). For the 2015 Proforma results comparative the weighted average number of shares is taken as the number of shares on Merger completion, 2 February 2016, adjusted for shares held in treasury, shares held by the Paddy Power Betfair plc employee benefit trust ("EBT") and unexercised vested share options (83.2 million shares).

EBITDA is defined as profit for the period before depreciation and amortisation, financial income, financial expense and tax expense/credit. The Group uses EBITDA, Underlying EBITDA and Underlying operating profit to comment on its financial performance. These measures are used internally to evaluate performance, to establish strategic goals and to allocate resources. The Directors also consider that these are commonly reported and widely used by investors as an indicator of operating performance and ability to incur and service debt, and as a valuation metric. These are non-GAAP financial measures and are not prepared in accordance with IFRS and, as not uniformly defined terms, these may not be comparable with measures used by other companies to the extent they do not follow the same methodology used by the Group. Non-GAAP measures should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. All of the adjustments shown have been taken from the audited Financial Statements.

Appendix 3: Reconciliation of Proforma cash flow to Statutory cash flow

The Merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016, with the Merger accounted for as an acquisition of Betfair by Paddy Power on that date. The Statutory cash flow reflects this accounting treatment. The Proforma cash flow for the Group is prepared as if Paddy Power and Betfair had always been merged and is included in these results, as it best depicts the underlying performance of the Group. The difference between the Statutory cash flow and Proforma cash flow is the cash flow of Betfair in the period prior to completion and the inclusion of deposits and borrowings to determine a net cash position, as per the table below.

£m	Proforma cash flow		Adjustment to exclude Betfair pre-merger completion cash flow		Adjustment to include deposits, borrowings & movement to restricted cash		Reported cash flow	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Underlying EBITDA [1]	**400**	296	(13)	(125)	**-**	-	**387**	171
Capex (including retail & HRTV acquisitions) [2]	**(85)**	(92)	**1**	45	**-**	-	**(84)**	(47)
Working capital & tax [3]	**(63)**	32	**141**	(7)	**(8)**	-	**70**	25
Underlying free cash flow	**252**	236	**129**	(87)	**(8)**	-	**373**	149
Cash flow from separately disclosed items	**(104)**	(9)	**-**	2	**-**	-	**(104)**	(7)
Free cash flow	**148**	227	**129**	(85)	**(8)**	-	**269**	142
Dividends paid	**(179)**	(88)	**14**	33	**-**	-	**(165)**	(55)
Return of capital (including fees)	**-**	(484)	**-**	201	**-**	-	**-**	(283)
Interest & other borrowing costs [4]	**(2)**	(1)	**-**	(1)	**-**	-	**(2)**	(2)
Other [5]	**2**	(11)	**-**	(6)	**-**	-	**2**	(17)
Transfers from financial assets - deposits	**-**	-	**-**	-	**-**	15	**-**	15
Net amounts drawn down on borrowings	**-**	-	**-**	-	**44**	140	**44**	140
Net (decrease) / increase in cash	**(31)**	(357)	**143**	142	**36**	155	**148**	(60)
Net cash at start of the year	**84**	453	**(141)**	(284)	**143**	(16)	**86**	153
Movement to restricted cash	**(8)**	-	**-**	-	**8**	-	**-**	-
Foreign currency exchange translation	**(9)**	(12)	**(2)**	1	**27**	4	**16**	(7)
Net cash at year end	**36**	84	**-**	(141)	**214**	143	**250**	86

1. Underlying EBITDA includes the following line items in the statutory cash flow: (Loss) / profit for the year, separately disclosed items, tax expense before separately disclosed items, financial income, financial expense, and depreciation and amortisation before separately disclosed items.
2. Capex (including retail & HRTV acquisitions) includes loss on disposal of PPE and intangible assets, purchase of property, plant and equipment, purchase of intangible assets, purchase of retail businesses (net of cash acquired), capitalised internal development expenditure, payment of contingent deferred consideration and proceeds from disposal of property, plant and equipment and intangible assets.
3. Working capital & tax includes (increase) / decrease in trade and other receivables, (decrease) / increase in trade, other payables and provisions, taxes paid, cash acquired from merger with Betfair, employee equity-settled share-based payments expense before separately disclosed items, and foreign currency exchange gain. Note the 2016 adjustment to exclude Betfair pre-Merger completion cash flow includes £147.5m of Betfair cash acquired on completion.
4. Interest & other borrowing costs includes interest paid, interest received and fees in respect of borrowings facility.
5. Other includes proceeds from the issue of new shares and the purchase of shares by the EBT.

Understanding and Managing our Principal Risks

Risk Governance and Responsibilities

The Board's responsibility:

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

The Audit Committee's responsibility:

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

The Risk Committee responsibilities:

- ensuring management and the lines of defence are performing their roles in managing risk;
- ensuring the Group Risk Register is properly maintained;
- ensuring material risks are being properly addressed; and
- ensuring emerging risks are identified, measured and monitored.

The Executive Committee responsibilities:

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

Risk Management Process

1.

Identify risks

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

2.

Assess and quantify risks

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

Risk categories used: Strategic, Financial, Commercial, Technology, Legal and Regulatory and Reputational.

3.

Develop action plans to manage and mitigate risk

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

4.

Monitor and reassess risk post mitigation and report

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

Lines of Defence and Responsibilities

The Group risk management framework is the 'three lines of defence' model which is set out as follows:

The Board

Executive Committee

First Line

Business Operation:
Management

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

Risk Committee

Second Line

Oversight functions:
Finance, HR, Legal, Compliance, Information & Security and Risk Management

- Establish Group policies and procedures within risk appetite
- Provide guidance and direction for their implementation
- Monitor the appropriate execution and application of policies and procedures

Audit Committee

Third Line

Independent assurance:
Internal/External Audit

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

The Board
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Risk Committee Report
page 82

Audit Committee Report
page 75

Understanding and Managing our Principal Risks (continued)

Our principal risks and potential impact

Identifying our principal risks

In 2016, a detailed review of risks was undertaken throughout the Group to ensure that all potentially material risks were identified, owners agreed and management/mitigation plans established accordingly.

The principal risks and uncertainties which are considered to have a material impact on the Group's long-term performance and achievement of strategy are set out on the following pages. External and internal risk factors are considered. As part of this we specifically considered the implications of Brexit and do not consider this to be a material risk to the business but we will keep this under review.

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

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

- Increased risk
- No change in risk
- Decreased risk

Impact: Impact on the business if the risk materialises

Likelihood: Likelihood of occurence of the risk in the next 3 years before taking into account mitigation activities by the business

Principal risk/uncertainty	Why we need to manage this	Impact / Likelihood	How we manage and mitigate the risk
Regulation and Licensing and Regulatory Compliance Risk category: • Commercial • Reputational • Legal and Regulatory • Financial	The regulatory, taxation consumer protection or legislative environment, including interpretations or practices, applicable to the Group's activities in the various markets in which it operates, including those markets where no regulatory framework exists, and the related risks from limitation of business activities or litigation by third parties can make it commercially challenging for us to operate or restrict our ability to grow the business. Breaches of regulations can damage reputations as well as lead to fines, investigation and affect future growth.	Impact: High Likelihood: High	We have dedicated internal and external Legal, Compliance and Tax teams with responsibility for advising business units in these matters and through appropriate policies, processes and controls. Our dedicated Regulatory and Compliance teams work with regulators and governments in relation to proportionate and reasonable regulation. Management report periodically to the Audit Committee and the Risk Committee on the application of various laws and regulations by the relevant jurisdiction to ensure they are appropriately understood and managed. The Group's internal and external auditors report the findings of their audit procedures to the Audit Committee on relevant compliance matters.

Principal risk/uncertainty	Why we need to manage this	Impact / Likelihood	How we manage and mitigate the risk
Data management and cyber security Risk category: • Technology • Legal and Regulatory • Reputational	The inability to adequately protect customer and other key data and information could result in formal investigations and / or possible litigation resulting in prosecution and damage to our brands.	Impact: High Likelihood: High	The Group has made significant investment in IT security resources and works with a variety of external security specialists to ensure security arrangements and systems are up-to-date with emerging threats. The Group's Information and Security team continuously assesses the risks and controls around security and IT operations. We have in place a number of data protection policies in order to protect the privacy rights of individuals in accordance with the relevant data protection legislation, including working towards ensuring compliance with the new EU-wide General Data Protection Regulation which comes into force in 2018. The Group's Legal and Compliance teams ensure that the business adheres to industry best practice standards and relevant laws of data protection and privacy.
Technology infrastructure, systems stability and availability Risk category: • Technology • Reputational • Commercial	Our operations are dependent on technology and advanced IT systems and any damage or failure to these could reduce revenue and harm our business reputation. Reduced availability of our products arising through software, infrastructure and system issues could result in a poor customer experience and may impact customer loyalty impacting our ability to grow the business.	Impact: High Likelihood: High	We continuously invest in a cost-effective technology platform to ensure stability and availability, to eliminate single points of failure and improve performance. Robust development and change management processes help reduce the risk of unplanned outages.
Business continuity planning and disaster recovery Risk category: • Technology • Commercial • Reputational	The ability of the Group to maintain, develop and avoid disruption to our key information technology systems is paramount. A significant outage or unavailability of any of our products can cause reduction in revenue and loss of customers. Delays in restoring services following an outage or incident could result in loss of customers and reputational damage.	Impact: High Likelihood: Low	We regularly review our Business Continuity Plans and our IT Disaster Recovery capability and have in place service level agreements with third parties. Where possible we have failover solutions available and seek to limit single points of failure.

Understanding and Managing our Principal Risks (continued)

Principal risk/uncertainty	Why we need to manage this	Impact / Likelihood	How we manage and mitigate the risk
Financial exposure and financial reporting Risk category: • Financial • Reputational	Instances of fraud, error or misstatement in financial reporting statements could have a material impact on the Group and be damaging to our reputation. The Merger transaction was a complex, significant and highly material transaction, which involved valuation, taxation and accounting expertise to complete. Appropriate accounting for this transaction is critical in ensuring the Financial Statements are free from material misstatement.	Impact: High Likelihood: Low	There are strong processes and controls in place to detect and prevent any attempted fraud or material financial errors. Both during and post-Merger, professional advice was sought from a variety of advisers to ensure appropriate actions were taken. The Board and Committees received various presentations from relevant teams to gain assurance that a robust process was undertaken. The External Auditor has performed appropriate procedures to conclude on the accuracy of the valuation, taxation and accountancy work and the appropriateness of the associated disclosures.
Competition/ Brand Risk category: • Strategic • Commercial • Financial	The intensity of competition in the Group's markets and the Group's ability to successfully compete can impact revenue or margins.	Impact: Medium Likelihood: High	The Group has a programme of brand investment and corporate communications to maintain and enhance its market position. The Group also monitors competitors and their promotional offers. Development of products with an emphasis on mobile products and innovative features and acquisition through marketing.
Reliance on third parties and key supplier relationships Risk category: • Commercial • Technology	We rely on third parties across our business. Managing relationships with and performance by key suppliers, particularly those supplying software platforms, payment processing and data to support the Group's products is key to the Group's strategic objectives.	Impact: Medium Likelihood: Medium	Where possible, we limit reliance on a single supplier to reduce potential single points of failure. The Group has strong commercial relationships with its key suppliers. Contracts and service level agreements are in place with third parties and are regularly reviewed. Proposed new contracts are passed through a procurement process to ensure adequate protection for the Group. The Group monitors the performance of third-party suppliers in order to ensure the efficiency and quality of contract performance.

Principal risk/uncertainty	Why we need to manage this	Impact / Likelihood	How we manage and mitigate the risk
Health and safety Risk category: • Commercial • Legal and Regulatory • Reputational • Financial	A major health and safety incident in our retail betting shops would have a material impact upon staff and could lead to significant reputational damage as well as fines and regulatory action.	Impact: Medium Likelihood: Low	There are processes in place to manage the risks in our retail betting shops including health and safety structures, single manning processes and loss prevention and security measures. There are a number of risk assessments conducted in shops at various stages of the lifecycle. In addition, a formal incident management process and follow up procedures reduce the likelihood of repeat issues.
Key employees recruitment and retention Risk category: • Strategic • Commercial	Continued success and growth is dependent on the performance of Executive Directors, senior management and key employees. Retention and recruitment of these individuals is a key component in securing the ability to grow and develop the business. The Group's ability to continue to attract, retain and motivate passionate and highly skilled employees post-Merger in an intensely competitive environment is key.	Impact: Medium Likelihood: Low	The Board reviews key positions through the Remuneration and Nomination Committees. The Executive Directors and key employees are part of medium or long term incentive plans, which reward performance and loyalty. All employees are subject to regular salary reviews, a comprehensive benefit package and are able to join (subject to local jurisdictional requirements) our employee save as you earn share scheme, which provides an opportunity for them to participate in the Group's performance. Our HR function actively manages succession planning and the processes that are in place throughout the business to identify key roles and conduct regular appraisals, succession and talent reviews, as well as career development opportunities.

Strategic Report
Governance
Financial Statements
Other Information

A strong corporate culture and shared values play an important part of making a success of integration, both at Board-level and throughout the organisation.

Gary McGann
Chairman

Governance

Corporate Governance Report: Chairman's Statement

Dear Shareholder

The Merger created one of the world's leading sports betting and gaming operators and led to a year of significant change for the combined business. A strong corporate culture and shared values play an important part of making a success of integration, both at Board-level and throughout the organisation. This has been a priority for the Board in 2016 and the evolution of our corporate culture and the actions we are taking to embed that culture within the organisation are set out in greater detail on pages 36 to 39.

In seeking to build a business that can deliver long-term sustainable success, and particularly at a time of considerable change, the Board considers strong leadership and effective governance to be paramount. This Corporate Governance Report describes how the Board functions and the approach we are taking to ensure effective governance and oversight of the business. The Group's prospects also depend upon successfully meeting the challenges posed by operating in a highly dynamic regulatory environment globally.

Board Composition and Effectiveness
During the Merger, we undertook a full review of the Board and each of its Committees, including their remit and composition, to ensure that they comprised broad and diverse expertise and experience corresponding to the needs of the business. The current composition of the Board is set out on pages 64 and 65, which also includes the skills and expertise that each Director brings.

On completion of the Merger, Cormac McCarthy, Tom Grace and Ulric Jerome resigned as Directors. Andy McCue, who took on the role of Chief Operating Officer, subsequently left the business on 30 April 2016 and Stewart Kenny retired as a Non-Executive Director on 24 August 2016. On behalf of the Board, I would like to thank each of them for their invaluable contributions. I would particularly like to thank Stewart Kenny for his great service and support of the Company over many years in a variety of critical roles.

To ensure we have a Board which is functioning effectively, we commissioned an independent external evaluation of the Board and its Committees during 2016 (see page 72). This evaluation confirmed that the Board and its Committees were operating effectively and that each Director continues to bring relevant knowledge, diversity of perspective, an ability and willingness to challenge group thinking and a strong commitment to the role.

Building on that evaluation, as part of our Board succession planning process and a commitment to ongoing refreshment and renewal, we also undertook an internal review of the composition of the Board and its Committees. Led by Ian Dyson, our Senior Independent Director, and myself, this review was discussed by the **Nomination Committee** at a meeting at which the

Structure of this Corporate Governance Report
Our Corporate Governance Report, together with each Board Committee's Report (including the Directors' Remuneration Report) and the Directors' Report, sets out our approach to governance.

Our Board and Committee governance structure

Board
page 64

Audit Committee	Nomination Committee	Remuneration Committee	Risk Committee
page 75	page 73	page 84	page 82

entire Board was present. Given the Board changes during 2016 and proactively thinking about succession planning, we began the search for a new Non-Executive Director to appoint to the Board in 2017.

On 1 March 2017, we announced that Danuta Gray will be stepping down from the Board following the AGM on 17 May 2017 and therefore will not be seeking re-election as a Director. I would like to thank her for her great contribution to the Board and Company over a significant period of its evolution.

Board Committees

Our corporate reputation is an important element of delivering on our Vision of being a world-class betting and gaming business trusted by our customers, colleagues and partners. Accordingly, we felt it was appropriate to expand the remit of the **Risk Committee** to focus on the reputational impact of the Group's activities and how these are being managed and supporting, alongside the **Audit Committee**, the Board in monitoring the Group's risk management processes for assurance that these are appropriate and in line with the risk appetite for the Group. This also provided Board-level responsibility for corporate social responsibility (see page 33).

The Board has overall responsibility for ensuring that we have in place appropriate systems of risk management and internal controls. It has delegated the review of the adequacy and effectiveness of these systems to the Audit Committee and the Risk Committee. Given the joint responsibility of both Committees in relation to oversight of our risk management systems, they together review this during the year and specifically consider the overall risk environment at a joint meeting. The Group's Risk Register is also formally considered at that joint meeting. Information on understanding and managing our principal risks can be found on pages 54 to 59.

The Board, through the **Remuneration Committee**, regularly monitors the Group's remuneration practices in light of market trends and developments and shareholders' evolving pay principles.

Statement of Compliance
As a dual listed company with a premium listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange, on behalf of the Board, I am pleased to confirm that we have fully complied with both the UK Corporate Governance Code 2014 (the "UK Code") and the Irish Corporate Governance Annex (the "Irish Annex") for the year ended 31 December 2016. The UK Code is available from the Financial Reporting Council's website (www.frc.org.uk) and the Irish Annex is available from the Irish Stock Exchange's website (www.ise.ie).

Fair, balanced and understandable
The Board believes that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Audit Committee assisted with this assessment as explained on page 78.

Objectives for 2017

The Board's objectives for 2017 are to continue to ensure that the focus and composition of the Board evolve to support effective governance and oversight of the business, the continuous review and execution of our strategy, and balancing and managing risk in the best interests of our shareholders, and in turn, all stakeholders.

We look forward to meeting shareholders at our Annual General Meeting which will be held on 17 May 2017 at 11.00am at our offices in Clonskeagh, Dublin.

Gary McGann
Chairman
7 March 2017

Board of Directors
Leadership

Gary McGann (age 66)
Chairman

Appointed to this position: 1 July 2015 (Became a Non-Executive Director on 24 November 2014)

Skills and experience:
Gary was Group Chief Executive of Smurfit Kappa Group PLC from 2002 until he retired in September 2015. He joined the Smurfit Kappa Group in 1998 as Chief Financial Officer and also served as President and Chief Operations Officer. He has held a number of senior positions in the private and public sectors over the past 20 years, including Chief Executive of Gilbeys of Ireland and Aer Lingus Group. He holds BA (UCD) and MSc Management (Trinity) degrees and is a Fellow of the Association of Chartered Certified Accountants.

Other current appointments:
Chairman of Aryzta AG and Non-Executive Director of Smurfit Kappa Group PLC*, Green Reit plc and Multi Packaging Solutions International Limited

*Gary will step down following their annual general meeting on 5 May 2017

Breon Corcoran (age 45)
Chief Executive Officer

Appointed to this position: 2 February 2016 (Chief Executive Officer of Betfair Group plc: August 2012)

Skills and experience:
Prior to being Chief Executive Officer of Betfair Group plc, Breon held a number of positions at Paddy Power plc including Chief Operating Officer, Managing Director for Non Retail & Development and also Commercial Director. Before joining Paddy Power plc, Breon worked at JP Morgan and Bankers Trust. Breon holds an MBA (INSEAD) and is a graduate of Trinity College, Dublin.

Other current appointments:
Non-Executive Director of Tilney Group

Alex Gersh (age 53)
Chief Financial Officer

Appointed to this position: 2 February 2016 (Chief Financial Officer of Betfair Group plc: December 2012)

Skills and experience:
Alex has extensive experience of working in highly competitive, international businesses. Prior to being Chief Financial Officer of Betfair Group plc, he had been Chief Financial Officer at NDS Group, Flag Telecom and BT Cellnet. Alex's early career was spent with Ernst & Young. He is a qualified Certified Public Accountant.

Other current appointments: None

Ian Dyson (age 54)
Senior Independent Director

Appointed to this position: 2 February 2016 (Non-Executive Director of Betfair Group plc: February 2010)

Skills and experience:
Ian was formerly a Non-Executive Director of Punch Taverns plc, having previously been Chief Executive. Previous positions held by Ian include Finance & Operations Director at Marks and Spencer Group plc, Finance Director at The Rank Group plc, Group Financial Controller of Hilton Group plc and Finance Director at Le Meridien. His early career was spent with Arthur Andersen, where he became a Partner at the firm in 1994. He is a qualified chartered accountant.

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

Zillah Byng-Thorne (age 42)
Independent Non-Executive Director

Appointed to this position: 2 February 2016 (Non-Executive Director of Betfair Group plc: September 2013)

Skills and experience:
Zillah is the Chief Executive of Future plc and prior to this was Chief Financial Officer of Trader Media Group, Fitness First Group Ltd and Thresher Group. Zillah previously held Non-Executive Director positions with Mecom plc and Gondola Holdings plc. She is a qualified accountant and has an MA in Management Studies and an MSc in Behavioural Change.

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

Committee Membership | Committee Chairman | A Audit Committee | N Nomination Committee | R Remuneration Committee | RC Risk Committee

Michael Cawley (age 62)
Independent Non-Executive Director

Appointed to this position: 17 July 2013

Skills and experience:
Michael previously held a number of senior positions at Ryanair; Deputy Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Commercial Director. Prior to that, Michael was Group Finance Director of Gowan Group Limited. Michael holds a Bachelor of Commerce degree and is a fellow of the Institute of Chartered Accountants in Ireland.

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

Danuta Gray (age 58)
Independent Non-Executive Director

Appointed to this position: 17 January 2013

Skills and experience:
Danuta was Chairman of Telefónica O2 in Ireland until December 2012, having previously been its Chief Executive from 2001 to 2010. Prior to that, she was Senior Vice President of BT Europe in Germany and, previous to that, was General Manager at BT Mobile in the UK. She holds an B.Sc. in Biophysics, an M.Sc. and an MBA.

Other current appointments:
Non-Executive Director and Remuneration Committee Chair of Old Mutual plc and PageGroup plc, Senior Independent Director of Aldermore Bank PLC and Non-Executive Director of Direct Line Insurance Group plc

Peter Jackson (age 41)
Independent Non-Executive Director

Appointed to this position: 2 February 2016 (Non-Executive Director of Betfair Group plc: April 2013)

Skills and experience:
Peter is Chief Executive Officer of Worldpay UK, an operating division of Worldpay Group plc. He was formerly Head of Global Innovation at Banco Santander and a Director of Santander UK Group Holdings plc and prior to this, Chief Executive Officer of Travelex Group. He previously held senior positions at Lloyds and Halifax Bank of Scotland, and McKinsey & Company. He holds an MEng from the University of Cambridge.

Other current appointments:
Chief Executive Officer of Worldpay UK

Pádraig Ó Ríordáin (age 51)
Independent Non-Executive Director

Appointed to this position: 8 July 2008

Skills and experience:
Pádraig is a Corporate Partner at Arthur Cox, an Irish law firm, where he served as Managing Partner from 2003 to 2011. In 2009, he was named European Managing Partner of the Year and received the Lifetime Achievement Award from the Managing Partners' Forum in 2012. He studied Law at University College Cork and Harvard Law School and has practiced in New York and Dublin.

Other current appointments:
Chairman of the DAA plc

Peter Rigby (age 61)
Independent Non-Executive Director

Appointed to this position: 2 February 2016 (Non-Executive Director of Betfair Group plc: April 2014)

Skills and experience:
Peter was previously Chief Executive (from 1988 to 2013) and Finance Director (from 1983 to 1988) of Informa Plc. He previously held the role of Finance Director for Stonehart Publications. He holds a BA in Economics from Manchester University, and is a qualified accountant.

Other current appointments:
Chairman of MVF

Leadership

Roles

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

Chairman: Gary McGann

- Responsible for the leadership and effectiveness of the Board, including overseeing corporate governance matters and the evaluation of the Board, its Committees and the Directors
- Ensures the Board leads the Group's culture
- Sets and manages the Board's agenda ensuring that Directors receive timely, accurate and clear information on the Group's business and that they are fully informed of relevant matters thereby promoting effective and constructive debate and supporting a sound decision-making process
- Oversees the Board's consideration of the Group's strategy and the strategic issues facing the Group
- Responsible for ensuring that the appropriate leadership team is in place
- Ensures that adequate time is available for discussion and consideration of the Group's principal risks and management of these
- Ensures that there is effective shareholder engagement
- On appointment, as both a Non-Executive Director in November 2014 and Chairman in July 2015, Gary was considered to be independent

Chief Executive Officer: Breon Corcoran

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

Chief Financial Officer: Alex Gersh

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

Senior Independent Director: Ian Dyson

- Available to liaise with shareholders in exceptional circumstances when they have concerns that have not been addressed by the Chairman
- Leads the annual performance review of the Chairman with the other Non-Executive Directors
- Provides advice and support to the Chairman, and serves as an intermediary for other Directors as necessary
- Ian is also Chairman of the Nomination Committee

Non-Executive Directors

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

Company Secretary: Edward Traynor

- Ensures a good flow of timely information to the Board and its Committees and between senior management and the Non-Executive Directors
- Facilitates all new Director inductions tailored to individual requirements and Directors' ongoing training
- Advises the Board on legal and governance matters and ensures compliance with Board procedures
- Coordinates the performance evaluation of the Board
- Edward is also the Group General Counsel and was appointed to this position in May 2015

The Board

The Board is responsible for the Group's strategic direction, long-term objectives and development. It approves strategic plans and annual budgets and ensures that the necessary financial and human resources are in place for the Group to meet its objectives. It also maintains an oversight of the Group's operations, financial performance and governance, ensures we have in place a robust system of internal controls and risk management, and oversees our compliance with statutory and regulatory operations. The Board is also responsible for ensuring that the Group has the necessary leadership team in place to efficiently execute the Group's strategy.

Board Committees

The Board has four principal Board Committees, to which it has delegated certain responsibilities; the Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee. The membership, role and activities undertaken in 2016 by each of these Committees is described in each of their individual Committee Reports. Each Committee formally reports to the Board following their meetings and makes any recommendations to the Board in line with their Terms of Reference.

Our management committees

Executive Committee: Day-to-day management of the business and operations is delegated to the Chief Executive Officer and the Executive Committee.

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

Following the Merger, a review of the Matters Reserved for the Board and the Terms of Reference for each of the Committees was undertaken to update these in line with best practice and changes to legislation and regulation. This is subject to annual review with the most recent review completed in December 2016.

The Board's formal schedule of matters which are reserved for its decision and the Terms of Reference of each Board Committee can be found at: *www.paddypowerbetfair.com/investor-relations*

2016 Board meetings

Being the inaugural year post-Merger of a newly formed Board, 11 meetings were scheduled for 2016 (one of these was pre-Merger), including a Board visit to Sportsbet's operations in Australia. Any absenteeism for meetings in 2016 was either due to prior commitments in place pre-Merger or, in the case of ad-hoc Board calls which were scheduled at short notice, prior engagements. All Board and Committee members were provided with papers in advance of each meeting and each Director ensured that they had reviewed them and provided comments to the Chairman or the relevant Committee Chairman ahead of the meeting for which they were unable to attend.

Directors	Date appointed to the Board	Meetings Attended/ Eligible to attend	Board Call Attended/ Eligible to attend
Gary McGann	24 November 2014 (Chairman since 1 July 2015)	11/11	3/3
Breon Corcoran[1]	2 February 2016	10/10	3/3
Alex Gersh[1]	2 February 2016	10/10	3/3
Zillah Byng-Thorne[1]	2 February 2016	10/10	2/3
Michael Cawley	17 July 2013	11/11	2/3
Ian Dyson[1]	2 February 2016	9/10	2/3
Danuta Gray	17 January 2013	11/11	2/3
Peter Jackson[1]	2 February 2016	10/10	2/3
Pádraig Ó Ríordáin	8 July 2008	11/11	2/3
Peter Rigby[1]	2 February 2016	9/10	3/3
Previous Directors			
Tom Grace[2]	n/a	1/1	-
Ulric Jerome[2]	n/a	1/1	-
Stewart Kenny[3]	n/a	7/7	3/3
Cormac McCarthy[2]	n/a	1/1	-
Andy McCue[4]	n/a	3/4	-

1. Directors were appointed to the Board on completion of the Merger on 2 February 2016 and were previously Directors of Betfair Group plc (see biographies on pages 64 and 65 for dates of appointment to Betfair Group plc).
2. Tom Grace, Ulric Jerome (both Non-Executive Directors) and Cormac McCarthy (Chief Financial Officer) resigned from the Board (and any relevant Board Committees) on completion of the Merger on 2 February 2016.
3. Stewart Kenny retired from the Board (and the Nomination and Risk Committees) on 24 August 2016.
4. Andy McCue resigned from the Board on 30 April 2016.

Leadership

The Board's focus at its 2016 meetings

At each scheduled Board meeting, the Board reviews reports received from the Chief Executive Officer, which include trading updates, responsible gambling and regulatory initiatives and competitor analysis; from the Chief Financial Officer, which include investor relations updates; and from the Company Secretary, which include legal and governance-related matters. In addition, the Board receives updates from the Chairmen of each of the Committees following their respective meetings (copies of each Committee's minutes are also circulated to all members of the Board). Insight into some of the areas considered is provided below.

Strategy, culture and delivery

Throughout the year, the Board received presentations on various functions and business areas by members of the Executive Committee and other senior management, including actions, progress and risks in relation to post-Merger integration and strategic priorities. This included being updated on the progress of embedding the Group's evolved culture and alignment to our Purpose, Vision and Values throughout the organisation. The Group's strategic opportunities and challenges were also considered at a Board offsite meeting.

The Board also discussed the Group's capital structure, including our dividend policy and shareholder returns. The interim and final dividends declared for 2016 were specifically reviewed in the context of the Company's distributable reserves (further detailed in Note 13 to the Company Financial Statements on page 210).

Board's visit to Australia

In September 2016, the Board visited Sportsbet's offices in Australia to gain a better insight into the business and the Australian marketplace. The Board was provided with an understanding of the opportunities and challenges in Australia, particularly in relation to new regulation, the market and our key competitor activity in the region. It also afforded the Board an opportunity to meet the whole management team as well as employees at all levels. Furthermore, the Board spent time visiting competitor retail and land-based casino operations in Australia as well as sitting in on focus groups to observe customers' views on the Sportsbet brand and our products as compared to those of our competitors.

Responsible gambling

The Board places responsible gambling at the forefront of its governance and long-term strategic agenda. It believes that responding appropriately to this challenge is imperative for the Group and that if the Group were to fail to act responsibly, its long-term sustainability would be put in jeopardy due to the potential impact on our relationships with customers, employees, regulators, governments and society, as a whole. Therefore, the Board receives an update on, and discusses, responsible gambling matters and initiatives in this area (see page 32) at each Board meeting. In addition, the area of responsible gambling is a key remit of the Risk Committee. This approach ensures that this important issue is given sufficient oversight at Board-level. Employees throughout the organisation are made aware of the importance of acting appropriately in this area and this also underpins our Vision to be a world-class trusted betting and gaming business and is therefore an important factor in the performance reviews of employees.

Internal controls and risk management

An essential part of the Board's remit in promoting the long-term success of the Group is to ensure that there is a robust system of internal controls and risk management. Whilst the Board is ultimately responsible, it has delegated the review of this to the Audit Committee (see page 75) and the Risk Committee (see page 82), which regularly report to the Board. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten the reputation, business model, future performance, solvency or liquidity of the business. How we manage our principal risks and uncertainties is detailed on pages 54 to 59.

As part of this, the Board specifically considered the impact on the business of Brexit (both before and after the referendum) and does not consider it to be a material risk to the Group. The Board continues to monitor developments in this area and, as necessary, review the impact of these on the business.

The status of the Company as a going concern and our viability statement is set out on page 114.

Throughout the year, following Board meetings, the Non-Executive Directors met without the Executive Directors present. They also met with the Chief Executive Officer on his own. The Senior Independent Director met with the other Non-Executive Directors without the Chairman being present, in particular to consider the Chairman's performance (see page 72). If any Director had unresolved concerns about the running of the Group or a proposed action, these are recorded in the minutes of the meeting. There were no such occasions in 2016.

Relations with Shareholders
Engagement

Board engagement with shareholders

The Board is responsible for ensuring a satisfactory dialogue takes place with the shareholders of the Company to promote mutual understanding of the Company's objectives. Directors are kept informed of the views of the shareholders by the Chief Executive Officer and the Chief Financial Officer who brief the Board following investor engagement and on information provided by the Company's brokers. Analyst research on the Company is also made available to Directors. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to meet institutional investors on request. Following the investor meetings held during 2016 with the Chairman and Chairman of the Remuneration Committee, as described on the right, the Board was provided with a full debrief.

Our 2017 AGM will be held on Wednesday, 17 May 2017 at the Company's headquarters at Belfield Office Park, Clonskeagh, Dublin, Ireland.

The Notice of Meeting will be sent to shareholders and is available at *www.paddypowerbetfair.com/investor-relations*

All stakeholders, including shareholders, can find further details on the Group and our business on our website: *www.paddypowerbetfair.com*

Shareholder engagement during 2016

In 2016, we engaged with shareholders in a number of ways, including:

- full-year (in March) and half-year (in August) formal reporting and trading updates (in May and November);
- telephone conferences/presentations by the Chief Executive Officer to institutional investors, analysts and the media following the full and half year results and the first and third quarter trading updates;
- at the AGM in May - the Chairman ensures that, save in exceptional circumstances, all Board Directors attend the AGM and are available to answer questions from shareholders. All Directors attended the AGM in 2016;
- a full programme of engagement with shareholders, potential shareholders and analysts, in the UK and overseas, was undertaken throughout the year by the Investor Relations team and the Executive Directors; and
- the Chairman and the Chairman of the Remuneration Committee met with major shareholders, representing over 40% of the Company's issued share capital, and two proxy advisory agencies (ISS and Glass Lewis) throughout the year to discuss governance topics including, remuneration matters, in light of the voting outcome at our AGM 2016 (see page 85).

The key financial dates for 2017 can be found on page 223.

Effectiveness

The size and composition of the Board and its Committees is regularly reviewed by the Board and the Nomination Committee for the appropriate balance of skills, experience, independence and knowledge to ensure that they can carry out their duties and responsibilities effectively. Experience on the Board covers a broad range of sectors including marketing, technology, digital, retail, finance and legal, as well as a significant amount of broader-based corporate leadership experience.

Balance of independence

- Non-Executive Chairman*
- Executive Directors: **2** (22%**)
- Independent Non-Executive Directors: **7** (78%**)

* Independent on appointment
** Excluding the Chairman

Length of tenure of Non-Executive Directors*

- 6-9 years: **2**
- 3-6 years: **4**
- 1-3 years: **2**

* We have based length of tenure from date of appointment to the Board of Paddy Power plc or Betfair Group plc (as applicable)

Board diversity

- Women: **20%** (2)
- Men: **80%** (8)

Tenure and Independence

The Board is committed to continually refreshing its membership and to ensuring it continues to comprise a majority of independent Non-Executive Directors who objectively challenge management. The Board and the Nomination Committee keep under continuous review the independence of all of our Non-Executive Directors, particularly taking account of tenure and the refreshment of the Board and its Committees. Following a detailed review, the Board, in agreement with the recommendation from the Nomination Committee, confirmed that all Non-Executive Directors continue to be considered to be independent in accordance with the UK Code. The Board is keen to strike a balance between continuity and succession, especially given the recent Merger and the various changes to the Board in 2016. Longer-serving Directors bring valuable experience. Working in conjunction with newer appointments, the Board has appropriate balance and continues to operate effectively.

Conflicts of interest

The Board has formal procedures in place for managing conflicts of interest, which includes an annual confirmation by all Directors. Directors are required to give advance notice of any conflict of interest issues to the Company Secretary and these are considered at the next Board meeting and also advised of at each meeting. In the case of a conflict, the relevant Director would be excluded from the quorum and vote in respect of any matters in which they have an interest.

Diversity

We aim to have a Board that is well-balanced and has the appropriate skills, knowledge, experience and diversity for the needs of the business. We are mindful of the 2015 Davies Review Five Year Summary and the Board is committed to working towards achieving our target of having at least 33% female Directors. All recommendations for appointments to the Board by the Nomination Committee are made on the basis of merit, measured against objective criteria considering the experience, skills, knowledge and insight of an individual but also with due regard for the benefits of diversity.

+ Board Diversity Policy: page 74

Diversity is valued throughout the Group, including at our senior management level (see pages 38 and 39). 27.9% of our senior management population (Executive Committee and their direct reports) were women as at 31 December 2016. In 2016, we were proud to have been recognised in the Hampton-Alexander Review as one of the Top 20 companies in the FTSE 100 for the proportion of females at senior management level.

Time commitment

On appointment, Directors are advised of, and required to make, the necessary time commitment to discharge their responsibilities effectively. No precise timings are given as this will vary from year-to-year depending on our activities. All Directors, are experienced board directors of public companies and have an understanding of the time and intellectual commitment that is necessary to fulfil their commitments to the Group.

The Chairman keeps under continual review the time each Non-Executive Director has dedicated to the Group. This was also considered as part of the external Board evaluation (see page 72). The Board recognises the UK Code's guidance and investors' expectations that Directors give sufficient time to discharge their responsibilities. Attendance at Board and Committee meetings (including ad-hoc ones) is considered to be a priority. In addition to the formal scheduled meetings there is significant other engagement by Directors. This includes private individual meetings with the Chairman, the Chief Executive Officer and other Directors, as necessary. As part of enhancing business knowledge and insight, Non-Executive Directors, in particular Committee Chairs, also had meetings with other members of senior management throughout the year. During 2016, the Board travelled to Australia (see page 68) and the Chairman also visited our offices in Cluj, Romania. In 2017, in addition to the Board and Committee meetings in Dublin, the Board will be travelling to the USA to visit our TVG operations.

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

The time commitment of the Chairman is kept under review by himself in conjunction with the Board. In December 2016, Gary was appointed Chairman of Aryzta AG. As part of ensuring he can dedicate the appropriate level of commitment to the Boards on which he sits, Gary undertook a review of all of his positions and committed to reducing his other public company directorships in advance of his re-election at the Group's 2017 AGM. Accordingly, he has decided that he will be stepping down from his role as a Non-Executive Director of Smurfit Kappa Group PLC following their annual general meeting on 5 May 2017.

Executive Directors may hold one other external non-executive directorship (but not a chairmanship) of a public listed company but must obtain the prior consent of the Chairman before accepting this. Executive Directors may retain the fees from any such directorship. This is considered helpful to broaden and deepen their skills, knowledge and experience. As set out on page 64, Breon Corcoran currently holds one other non-executive position.

Induction, development and advice

New Directors are provided with a full, formal and tailored induction. As this was the first year post-Merger, briefings from management were included as part of the Board and Committee meetings to develop and enhance the knowledge of all of our Directors as they were effectively appointed to a partially new business regardless of which legacy board they had been Directors of. Following observations from the Board evaluation, in finalising any induction for a new Director, the Company Secretary will work to ensure that the views of the Board are reflected in the induction programme. The Chairman and Company Secretary keep under review Directors' knowledge and understanding of the Group to fulfil their roles on the Board and its Committees. All Directors can request further information as they consider necessary to fulfil their role. As part of ongoing development, legal and regulatory updates are provided as necessary for the Board and its Committees, for example, in 2016, these included the EU Market Abuse Regulation and the EU General Data Protection Regulation.

Each Director may obtain independent professional advice at the Company's expense in the furtherance of their duties as a Director. In addition, each of the Committees are also able to seek independent professional advice.

Throughout 2016, the Group had in place directors' and officers' liability insurance, which covered all Directors and Officers.

Effectiveness

Board evaluation

We recognise the importance of evaluating the performance of the Board, its main Committees and its Directors, in line with the UK Code recommendations. In 2016, although the Board had been together for less than a year, we undertook an independent external evaluation of the Board and its Committees with the objective of seeking to ensure that we have a truly effective Board in place, which adds real value to the Group. We engaged ICSA Board Evaluation ("ICSA") to carry out this evaluation. ICSA does not have any other connection with the business.

Process

The process involved an evaluation of the following key topics for the Board and its Committees: responsibilities; oversight; meetings; support; composition; working together; and outcome and achievements. ICSA reported on recommended actions which were then considered and adopted by the Board. Its report also set out an evaluation for each Committee. The evaluation concluded that the Board and each of its Committees were effective and worked well together, giving due discussion to areas within their remit. All Board members are considered to be making an effective contribution to their roles, bringing relevant knowledge, diversity of perspective, and an ability and willingness to challenge and each retains a strong commitment to the role.

Directors' performance evaluations

Throughout the year, the Chairman keeps under review the performance of all Non-Executive Directors, providing continual feedback as appropriate. The Senior Independent Director in 2016 formally facilitated a review of the Chairman's performance with the other Non-Executive Directors. The Chairman and the Non-Executive Directors appraise the Chief Executive Officer's performance. The Chief Executive Officer evaluates the other Executive Directors with feedback from the other Board members as necessary.

In accordance with the recommendations of the UK Code, we require all Directors seeking re-election to retire and seek re-election at every AGM. Accordingly, all Directors will retire and, with the exception of Danuta Gray, seek re-election at our 2017 AGM. The Board believes that all Directors offering themselves for re-election continue to be effective and demonstrate commitment to the role.

Directors' biographies: pages 64 and 65

Nomination Committee Report
Leadership & Effectiveness

As the Chairman of the Nomination Committee (the "Committee") effective as of the Merger, I am pleased to introduce the Committee's report, which details our role and the work we have undertaken during the year.

Committee members and meeting attendance

The current composition of the Committee comprises only independent Non-Executive Directors as members. The Chairman, who is also a member, was independent on appointment as Chairman of the Board.

Members[1]	Date appointed to the Committee	Attended/Eligible to attend
Ian Dyson (Committee Chairman)	February 2016	2/2
Zillah Byng-Thorne	February 2016	2/2
Gary McGann	July 2015	2/2
Pádraig Ó Ríordáin	December 2016	1/1
Previous members		
Stewart Kenny[2]	n/a	1/1

1. On 2 February 2016, Tom Grace, Ulric Jerome, Pádraig Ó Ríordáin and Danuta Gray resigned as members of the Committee. No meetings were held from 1 January to 2 February 2016.
2. Stewart Kenny retired from the Committee on 24 August 2016.

Other attendees: Other Board Directors, including the Chief Executive Officer and Committee Chairs, are invited to attend meetings as appropriate in order to provide relevant input. The entire Board attended one Committee meeting in 2016.

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

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

The Committee's responsibilities

As set out in the Committee's Terms of Reference, the Committee is responsible for assisting the Board by proactively reviewing the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board. It is also responsible for making appropriate recommendations to the Board and assists it with succession planning for both Executive and Non-Executive Directors and the progressive refreshment of the Board and its Committees.

All Directors were appointed on a three-year basis effective from completion of the Merger and any subsequent term will be reviewed by the Committee and recommended to the Board. This is subject to the annual re-election of all Directors at the AGM (in accordance with the UK Code). As part of this, the Committee reviews the proposed re-election of all Directors annually and makes its recommendations in respect of this to the Board.

The Committee's focus in 2016

The key areas of focus in 2016 included:

- undertaking a full review of the structure, size, composition and effectiveness of the Board and all of its Committees;
- reviewing the Board's diversity and objectives; and
- considering Board refreshment and potential candidates for the appointment of new Non-Executive Directors.

Review of Board and Committee composition

As part of the consideration of the effectiveness and composition of the Board and its Committees, the Committee undertook a full review which included an assessment of the skills, knowledge, experience and diversity of the Board as a whole, as well as each individual Director, including their time commitment and independence. The internal and the independent externally facilitated evaluation (see page 72) also fed into this. The progressive refreshment of the Board and its Committees was borne in mind, as well as giving adequate consideration to succession planning.

It was concluded that all Directors continue to bring a varied and relevant range of skills, knowledge, experience and commitment in their roles and all Non-Executive Directors are independent. Accordingly, it recommended to the Board that all Directors, with the exception of Danuta Gray (given that she will be stepping down from the Board effective as of the AGM 2017), be subject to re-election at the 2017 AGM.

In light of Ian Dyson having been a Non-Executive Director for over six years when his tenure on both the Board of Betfair Group plc and the Company is considered cumulatively, the Committee and the Board undertook a rigorous review of his independence and concluded that he continues to be independent.

Nomination Committee Report (continued)
Leadership & Effectiveness

In the case of Pádraig Ó Ríordáin, a thorough review was undertaken by the Committee and the Board in line with the UK Code to ensure that there were no relationships or circumstances that were likely to affect, or could affect his judgement, namely his role as a partner in Arthur Cox (one of the Group's legal advisers), and also given his tenure as a Non-Executive Director for nine years in July 2017. The Committee and the Board both concluded that he continues to be independent on the following basis:

- Pádraig is not considered to have a material business relationship through Arthur Cox (or otherwise) with the Group, for the following reasons:
  - he does not have any role in the selection or retention of Arthur Cox as a legal adviser to the Group nor is the Group in any way influenced in its choice of legal advisers by reason of him being a Director;
  - Arthur Cox's relationship with the Group is not linked with Pádraig's income as a partner within Arthur Cox. All work undertaken by Arthur Cox for the Group is managed by other partners within the firm, and there is protection in place to ensure that no information about the Group's legal affairs is available to Pádraig which is not available to all other Directors generally; and
  - he does not have any involvement in advising the Group on any legal matters.
- In 2016, there was no change in Pádraig's or Arthur Cox's relationship with the Group as against prior years. As previously noted, the Merger was a unique transaction which caused a one-off increase in fees paid to Arthur Cox. Consequently fees paid in 2016 (€2,149,699) and 2015 (€1,682,574), when the transaction closed, were materially above normal levels. In line with the Board's previously stated expectations, fees paid to Arthur Cox have reverted to normal levels since the completion of the Merger in February 2016.
- Although Pádraig's tenure will be nine years in July 2017, he continues to be considered a very valuable and independent Board member, serving the interests of shareholders through ensuring management and Board decisions are appropriately challenged and scrutinised. The relatively short concurrent tenures of Pádraig and management are also considered as a relevant factor in this determination.

Diversity
Diversity, beyond gender, is an important consideration for Board composition as we value the breadth of background and views that a diverse Board brings. We are mindful of the recent consultations and recommendations in this area, including The Parker Review on Ethnic Diversity of UK Boards.

Board Diversity Policy
We aim to have a Board that is well-balanced and has the appropriate skills, knowledge, experience and diversity for the needs of the business. Diversity is considered in its broadest sense and includes age, gender and background. During 2017, we will review our Board Diversity Policy as appropriate to ensure it continues to derive the benefits of a diverse Board.

Board Diversity Policy: Objectives and progress against these in 2016

Commitment to have at least 33% female Board Directors

- As at 7 March, 20% of our Board comprised female Directors. However, we are committed to working towards achieving our target of at least 33% female Directors and as described below, as part of this, we have taken pro-active steps during Board refreshment and succession planning to increase the likelihood of reaching our target.

Consideration of non-executive director candidates from a wider pool than just FTSE100 listed companies

Ensuring long lists of potential non-executive director candidates comprise at least 50% female candidates

- We ensured that the external search agency appointed to assist as part of our current search for potential new Non-Executive Directors produced a long list of candidates from a broad and diverse global pool having given sufficient consideration to female representation. Accordingly, the long and short list comprised at least 50% female candidates, including candidates from beyond the FTSE100.
- While we give due regard to gender diversity, all appointments are based on merit.

Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms in Board appointments

- The Board is committed to only engaging executive search firms who are signatories to this code as part of addressing gender diversity. The external agency used for our current search is a signatory to this code.

Board refreshment and potential candidates
In view of recent Board retirements and proactive Board and Committee refreshment, the Committee decided to start the search process for potential new Non-Executive Directors. Accordingly, an external search agency, which has no other connection to the Group and is a signatory to the Voluntary Code of Conduct for Executive Search Firms, was appointed to assist with the search process to identify a list of suitable candidates. Having considered the mix of skills, experience and knowledge of the current Board, a description of the role and capabilities required for the Non-Executive appointment was prepared and discussed with the agency. Accordingly, the short list of candidates was considered by the Committee and the entire Board. The process of appointing a new Non-Executive Director is progressing.

Effectiveness of the Committee
During the year, the external Board evaluation specifically considered the performance of the Committee (see page 72) and confirmed it was operating effectively.

Objectives for 2017
In 2017, the Committee will continue to focus on the review of the composition of the Board and its Committees particularly in light of further Board changes, candidates for the appointment to a Non-Executive Director role and the induction of new Directors. The Committee will also focus on executive succession planning.

Ian Dyson
Nomination Committee Chairman
7 March 2017

Audit Committee Report
Accountability

Committee members and meeting attendance

The Audit Committee (the "Committee") comprises only independent Non-Executive Directors in line with the UK Code. All members are financially literate, have knowledge of financial reporting principles and accounting standards, understand any material factors impacting the Group's financial statements, the Group's internal controls and risk management framework and our external regulatory and legal environment. All members also have experience of working at companies within the digital and consumer industry, and therefore we are satisfied that the Committee as a whole, has competence relevant to the sector in which the Group operates. The Board has determined that Michael Cawley, Zillah Byng-Thorne and Ian Dyson have 'recent and relevant financial experience' as required under the UK Code (for biographies see pages 64 and 65).

Members[1]	Date appointed to the Committee	Attended/Eligible to attend[2]
Michael Cawley (Committee Chairman)	July 2013 and Chairman since July 2014	6/6
Zillah Byng-Thorne[3]	February 2016	5/6
Ian Dyson[3]	February 2016	5/6
Danuta Gray	February 2016	6/6

1. On 2 February 2016, Tom Grace and Ulric Jerome resigned as members of the Committee. No meetings were held from 1 January to 2 February 2016.
2. One of these was a Joint Audit and Risk Committee meeting.
3. Ian Dyson and Zillah Byng-Thorne missed one meeting each due to a pre-existing arrangement (pre-Merger) notified to the Committee Chairman in advance.

Other attendees: Only members of the Committee have a right to attend Committee meetings. The Chief Financial Officer and the Director of Internal Audit and Compliance have a standing invitation to attend Committee meetings, with the exception of the limited number of instances where the Committee meets without executive management. Other regular attendees who attend the meetings by invitation include the Head of Internal Audit, the Group Financial Controller and KPMG LLP (as the External Auditor) ("KPMG").

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

The Committee's responsibilities

The primary role of the Committee is to provide governance and oversight over the integrity of the Group's financial reporting and the Group's internal controls and risk management frameworks. The Committee also monitors the performance of internal and external audit. The role, responsibilities and authorities of the Committee are set out in its Terms of Reference.

+ For the Committee's Terms of Reference: *www.paddypowerbetfair.com/investor-relations*

During 2016, the Committee continued to assess the appropriateness of the Group's overall risk management and internal control frameworks. The Committee met with various members of the senior management team as part of securing this assurance. The Committee has also engaged regularly with the Internal Audit function and the External Auditor, KPMG.

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

In addition to the Director of Internal Audit and Compliance who presents at every meeting and the Chief Financial Officer who updates the Committee on key financial matters, in 2016, various other members of senior management presented to the Committee, including:

- Chief Technology Officer
- Director of Technology Security
- Group Financial Controller
- Director of Tax
- Group Head of Treasury & Client Funds
- Director of Payments and Fraud

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

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

Audit Committee Report (continued)
Accountability

The Committee's focus in 2016

In accordance with the Committee's Terms of Reference, the Committee meets at least three times a year. It met six times in 2016, which included a joint Audit and Risk Committee meeting. Meetings are generally scheduled around the financial reporting cycle to allow the Committee to discharge its duties in relation to the financial statements. The Committee's activities in 2016 included:

- monitoring the integrity of the financial statements and the formal announcements relating to the financial performance of the Company and Group;
- reviewing significant financial reporting judgements;
- advising the Board as to whether, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the necessary information to shareholders to assess the Group's position and performance, business model and strategy;
- assessing and reporting on the Group's viability in line with the UK Code requirements;
- reviewing the effectiveness of the Group's internal controls;
- ensuring there is a robust process in place to monitor and evaluate the principal risks to which the Group is exposed, including those that would threaten the business model, future performance, solvency or liquidity;
- monitoring and reviewing the effectiveness of the Group's Internal Audit function;
- considering and making a recommendation to the Board in relation to the continued appointment of KPMG as the External Auditor and approving its remuneration and terms of engagement;
- evaluating the performance of KPMG, including its independence and objectivity and monitoring any non-audit services provided by them;
- reviewing arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- reviewing processes for detecting fraud, misconduct and control weaknesses and considering responses to any such occurrence;
- providing an open line of communication between the Board, internal audit and external audit; and
- reporting to the Board on how the Committee has discharged its duties.

Financial reporting and significant financial issues

The role of the Committee in relation to financial reporting is to monitor the integrity of the financial statements at half year and at year end and that of any formal announcements relating to the Group's financial performance. The Committee has considered whether accounting standards are consistently applied across the Group and whether disclosures in the financial statements are appropriate and sufficient.

Following discussions with management and KPMG, the Committee has determined that the key risks of misstatement of the Group's Financial Statements are in relation to the following:

Matter considered	Action
Acquisition accounting	
On 2 February 2016, the Merger completed and Paddy Power plc acquired Betfair Group plc. The transaction was complex, significant and highly material and involved valuation, taxation and accounting expertise to complete. Various information and reporting requirements are necessary for the Group to meet statutory reporting requirements. Appropriate accounting is critical to ensure the Financial Statements represent a true and fair view.	Professional advice was relied on from various professional service providers who assisted with the Merger activity. The valuation of assets and liabilities was performed by independent experts and the Committee has taken comfort from this work. The Committee received a number of presentations from the Finance team on the accounting for the Merger activity during 2016. The Committee took assurance from the independent work undertaken by KPMG to validate the accuracy of valuation, taxation and accountancy work completed in respect of the Merger. KPMG have also reported to the Committee on the appropriateness of valuations and any fair values of intangible assets acquired and on the completeness of relevant disclosures in the Financial Statements to ensure statutory reporting requirements are met. Committee members also received detailed briefings from senior management on the Merger as part of the main Board meetings.

Matter considered	Action
Revenue	
The Group has a number of income streams across its online and retail operations with a high prevalence of cash and credit card transactions. Effective operational and fraud related controls from both an IT systems and financial control perspective assist in ensuring the accuracy and completeness of these income streams.	The Committee gained comfort over this area through discussion with the Chief Financial Officer and the Group Financial Controller in relation to the operation of key financial controls such as cash and revenue reconciliations. Representations from the Director of Technology Security and the Director of Payments & Fraud provided additional assurance throughout the year in relation to the operating effectiveness of our IT systems and the processes in place to detect any errors or omissions. The Group Head of Treasury & Client Funds presented to the Committee on treasury and bank controls in operation to ensure accuracy and integrity of funds held in the Group's bank accounts. The Committee also gained an understanding of, and challenged, the work performed by KPMG, including their assessment of the key IT controls in operation in relation to the Group's IT systems. As a result of the above procedures the Committee is satisfied that there are appropriate controls and processes in place across the Group to ensure the completeness and accuracy of reported income.
Compliance with laws and regulations	
The Group operates in a heavily regulated industry across a number of geographical jurisdictions. The area of compliance continues to evolve in all of our markets. Compliance with the laws and regulations in place in each jurisdiction that could have a direct effect on material amounts reported and disclosed in the Group's Financial Statements is a key risk area considered by the Committee. This includes matters such as taxation, licensing, data protection, money laundering, fraud and other legislation.	The Risk Committee has direct oversight of the Group's Compliance function including reviewing the processes in place to ensure compliance with laws and regulations. Once a year, there is joint Audit and Risk Committee meeting at which the key messages and outputs in relation to Compliance are shared. The Audit Committee Chairman is a member of the Risk Committee and the Risk Committee Chairman also provides an update to the entire Board on the discussions at the previous Risk Committee meeting with minutes circulated to all Directors. In 2016, this Committee reviewed Internal Audit reports covering compliance with laws and regulations. The Committee was also kept updated on fraud prevention activities and any issues as they arose throughout the year and also received an update on any employee concerns raised through the Group's whistleblowing facility. In addition, KPMG reported to the Committee on the results of their procedures which are designed to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. The above procedures provided the Committee with assurance that sufficiently robust policies and procedures are in place to prevent and detect instances of non-compliance with laws and regulations that could have a material impact on the amounts reported in the Group's Financial Statements. The Committee was also kept fully appraised of any engagements with regulatory authorities including the UK Gambling Commission, the Advertising Standards Authorities and other regulators. We engage PricewaterhouseCoopers ("PwC") as our main tax advisor. In 2016, the Group's Director of Tax presented to the Committee in relation to the Group's tax compliance. The combination of independent advice, our in-house expertise and the procedures and reporting provided by KPMG assisted in providing assurance to the Committee that the processes, assumptions and methodologies used by the Group in relation to taxation amounts reported and disclosed in the Group's Financial Statements are appropriate.

Audit Committee Report (continued)
Accountability

Matter considered	Action
Data integrity and IT security	
The integrity and security of our systems are key to the effective operation of the business and appropriate revenue recognition. As the Group regularly collects, processes and stores personal data through its business operations (including name, address, email, phone number and financial data such as bank details and betting history) it must ensure strict compliance with all relevant data protection and privacy related laws and regulations in all jurisdictions where it operates. The Group is potentially exposed to the risk that customer or employee personal data could be inappropriately collected, lost or disclosed, or processed in breach of data protection regulation. This could also result in formal investigations and / or possible litigation resulting in prosecution and damage to our brand and reputation. Data protection regulation is also changing significantly with the introduction of the EU-wide General Data Protection Regulation, coming into force in May 2018.	The Group has appropriate data protection policies in place in order to protect the privacy rights of individuals in accordance with the relevant data protection legislation. The Group's Legal and Compliance teams ensure that the business adheres to industry best practice standards and relevant laws of data protection compliance. There is ongoing significant investment in IT security resources and we partner with a variety of external security specialists to ensure security arrangements and systems are up-to-date with emerging threats and the Committee is kept appraised of this. A project is also underway to ensure compliance with new EU-wide General Data Protection Regulation coming into force in 2018. Updates on this are provided directly to the Risk Committee, and this Committee is kept updated on any progress through the Board and the Committee Chairman (through his membership of the Risk Committee). Should any issues arise that may impact the integrity of the Financial Statements, they would be formally reported to this Committee. IT security is embedded in IT operations and development processes. The Group's Information and Security function continuously assesses the risks and controls around security and IT operations. The function reported to both this Committee and the Risk Committee during 2016. The specialist External IT Auditor examined and tested the effectiveness of controls during the audit. A significant proportion of the internal audit plan reviews IT Security and Data Integrity controls in operation. The Committee reviews these reports and follows up in some detail where issues are identified. Based on assurances from management, the Internal Audit function and the External Auditor, the Committee is satisfied with internal controls and the residual level of risk.

Fair, balanced and understandable

The Board is responsible for ensuring that the Annual Report and Accounts as a whole is fair, balanced and understandable. The Committee, at the request of the Board, considered whether in its opinion this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

As part of this review, the Committee reviewed a draft of the whole Annual Report at a meeting in advance of giving their final opinion and ahead of final approval by the Board. The Committee was provided with all relevant information and in particular with briefings from management on how specific issues are managed and challenged management as required.

Management confirmed to the Committee that they were not aware of any material misstatements in the Financial Statements made intentionally to achieve a particular presentation.

KPMG also reported to the Committee that it had found no misstatements in the course of its work. The Committee confirms that it is satisfied that KPMG, as the External Auditor, has fulfilled its responsibilities with diligence and professional scepticism. After reviewing the presentations and reporting from management and consulting where necessary with KPMG, the Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures).

On the basis of the above, the Committee consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Internal audit

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

The Director of Internal Audit and Compliance attends and reports at every Committee meeting. She has direct access to all members of the Committee and the Committee Chairman also meets with her outside of Committee meetings throughout the year. The Committee approved the 2016 internal audit plan in December 2015 and this was assessed to ensure it provided adequate coverage across the Group and was risk-based in its approach. Changes are made to the plan based on emerging risks or changes in the business that are required to be addressed. Most significantly the plan was reviewed and updated following the completion of the Merger. All changes to the plan were reviewed and agreed by the Committee.

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

The Committee made independent inquiries of KPMG and of senior management as to the performance of Internal Audit and is satisfied in this regard.

Risk management

In accordance with the UK Code, the Board is required to describe the principal risks to which the business is exposed and the activities undertaken to mitigate those risks. The Board must also confirm that it has carried out a robust assessment of the principal risks facing the Group including those that would threaten the business model, future performance, solvency or liquidity of the business. A summary of the principal risks assessment is detailed on pages 54 to 59. The Board is also required under the UK Code to explain how they have assessed the prospects of the Group, over what period they have done so, why this period is considered appropriate and state whether the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities if they fall due over the period of their assessment drawing attention to any qualifications or assumptions as necessary. The Board has reported on these requirements on page 114.

This Committee and the Risk Committee together support the Board in relation to monitoring the adequacy and effectiveness of the risk management systems. During 2016, this Committee reviewed risk management and the output of both the Internal Audit function and the work completed by KPMG. The Risk Committee, reviewed the work of the second line functions and ongoing operational risk management. To ensure there is a full review of the risk management process as a whole, the Chairman of this Committee is a member of the Risk Committee and there is at least one joint meeting of the Audit and Risk Committees at which a review of the risk management process, as a whole, is undertaken for its appropriateness and effectiveness in identifying the principal risks and reviewing how those risks are being managed and mitigated. The Committees also rely on the work of internal and external audit to ensure that appropriate measures are taken to address risks as they are identified or as their risk profile changes.

As part of the overall risk management framework, management maintains an overall Group Risk Register. This Committee and the Risk Committee together at their annual joint meeting, formally consider the Group Risk Register and the appropriateness of management's risk appetite.

Risk Committee's Report: page 82

Code of Ethics, Anti-bribery and Whistleblowing

During the year, the Group updated and communicated its Code of Ethics, which sets out the standard of conduct and behaviour expected of our employees throughout the organisation (see page 39). As part of this, we have policies, procedures, management systems and internal controls in place to prevent bribery and corruption occurring, including policies on whistleblowing, gifts and hospitality and anti-bribery and corruption. The formalised whistleblowing policy and procedure encourages employees to raise issues regarding possible improprieties in matters of financial reporting or other matters. It is the responsibility of the Committee to monitor its effectiveness and any notifications made and the Committee is satisfied that the process is working appropriately. The Committee, together with the Risk Committee, reviews the outputs from the whistleblowing service and did so in 2016.

Strategic Report
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External Auditor: KPMG LLP ("KPMG")

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

External Auditor performance

In August 2016, KPMG presented its 2016 year-end audit plan to the Committee. This plan provided detail on the proposed audit approach and methodology, the materiality level intended to be used during the audit and highlighted the areas considered to have a higher risk due to the level of judgement involved and the potential impact of a misstatement on the Group Financial Statements. The areas of highest risk were considered to be those of acquisition accounting, revenue and compliance with laws and regulations. In addition, KPMG highlighted management override of controls as a significant audit risk, as required by Auditing Standards. The Committee reviewed and appropriately challenged the conclusions reached by KPMG before agreeing the proposed audit scope and approach.

KPMG presented a detailed report of their audit findings for the 2016 financial year at the Committee's meetings in February and March 2017. During 2016, KPMG presented their findings of the half-year review procedures to the Committee and in December 2016 they presented a detailed report of their IT audit findings. These findings were reviewed and questioned by the Committee, with appropriate challenge made to the work performed, assumptions made and conclusions drawn – particularly in relation to the higher risk areas as identified above.

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

The Committee took into account the following factors in assessing the performance of KPMG:

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

After taking into account all of the above, the Committee was satisfied with the performance of KPMG.

Reappointment & length of service

The Committee is responsible for making recommendations on the appointment, reappointment and removal of the External Auditor to the Board and ensuring that the External Auditor is, and remains, objective and independent. KPMG was previously the External Auditor for both Paddy Power plc and Betfair Group plc and, following the completion of the Merger, KPMG was confirmed as the External Auditor for the combined Group. However, during the year, the lead audit office changed from KPMG in Ireland to KPMG UK. Having reviewed the performance and effectiveness of KPMG, the Committee has concluded that they continue to provide an effective audit service and there are no compelling reasons for change and consequently recommended the reappointment of KPMG LLP to the Board (which was accepted) for 2017. The current lead audit partner came into role with effect from 22 June 2016.

The Committee is mindful of the requirements of the EU Directive on audit reform, formally implemented in June 2016. Under such Directive's transitional arrangements, we will be required to tender the external auditor in 2021. Accordingly, KPMG can continue to act as our External Auditor for the period up to 31 December 2023. Having reviewed the effectiveness of KPMG and the recent Merger, we concluded that it would not be in the best interests of the Group to undertake an external audit tender at this time, but we will continue to monitor the performance of KPMG and a tender will be undertaken when appropriate and, in any event, as required under the current legislation.

Independence and the provision of Non-Audit Services

The Committee is responsible for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group. In recognition of the fact that the perceived independence and objectivity of an auditor may be compromised where they receive fees for non-audit services, a policy operated during 2016 formalising the process to be followed when considering whether to engage the External Auditor for non-audit services (the "Non-Audit Policy"). The Non-Audit Policy was updated in December 2016 to take account of the new provisions under the EU directive.

Any engagement of the External Auditor for non-audit work must satisfy applicable rules and legislation. This includes Statutory Instrument SI 312, signed into law in Ireland on 15 June 2016, to give effect to the 2014 EU directive and regulation on audit reform. Our Non-Audit Policy also complies with the guidelines and practice on the provision of non-audit services in the UK and Ireland - APB Ethical Standards (as set out in APB ES 5 Non-Audit Services Provided to Audit Clients) and the FRC updated guidance note of January 2016.

KPMG, as the External Auditor, is precluded from engaging in non-audit services that would compromise its independence, would violate any laws or regulations affecting its appointment as the External Auditor, or would lead a reasonable third party to regard the objectives of the proposed non-audit service as being inconsistent with the external audit. The Non-Audit Policy specifically calls out services that the External Auditor cannot provide to the Group. No approval can be given under any authority for the provision of prohibited services. Beyond this all engagements of KPMG for the provision of other services must be formally approved by the Committee. In addition, the total fees for non-audit services to the Group shall be limited to no more than 70% of the average of the fees paid for the last three consecutive years for statutory audit work for the Group. These restrictions will be forward-looking from 2017. The Committee monitors the extent to which KPMG is engaged to provide non-audit services.

An analysis of the non-audit fees provided by KPMG in 2016 is set out in Note 7 to the Consolidated Financial Statements out on page 147. For 2016, non-audit fees paid to KPMG amounted to 98% of audit related fees paid to the UK firm and overseas offices as compared to 149% in 2015. The Committee gained comfort on any such fees in advance and of the safeguards in place to maintain the independence and objectivity of KPMG.

During 2016, the Committee reviewed the letter from KPMG confirming its independence and objectivity. The Committee also performed a review of the audit and non-audit services provided by KPMG in 2016, and the fees charged for those services, to ensure there was no impairment of objectivity or independence.

Hiring of former employees of the External Auditor

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

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

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed annually. This year this was through an external evaluation process (see page 72) and it was concluded that it is operating effectively.

Michael Cawley
Audit Committee Chairman
7 March 2017

Risk Committee Report
Accountability

On completion of the Merger, I was appointed to the role of Chairman of the Risk Committee (the "Committee"). The Committee's report for 2016 is set out herewith.

Committee members and meeting attendance
The current composition of the Committee comprises only independent Non-Executive Directors. The Chairman of the Board, who is a member, was independent on appointment as Chairman of the Board.

Members[1]	Date appointed to the Committee	Attended/Eligible to attend[2]
Peter Rigby (Committee Chairman)	February 2016	5/5
Michael Cawley	February 2016	5/5
Peter Jackson	February 2016	5/5
Gary McGann	July 2015	5/5
Pádraig Ó Ríordáin	December 2011	5/5
Previous members		
Stewart Kenny[3]	n/a	3/3

1. On 2 February 2016, David Power (previous Committee Chairman) and Andy McCue, resigned as members of the Committee. No meetings were held from 1 January to 2 February 2016.
2. One of these was a Joint Audit and Risk Committee meeting.
3. Stewart Kenny retired from the Committee on 24 August 2016.

Other attendees: The Chief Executive Officer and Director of Internal Audit and Compliance, attend the meetings regularly by invitation but are not members.

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

For the Committee's Terms of Reference: *www.paddypowerbetfair.com/investor-relations*

The Committee's responsibilities
As part of the first meeting of the Committee, new Terms of Reference were approved given the extended remit of the Committee to review the reputational impact of the Group's activities and how these were being managed, the Group's corporate social responsibility strategy and objectives (including responsible gambling) and the Group's risk management activities for assurance that these are appropriate and in line with the risk appetite of the Group. The Committee, together with the Audit Committee, is also responsible for reviewing the Group Risk Register. The Committee continues to review bookmaking risk.

The Committee's focus in 2016
In 2016, the Committee had five meetings (including a joint Audit and Risk Committee meeting) and its activities included:

- receiving updates on operational compliance with regulatory licences;
- consideration of the processes in place to manage and mitigate the risks related to operational matters including anti-money laundering, anti-bribery and betting integrity and upcoming legislative changes in these areas;
- discussion of the UK Gambling Commission's Public Statement on Paddy Power, including the subsequent steps which had been put in place to mitigate against these issues arising again;
- receiving updates in respect of the Group's compliance of legal and regulatory marketing requirements and standards and rulings issued by the regulators in this area impacting our business, our competitors and the industry in which we operate;
- receiving an update on the upcoming EU-wide General Data Protection Regulation and the Group's roadmap in ensuring we are fully compliant;
- discussing the Group's approach and potential actions taken in relation to promoting responsible gambling (see page 32);
- consideration of the Group's objectives and strategy in respect of Corporate Social Responsibility (see pages 33 and 34);
- receiving updates on the Risk and Trading function, including reviewing the Group's bookmaking risk limits and policy;
- receiving presentations from various functions in the business to gain assurance that risk management activities are appropriate and in line with the risk appetite of the Group;
- being updated on the Group's retail operations including single manning;
- keeping under review the Group's risk management processes and, jointly with the Audit Committee, undertaking a full review of the Group Risk Register; and
- reviewing, together with the Audit Committee, the Code of Ethics, which includes our policies on whistleblowing, gifts and hospitality and anti-bribery and corruption (see page 79).

In 2016, various members of senior management presented to the Committee, including:

- Director, Risk and Trading
- Director of Internal Audit and Compliance
- Head of Risk Management
- Chief Technology Officer
- Director of Technology Security
- Head of Public Affairs
- General Counsel and Company Secretary
- Head of Data Protection
- Director of Payments and Fraud
- MD, Retail and Italy

Case study: Consideration of Technology-related risks, including cyber-risk

Cyber-threats are a feature of operating e-commerce businesses and the Board is acutely aware of the risk. Accordingly, the Board, the Risk Committee and the Audit Committee spent time during the year considering the risk and how we manage it. This included briefings from the Chief Technology Officer and the Director of Technology Security. Management of this risk includes:

- a team of over 50 in-house IT security professionals globally;
- a dedicated Cyber and Threat Management team;
- a 24/7 sweep of the network perimeter to look for weakness;
- regular security testing of all products and services;
- an in-house 'ethical hacking' team that tests our sites and products in the same way as hackers would;
- defensive measures, procedures and teams to protect from malicious distributed denial of service ("DDOS") attacks;
- processes in place to ensure security is built in to product development;
- sharing of proactive threat intelligence as part of industry reviews and discussions;
- a formal Technology Risk Management function to ensure that risks are being appropriately managed; and
- significant annual investment in people, process and technology to stay ahead of threats.

Risk management

This Committee, alongside the Audit Committee, supports the Board in monitoring the Group's risk management processes for their appropriateness and effectiveness in identifying the principal risks. It also reviews how those risks are being managed and mitigated. As part of the overall risk management framework, management maintains an overall Group Risk Register. This Committee has oversight of the second line functions. The Committee met with and received detailed presentations from various key management functions throughout the year to assess the management of key operational risks. The Audit Committee has oversight of the third line function and reviewed the output of the Internal Audit function and the management of risks highlighted through their work as well as the management of financial risks, including reviewing the work of the External Auditor. To ensure there is a full review of the risk management process as a whole, the Chairman of the Audit Committee is a member of this Committee and we have at least one joint meeting of the Audit and Risk Committees annually to review the risk management process, as a whole, for its appropriateness and effectiveness in identifying the principal risks and how those risks are being managed and mitigated. The Executive Committee manages the specific risks associated with their areas of responsibility and are supported by the second and third line functions.

The Group Risk Register details the significant risks facing the business and considers the potential likelihood and impact of these risks materialising once the existence of controls and mitigating factors are considered. This Committee and the Audit Committee in their annual joint meeting consider the Group Risk Register, including both financial and non-financial risks, and the appropriateness of management's risk appetite.

+ Audit Committee Report: page 75
+ Managing and understanding our principal risks: pages 54 to 59

Effectiveness of the Committee

During the year, the external Board evaluation specifically considered the effectiveness of the Committee (see page 72) and confirmed it continued to be effective.

Objectives for 2017

In 2017, the Committee will continue to focus on matters and risks that impact our reputation as a business, including the area of responsible gambling and cyber risk, the regulatory environment and the robustness of our risk management processes.

Peter Rigby
Risk Committee Chairman
7 March 2017

Remuneration Committee Chairman's Annual Statement

As Chairman of the Remuneration Committee (the "Committee"), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2016.

Format of Directors' Remuneration Report
In last year's report, I explained that whilst as an Irish-incorporated company Paddy Power Betfair plc is not subject to the UK's remuneration reporting requirements, our preference is for our remuneration policies, practices and reporting to reflect best practice corporate governance for a FTSE100 company. The Committee therefore decided to comply with the reporting regulations on a voluntary basis, and follows the same approach this year.

This report is divided into three sections:

Remuneration Principles and the Committee's responsibilities
The Group's Remuneration Policy sets out to incentivise Executive Directors and senior executives to create shareholder value and deliver performance as measured by the Group's key performance indicators. The Group's remuneration philosophy is centred on providing fair remuneration arrangements that allow for enhanced rewards for delivery of strong levels of performance, and align Directors' and shareholders' interests. In line with shareholder preference, the remuneration package is weighted towards performance-related pay. The Long Term Incentive Plan ("LTIP") seeks to drive the delivery of long-term shareholder value by rewarding strong performance, and the annual bonus incentivises the achievement of annual targets linked to strategy, and encourages shareholder alignment through the partial mandatory bonus deferral into shares. The full Remuneration Policy, which was approved by an advisory, non-binding shareholder vote at the 2015 EGM and took effect from the date of completion of the Merger, remained unchanged during the year and is set out on pages 87 to 95 for information.

The role of the Committee is to ensure that remuneration structures and levels are fair to shareholders and to executives, are appropriate in the context of the relevant market in which the business operates, and that pay outcomes reflect performance.

Remuneration decisions in 2016
2016 was a transformational year for Paddy Power Betfair, following the completion of the Merger in February. The Group made very significant progress on Merger integration, including the early appointment of senior leaders, completion of restructuring and the embedding of new Group values. In terms of financial and operational performance, the Group maintained its good trading momentum during this year of considerable operational change. On a proforma basis, for the year to 31 December 2016, revenues increased by 18% to £1,551m and underlying operating profit before Merger-related separately disclosed items increased by 44% to £330m. On a proforma basis, underlying earnings per share grew by 44% to 331p and the Board's proposed final dividend (subject to shareholder approval) of 113p per share means that the 2016 full year dividend will be 165p per share.

In respect of 2016, Breon Corcoran and Alex Gersh will receive bonuses of 66.6% of maximum in relation to Paddy Power Betfair plc performance. Both individuals made significant contributions to the business during the year, and this is reflected in the bonus outcome.

During the year, Breon Corcoran and Alex Gersh received LTIP awards of 150% and 125% of total salary, respectively. 2016 was an extraordinary year for the Group as a result of the Merger. In agreement with the Executive Directors, they were granted LTIP awards below the 'normal' levels of 300% and 250% respectively in order to ensure that grants to employees were able to be enhanced to support retention and engagement during a period of significant change. This approach, in conjunction with an increase in minimum shareholding guidelines and the implementation of a post-vesting holding period for Executive Directors from 2017, supports retention and engagement during a period of significant change. These LTIP awards are based on growth in EPS and revenue performance measured over three years, weighted 75% EPS and 25% revenue.

Implementation of the Remuneration Policy for 2016 and 2017: pages 96 to 109

Changes to the Executive Committee

Andy McCue, the Group's former Chief Operating Officer, ceased to be employed on 30 April 2016. Andy had been with the Paddy Power business since 2006, serving as Chief Executive Officer from 1 January 2015 to 2 February 2016. Cormac McCarthy, the former Chief Financial Officer, ceased to be employed on 2 February 2016. Payments for loss of office to both individuals were in line with contractual obligations, and are detailed on page 102.

Shareholder Engagement

At the 2016 AGM, the 2015 Annual Report on Remuneration received 68.2% support from our shareholders. The Committee believes it is important to understand our shareholders' views and takes an active interest in voting outcomes. Following the voting result at the AGM, both the Chairman of the Board and I, as Chairman of the Committee, engaged extensively with major shareholders and proxy advisory bodies to understand and respond to the issues identified by some stakeholders. It was clear that the primary concerns related to decisions taken in 2015 on the treatment of historical LTIPs, which were subject to early testing, and payments for loss of office for Andy McCue, both of which resulted from the Merger. Further background and context to the decisions were provided and it was explained that the Committee was not intending to establish any precedents. While the Committee continues to believe that these decisions were in the best interests of shareholders and had a material part to play in the successful integration of the businesses, retention of key employees and business continuity following the Merger, it also acknowledges and understands the concerns of shareholders. Shareholders were also provided with the opportunity to comment on the Group's forward-looking remuneration structure. We will continue to engage with shareholders regularly, including ahead of any material changes to the way the approved Remuneration Policy will be implemented.

The Committee monitors market trends and developments and our shareholders' evolving pay principles in order to assess the ongoing relevance for the Group's remuneration practices. There have been a number of developments in institutional investor thinking and the external environment for executive pay over the past 12 months, with implications for remuneration design, reporting and corporate governance. The Committee keeps itself well informed on these topics and is keen to adopt leading practice, and to be fully transparent on these matters. The Committee has also reviewed the 'Principles of Remuneration' issued by the Investment Association in October 2016 and will keep the Board apprised of any relevant considerations for the Group.

The Committee welcomes feedback from our shareholders as we remain committed to an open and transparent dialogue, and we hope to receive your support at the forthcoming AGM.

Implementation of the Remuneration Policy in 2017

Following the approval of our Remuneration Policy by 81% of shareholders at the 2015 EGM, the Committee is not proposing any changes to the Remuneration Policy, as it considers that the current remuneration structure and incentive opportunities remain appropriate for the business. However, the Committee notes shareholder preference for post-vesting holding periods for LTIP awards, and is therefore introducing a mandatory two-year holding period for vested awards made from 2017 onwards under the LTIP. Clawback provisions will also continue to apply over this two-year period following vesting. To reflect evolving best practice, the Committee is also increasing the minimum shareholding guideline for the Chief Executive Officer to require him to maintain a beneficial holding of shares in the Company from 200% to 300% of total salary from 2017.

The Committee determined that Breon Corcoran and Alex Gersh will receive a salary increase of 2% for 2017, to £714,000 and £448,800, respectively. Annual bonus opportunities remain unchanged from 2016, and the performance measures will continue to be 50% EBIT and 50% revenue. LTIP opportunities will be 300% and 250% of total salary for Breon Corcoran and Alex Gersh, respectively. Performance targets will continue to be based on EPS (weighted 75%) and revenue (25%), measured over three years.

The Committee is satisfied that the targets applying to both the annual bonus and LTIP are sufficiently stretching in light of the internal plan and broker forecasts.

Approval

The Board recommends the Annual Report on Remuneration to shareholders. This report was approved by the Board of Directors and signed on its behalf by:

Pádraig Ó Ríordáin
Chairman of the Remuneration Committee
7 March 2017

Directors' Remuneration Report
Remuneration

Remuneration Committee Chairman's Annual Statement (continued)

Remuneration at a Glance

This section is a snapshot of the performance of the Group over the year and the remuneration received by our Executive Directors. Full details can be found in the Annual Report on Remuneration on pages 96 to 109.

Annual Bonus

The Paddy Power Betfair plc annual bonus was based on two elements. The performance targets and actual performance are set out below:

Measure	Annual max opportunity (% of salary)	Max opportunity pro-rated for period 1 May to 31 Dec 2016 (% of salary)	Performance targets: Threshold	Target	Maximum	Actual[1] performance	Bonus outcome pro-rated for period 1 May to 31 Dec 2016 (% of max)	Bonus outcome pro-rated for period 1 May to 31 Dec 2016 (% of salary)
EBIT[2]	90%	60%	£288m	£310m	£333m	£330m	48.1%	57.7%
Revenue[2]	90%	60%	£1,532m	£1,598m	£1,635m	£1,551m	18.5%	22.2%
Total	180%	120%					66.6%	79.9%

1. In line with common market practice, annual bonus targets and the assessment of year-end performance are based on budgeted exchange rates. The performance targets and actual performance delivered set out in the table above have been expressed to reflect actual exchange rates to provide comparability with our financial reporting. (This has no impact on the bonus outcome itself.)

2. Proforma

Breon Corcoran and Alex Gersh received bonuses for the period to 30 April 2016 in respect of Betfair 2015/16 performance and therefore, for 2016, their Paddy Power Betfair bonus opportunity was 120% of total salary, reduced from the normal maximum of 180% of total salary to reflect the proportion of the financial year from 1 May to 31 December 2016 (see footnote 7 to the single figure table for more information (see page 98)). Performance against targets for 2016 resulted in Paddy Power Betfair bonuses of £559,549 for Breon Corcoran and £351,717 for Alex Gersh. In line with the Remuneration Policy, one-third of the bonus will be deferred into shares under the DSIP, vesting 50% after one year from grant and 50% after two years from grant. Pro-rated bonuses (for the period 2 February to 30 April 2016) earned in relation to Betfair performance were £238,703 and £180,000 for Breon Corcoran and Alex Gersh, respectively.

Single total remuneration figures for 2016 and 2015

Executive Director		Total salary (£000)	Benefits (£000)	Pensions (£000)	Annual bonus (£000)	LTIP (£000)	Other (£000)	Single figure of total rem. (£000)
Breon Corcoran	2016	642	19	96	798	0	2	1,557
	2015	n/a						
Alex Gersh	2016	403	19	61	532	0	0	1,015
	2015	n/a						

Note, the 2016 remuneration shown in the table relates to the period 2 February to 31 December 2016, being the period that the individuals served as Directors of Paddy Power Betfair plc.

Implementation of the Remuneration Policy in 2017

Element of pay	Implementation for 2017
Total salary	Breon Corcoran and Alex Gersh will receive a 2% increase to total salary. Total salaries for 2017 are: Breon Corcoran £714,000 and Alex Gersh £448,800.
Pension and benefits	No change proposed. Executive Directors will receive cash in lieu of 15% of total salary.
Annual bonus and DSIP	No change to Remuneration Policy opportunity: 180% of total salary. The performance measures and their relative weightings also remain unchanged: 50% EBIT and 50% revenue.
LTIP	No change to Remuneration Policy opportunity: 300% of total salary for Breon Corcoran and 250% of total salary for Alex Gersh. The performance measures and their relative weightings remain unchanged: 75% EPS and 25% revenue For awards made from 2017 onwards, a two-year holding period will apply to vested awards, during which time Executive Directors may not sell shares except to cover tax liabilities.

Remuneration Policy

The contents of the following part of the Remuneration Report, the Remuneration Policy, sets out the Group's Remuneration Policy and has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulation 2013, the Companies Act 2006 and UK Listing Rules. The Remuneration Policy was developed taking into account the UK Corporate Governance Code as applicable for the financial year in which that Policy was introduced.

The Remuneration Policy was approved by an advisory, non-binding shareholder vote at the 2015 EGM and took effect from the date of completion of the Merger on 2 February 2016. The Remuneration Policy that follows is as disclosed in the EGM circular, updated for Non-Executive Directors' terms of appointment, references to financial years, and the latest pay-for-performance scenario charts, and is reproduced in full for both ease of reference and in order to provide context to the decisions taken by the Remuneration Committee (the "Committee") during the year.

The Committee determines the Group's policy on remuneration for Executive Directors and senior executives. The objectives of the Remuneration Policy are to:

- attract, motivate, and retain employees of the highest calibre;
- ensure remuneration arrangements support the corporate strategy, align with shareholder value creation, and drive performance as measured by the Group's key performance indicators;
- provide market competitive fixed remuneration, and the opportunity to earn upper quartile pay for exceptional performance;
- provide a clear link between performance and reward, motivating employees to achieve superior performance in line with a risk appetite appropriate for the Group;
- promote the long-term success of the Group; and
- provide a remuneration package that is simple, transparent and easy to understand.

In line with shareholder preference, the remuneration package is weighted towards performance-related pay. In setting the policy for Executive Directors' remuneration, the Committee has taken into account developments in best practice and the pay and employment conditions within the wider Group. The Committee believes the Company's remuneration structure appropriately links pay to strategy and supports shareholder value creation.

Remuneration Policy for Executive Directors

The Remuneration Policy for Executive Directors, which is included for information only, is described in the table below:

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Total salary	To attract and retain high-calibre talent in the labour market in which the Executive Director is employed.	Generally reviewed annually but exceptionally at other times of the year. Total salaries (inclusive of any Director fees) are set with reference to individual skills, experience, responsibilities, Company performance and performance in role. Independent benchmarking is conducted on a periodic basis against companies of a similar size, complexity and operating in the same or similar sectors, although this information is used only as part of a broader review.	No maximum applies. However, increases (as a percentage of salary) will generally be in line with inflation and consistent with those offered to the wider workforce. Higher increases may be appropriate where an individual changes role, there is a material change in the responsibilities of the role, where an individual is appointed on a below-market salary with the expectation that this salary will increase with experience and performance, where there is a need to retain key individuals, or where salaries, in the opinion of the Committee, have fallen materially below the relevant market rates.
Benefits	To provide market-competitive but cost-effective benefits.	Employment-related benefits typically include (but are not limited to) private medical insurance, life assurance, income protection, critical illness cover, car allowance, relocation, tax equalisation, and/or other related expenses as required.	The value of benefits may vary from year to year in line with variances in third-party supplier costs which are outside of the Company's control.

Directors' Remuneration Report
Remuneration

Remuneration Policy (continued)

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Pension	To provide retirement benefits that are appropriately competitive within the relevant labour market.	Paid as a defined contribution and/or cash supplement.	Contribution of up to 20% of total salary (or an equivalent cash payment in lieu).
Annual bonus and Deferred Share Incentive Plan ("DSIP")	To incentivise and reward the successful delivery of annual performance targets.	The Committee reviews the annual bonus prior to the start of each financial year to ensure that the bonus opportunity, performance measures, targets and weightings are appropriate and in line with the business strategy at the time. Performance is determined by the Committee on an annual basis by reference to Group financial measures. The Committee may also introduce an element of performance against personal / strategic objectives; this element will not be weighted more than 25% of the total in any year. Two-thirds of any annual bonus is paid in cash, with the remaining one-third deferred into shares (under the DSIP). Any deferred element vests 50% after one year and 50% after two years from the date of grant. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting. Dividends (or equivalent) accrue and are paid on DSIP awards that vest.	For target performance, the bonus earned is up to 120% of total salary. Maximum annual opportunity of 180% of total salary.
Long Term Incentive Plan ("LTIP")	To attract, retain and incentivise Executive Directors to deliver the Group's long-term strategy whilst providing strong alignment with shareholders.	Annual grant of shares or nil-cost options, vesting after a minimum of three years subject to continued service and the achievement of performance conditions. The Committee reviews the performance measures, targets and weightings prior to the start of each cycle to ensure they are appropriate. The performance measures and respective weightings may vary year-on-year to reflect strategic priorities. Malus and clawback provisions apply to the LTIP, which allow the Company to reduce or claw back awards within two years of an award vesting for reasons of a miscalculation resulting in higher vesting than should have occurred, material misstatement, or gross misconduct resulting in cessation of employment. Dividends (or equivalent) accrue and are paid on LTIP awards that vest.	Typically 250% to 300% of total salary, and up to 400% of total only in very exceptional circumstances (for example, of the case of critical recruitment). Threshold performance will result in no more than 25% vesting.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Save As You Earn ("SAYE")	To facilitate share ownership and provide further alignment with shareholders.	The Committee operates Save As You Earn share plans for all employees (in the UK this is an HMRC-approved and in Ireland this is an Irish Revenue-approved scheme); the Executive Directors may participate in the plan on the same basis as other employees. Participants are invited from time to time to save up to the monthly limit over a three-year period and use these savings to buy shares in the Company at up to the maximum discount allowable in the relevant jurisdiction.	Maximum opportunity is in line with HMRC and Irish Revenue limits (currently £500 and €500 per month, respectively) for UK and Irish employees, respectively. Maximum opportunity for employees in other European countries is €500 per month.

The Committee is satisfied that the above Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking.

Notes to the Remuneration Policy Table

Discretions for Adjustments

In relation to the incentive plans, the Committee has discretion to amend a performance condition that it no longer deems appropriate, provided that it is reasonable in the circumstances and is neither materially more nor less difficult to satisfy than was originally intended. Such discretion is important to ensure that outcomes are fair to both shareholders and participants. In particular, the Committee has discretion to adjust the performance conditions to take account of significant changes to the regulatory environment in which the Group operates, e.g. material new and increased taxes and product fees specific to the betting industry. The Committee also has discretion to make adjustments in other special circumstances, including but not limited to rights issues, corporate restructuring, and special dividends.

Selection of Performance Measures

The performance measures used in the annual bonus and LTIP are selected annually to reflect the Group's main strategic objectives and key performance indicators.

Annual bonus measures for 2017 are profit and revenue. The use of revenue aligns with the Company's strategic objectives of widening the range of products and services offered, attracting new customers, increasing the activity of existing customers, and building market share in all regions in which the Company operates. The use of profit alongside revenue helps ensure a balance between growth and profitability.

The 2017 LTIP performance measures are growth in EPS and revenue. EPS captures the long-term growth in earnings, which is aligned to the overall financial performance expected by shareholders, and revenue helps ensure focus on top line growth is maintained.

Performance targets are set to be stretching and yet achievable, and maximum outcomes are available only for truly outstanding performance. Targets are set taking into account a range of reference points including internal budgets, broker forecasts for both the Company and its peers, as well as the Group's strategic priorities and the economic environment in which the Group operates.

Remuneration Policy for Other Employees

Our approach to salary reviews is consistent across the Group, with consideration given to the level of responsibility, experience, individual performance, salary levels in comparable companies and the Company's ability to pay. Remuneration surveys are referenced, where appropriate, to establish market rates.

Below the Board level, employees receive a remuneration package that is reflective of their role and responsibilities, set by reference to internal relativities and external market data where applicable. Employees at the executive level will typically have a greater emphasis on performance-related and long-term pay compared to those below this level.

Directors' Remuneration Report
Remuneration

Remuneration Policy (continued)

Employees below the Board are also eligible to participate in the annual bonus, though performance measures are tailored to be suitable to the nature and responsibility of the role. The Executive Directors and other senior managers are eligible to participate in the LTIP; performance conditions are consistent for all participants, while award sizes vary by level. Employees at senior management level down to team members are eligible to participate in a Medium Term Incentive Plan ("MTIP"); performance is linked to measures including divisional profit and revenue, and measured over two years. Employees are also eligible to participate in the SAYE; the basis of participation varies depending on geography.

Pension and benefits arrangements are tailored to local market conditions.

Recruitment Remuneration

The Committee's policy is to set pay for new Executive Directors within the existing Remuneration Policy in order to provide internal consistency. The Committee aims to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

Element	Approach	Maximum opportunity
Total salary	The total salary (inclusive of any Director fees) will be set taking into account the skills and experience of the individual, internal relativities and the market rate for the role as identified by any relevant benchmarking of companies of a comparable size and complexity. If it is considered appropriate to set the salary for a new Executive Director at a level which is below market (for example, to reflect their experience in the role) their salary may be increased to achieve the desired market positioning by way of a series of phased above-inflation increases. Any increases will be subject to the individual's continued development in the role.	n/a
Benefits	New appointees will be eligible to receive benefits on the same terms as other Executive Directors. Additionally in the case of any Executive Director being recruited overseas, or being recruited by the Company to relocate overseas to perform his duties, the Committee may offer expatriate benefits on an ongoing basis. The Committee may also approve the payment of one-off relocation-related expenses and legal fees incurred by the individual in connection with the appointment.	n/a
Pension	New appointees will be eligible to receive pension benefits.	Typically 15% of total salary, and up to a maximum of 20% of total salary
Annual bonus and DSIP	The plan as described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of the year employed. The Committee retains flexibility to use different performance measures and targets in the first year, depending on the timing and nature of the appointment.	180% of total salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as the Executive Directors.	Typically 250% to 300% of total salary, and up to 400% of total salary only in very exceptional circumstances (for example in the case of critical recruitment)
SAYE	New appointees will be eligible to participate in the SAYE on the same terms as other employees.	n/a

The Committee may also make an award in respect of a new appointment to 'buy out' remuneration forfeited on leaving a previous employer and may exercise the discretion available under the relevant Listing Rule to facilitate this, i.e. in the event that a different structure to those included above would be required. In doing so, the Committee will ensure that buyout awards have a fair value no higher than that of the awards or remuneration forfeited and would consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met, the delivery mechanism, and the remaining vesting period of these awards.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its original terms stipulated on grant or adjusted as considered desirable to reflect the new role, even if it is not consistent with the Remuneration Policy for Executive Directors. Incentive opportunities for below-Board employees are typically no higher than for Executive Directors, but incentive measures will vary to more closely reflect the position and responsibilities of the individual.

Share Ownership Guidelines

To ensure alignment between Executive Director interests and those of shareholders, the Company requires Executive Directors to build up and maintain a beneficial holding of shares in the Company equivalent to a minimum of 300% and 200% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively. Until share ownership guidelines have been met, Executive Directors will be required to retain half of post-tax vested LTIP awards.

Service Agreements, Leaver/Change-of-Control Provisions and Loss of Office

Breon Corcoran and Alex Gersh's agreements are terminable on 12 months' notice given by either party. Their service agreements contains a provision entitling the employer to terminate their employment by payment of a cash sum in lieu of notice equal to the total base salary, contractual benefits and pension contributions that would have been payable during the notice period. They may also be entitled to a pro-rata bonus for the year in which termination occurs at the discretion of the Committee. The payment in lieu of notice can be paid, at the employer's discretion, as a lump sum or in monthly instalments over the notice period. There is a mechanism to reduce the payment in lieu of notice if they commence alternative employment while any instalments remain payable from which they receive an annual salary of at least £50,000.

In addition, all of the share option and incentive schemes which are operated by the Company contain provisions relating to termination of employment and any share awards held by an Executive Director on termination will be governed by the rules of the relevant plan.

Each of the Executive Directors is subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation and non-hiring restrictive covenants for a period of 12 months after the termination of his employment. Each of the Executive Directors has separate letters of appointment with the Company in relation to their directorships.

The service contract of any new appointment would be based on similar terms.

In certain circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used sparingly and entered into only where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

Directors' Remuneration Report
Remuneration

Remuneration Policy (continued)

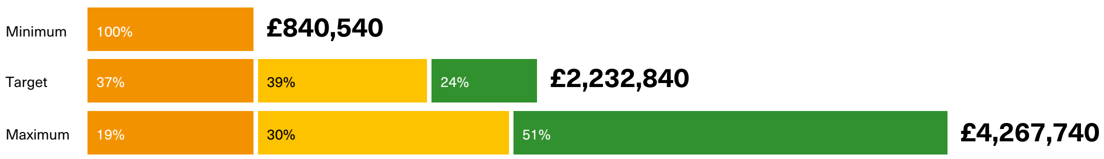
When considering termination payments under incentive plans, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus, the DSIP and the LTIP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion.

Plan	Scenario	Timing of payment / vesting	Calculation of payment / vesting
Annual bonus	Ill health or disability, redundancy, retirement (with agreement from the Company), or any other reason the Committee may determine	Normal payment date, although the Committee has discretion to accelerate payment on a case-by-case basis in its discretion	The Committee will determine the annual bonus outcome based on circumstances and the date of leaving. Performance against targets is typically assessed immediately (in case of death) or at the end of the year in the normal way and any resulting bonus will be pro-rated for time served during the year.
	Death	Immediately	
	Change-of-control	Immediately	Performance against targets will be assessed at the point of change-of-control, and any resulting bonus will be pro-rated for time served up to the point of change-of-control.
	All other reasons	No bonus is paid	n/a
DSIP	Ill health or disability, redundancy, retirement (with agreement from the Company), or any other reason the Committee may determine	The later of the date of cessation and the expiry of any post-restrictive covenants, although the Committee has discretion to accelerate on a case-by-case basis	n/a
	Death	Immediately	n/a
	Change-of-control	Immediately	Awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.
	All other reasons	Awards lapse	n/a
LTIP	Ill health or disability, redundancy, retirement (with agreement from the Company), or any other reason the Committee may determine	The later of the normal vest date and the expiry of any post-restrictive covenants, although the Committee has discretion to accelerate on a case-by-case basis	Any outstanding awards will normally be pro-rated for time (based on the proportion of vesting period elapsed); performance will be measured at the end of the performance period. The Committee retains discretion to dis-apply pro-rating or accelerate testing of performance conditions in exceptional circumstances.
	Death	Immediately	As above, but with performance being measured (and awards released) at the appropriate date.
	Change-of-control	Immediately	Any outstanding awards will be pro-rated for time (based on the proportion of vesting period elapsed) and performance up to the point of the change-of-control. The Committee retains discretion to dis-apply pro-rating (in whole or in part) in exceptional circumstances. Awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.
	All other reasons	Awards lapse	n/a

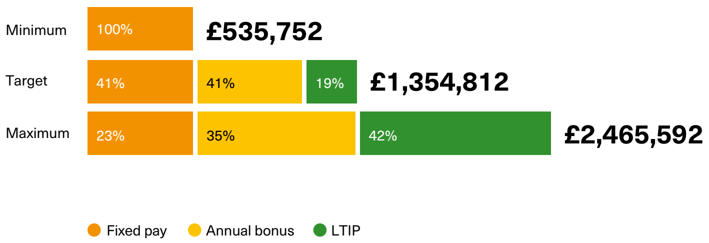
Pay for Performance: Scenario Analysis

The following charts provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of pay under three different performance scenarios: 'Minimum', 'Target' and 'Maximum'. Potential reward opportunities are based on the current Remuneration Policy, applied to salaries as at commencement of Paddy Power Betfair. Note that the projected values exclude the impact of any share price movements.

Chief Executive Officer



Chief Financial Officer



Assumptions underlying the scenarios:

- Total salaries for the Executive Directors are split between a fixed salary and payment in respect of their roles as Directors of the Group.
- Total salaries as at 1 March 2017 are £714,000 for the Chief Executive Officer (comprising £647,700 in respect of his employment and £66,300 in respect of his role as a Director) and £448,800 for the Chief Financial Officer (comprising £382,500 in respect of his employment and £66,300 in respect of his role as a Director).
- Minimum: comprises fixed pay only which includes total salary, individual pension allowances (i.e. 15% of total salary) and the value of benefits (using actual values from the last financial year as a proxy).
- On-target: comprises fixed pay plus 67% of the maximum payout under the annual bonus (i.e. 120% of salary for both Executive Directors) and 25% of the LTIP vesting (i.e. 75% and 62.5% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively).
- Maximum: comprises fixed pay plus 100% of the maximum payout under the annual bonus (i.e. 180% of salary for both Executive Directors) and 100% of the LTIP vesting (i.e. 300% and 250% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively).
- SAYE awards have been excluded.
- Exchange rate used: £1 = €1.2203 (12 month average exchange rate over 2016).

Directors’ Remuneration Report
Remuneration

Remuneration Policy (continued)

Chairman and Non-Executive Directors

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

Non-Executive Director	Start of current term
Zillah Byng-Thorne	2 February 2016
Michael Cawley	2 February 2016
Ian Dyson	2 February 2016
Danuta Gray	2 February 2016
Peter Jackson	2 February 2016
Gary McGann	2 February 2016
Pádraig Ó Ríordáin	2 February 2016
Peter Rigby	2 February 2016

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

Details of the policy on Non-Executive Directors fees are set out in the table below:

Purpose and link to strategy	Operation and performance measures	Maximum opportunity
To attract and retain Non-Executive Directors of the highest calibre with experience relevant to the Company.	Remuneration for Non-Executive Directors, other than the Chairman, is determined by the Board, on the recommendation of the Chief Executive Officer in consultation with the Chairman. The Chairman’s fee is determined and recommended to the Board by the Remuneration Committee. Fees are reviewed from time to time. Remuneration for Non-Executive Directors, other than the Chairman, comprises a base annual fee for acting as Non-Executive Director of the Company and additional fees for the Senior Independent Director, and Chairmanship of the Audit, Remuneration, Risk and Nomination Committees.	The current aggregate annual fee for all Non-Executive Directors, including the Chairman, is €1,177,208. The maximum aggregate annual fee for all Non-Executive Directors, including the Chairman, allowed by the Company’s Articles of Association is €2,000,000. Fee increases may be greater than those offered to wider employees (in percentage terms), reflecting that they may only be offered on a periodic basis or reflect additional responsibilities and / or time commitments. Current fee levels are disclosed in the Annual Report on Remuneration[1].

1. The aggregate limit on Non-Executive Directors remuneration provided for is an absolute upper limit and is considerably above the current Non-Executive Directors remuneration as described above. Anticipated increases in Non-Executive Directors fees are planned to be conservative and in line with independent market benchmarking.

In recruiting a new Chairman or Non-Executive Director, the Committee will use the policy as set out in the table above. A base fee would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and / or as Chairman of a Board Committee as appropriate.

Considerations of Conditions Elsewhere in the Group

The Committee considers the pay and employment conditions elsewhere in the Group when determining remuneration for Executive Directors, and the Company seeks to promote good relationships with employee representative bodies as part of its employee engagement strategy. However, the Committee does not consult specifically with employees on the Executive Director Remuneration Policy.

Considerations of Shareholder Views

As detailed in the Committee Chairman's Annual Statement, the Committee maintains an open and transparent dialogue with shareholders and takes an active interest in voting outcomes. Feedback received from shareholders, at the AGM and any other meetings during the year, is considered by the Committee on an ongoing basis.

External Directorships

The Board acknowledges that Executive Directors may be invited to become independent Non-Executive Directors of other listed companies which have no business relationship with the Company and that these duties can broaden their experience and knowledge to the benefit of the Company. Executive Directors are permitted to accept a maximum of one such appointment with the prior approval of the Chairman. Fees paid for external appointments may be retained by the individual concerned.

Annual Report on Remuneration

The following section provides details of remuneration outcomes for the financial year ended 31 December 2016 for Executive Directors who served during the year, and how the approved Remuneration Policy will be implemented for all Directors in 2017. This report is subject to an advisory vote by shareholders at the 2017 AGM.

Meeting Attendance

All Committee members are considered independent within the definition set out in the UK Code. The Chairman of the Board, who is a member, was independent on appointment as Chairman.

Members	Date appointed to the Committee	Attended/Eligible to attend[1]
Pádraig Ó Ríordáin (Committee Chairman)	August 2008	8/8
Danuta Gray	January 2013	6/8[1]
Peter Jackson	February 2016	6/7[1]
Gary McGann	July 2015	8/8
Peter Rigby	February 2016	6/7[1]

1. This included 6 scheduled Committee meetings and 2 ad hoc calls arranged at short notice. Danuta Gray missed one meeting and one ad hoc call. Peter Jackson and Peter Rigby missed one ad hoc call each.

Other regular attendees: The Chief Executive Officer, Chief People Officer, Head of Reward and Kepler (Remuneration Advisers) attend the meetings by invitation but are not members. Individuals are not present when their own remuneration is discussed.

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

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

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

The Committee's responsibilities

The Committee sets the Remuneration Policy for Executive Directors and other senior executives, taking into account trends across the industry and the Group. The Committee plays a key role in ensuring that the Remuneration Policy and reward decisions incentivise and retain talent, and support the delivery of our long-term strategy.

The Committee's focus in 2016

The Committee meets at least twice a year and, in 2016, the Committee met 8 times. During 2016, the Committee's key activities were as follows:

- review key shareholder themes, feedback and voting, and the Company's shareholder engagement strategy;
- determine and approve annual bonus outcomes in respect of prior year performance;
- approve opportunities and performance targets for 2016 annual bonus and LTIP awards, and targets for 2015 replacement LTIP awards;
- approve targets and awards for 2016 MTIP for below senior management employees;
- approve SAYE offer;
- review remuneration and corporate governance developments, market trends and best practice;
- approve targets for 2017 annual bonus and LTIP awards;
- review Executive Committee total remuneration;
- assess dilution from share schemes against recommended limits and use of Employee Benefit Trust;
- ratify share awards;
- review annual Remuneration Committee calendar;
- review the Committee's Terms of Reference;
- review and approve the 2015 Directors' Remuneration Report; and
- prepare the 2016 Directors' Remuneration Report.

External Advisors

During the year, in order to enable the Committee to reach informed decisions on executive remuneration, advice on market data and trends was obtained from independent consultants, Kepler, a brand of Mercer (which is part of the MMC group of companies). Kepler reported directly to the Committee Chairman, and is a signatory to, and abides by the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). The fees paid to Kepler in respect of work carried out for the Committee in 2016 totalled £109,863. Kepler also advised and supported the Group's management in relation to remuneration during the year. Other than advice on remuneration, no other services were provided by Kepler (or any other part of the MMC group of companies) to the Group.

The Committee undertakes due diligence periodically to ensure that Kepler remains independent of the Group and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Kepler is independent.

Shareholder Voting at Shareholder Meetings

The following shows the results of the advisory vote on the 2015 Annual Report on Remuneration at the AGM on 18 May 2016:

2015 Annual Report on Remuneration	For	Against	Total votes cast	Votes withheld
Total number of votes	39,082,152	18,205,170	57,287,322	8,138,910
	(68.2%)	(31.8%)		

The Board is mindful of the shareholders who voted against the Annual Report on Remuneration, which related principally to the early testing of the outstanding LTIP awards on completion of the Merger and payments for loss of office for Andy McCue. In respect of the legacy Paddy Power and Betfair 2013, 2014 and 2015 Part A LTIP awards for which performance was tested on completion of the Merger, the Committee is satisfied that full vesting was in the best interests of shareholders and had a material part to play in the successful integration of the businesses, retention of key employees and business continuity following the Merger. With regards to Andy's payments for loss of office, these were in line with typical practice and our legal obligations in Ireland. The Committee and the Board believe that the approach taken was appropriate in the circumstances of two complex businesses coming together and firmly in the long-term interests of shareholders.

We engaged extensively with our major shareholders and proxy advisory bodies again during 2016 to provide further background and context to the decision taken and also to provide shareholders with the opportunity to comment on our forward-looking remuneration structure. The Committee is committed to listening to and engaging with the views of our shareholders and takes an active interest in voting outcomes. The Committee will continue to be transparent in our remuneration decision-making and to engage with our shareholders on remuneration matters.

The Remuneration Policy was approved by shareholders with 80.9% vote in favour at the 2015 EGM. Details of how the Company engaged with shareholders in relation to the Remuneration Policy are provided in the 2015 Directors' Remuneration Report.

Directors’ Remuneration Report
Remuneration

Annual Report on Remuneration (continued)

Single Figure of Total Remuneration for Executive Directors (Audited)

The table below sets out the single figures of total remuneration received by each Executive Director of Paddy Power Betfair plc (and Paddy Power plc, prior to the Merger) during the year ended 31 December 2016 and the prior year. For Breon Corcoran and Alex Gersh, 2016 remuneration relates to the period from 2 February to 31 December 2016. For Andy McCue and Cormac McCarthy, 2016 remuneration relates to the period from 1 January 2016 to their respective termination dates (being 30 April 2016 and 2 February 2016, respectively). Please refer to the notes below the table for full details of how the figures are calculated, and additional disclosure of the full-year equivalent remuneration for Breon and Alex for the 2015 and 2016 financial years (January to December), which includes remuneration as Directors of Betfair Group plc.

Executive Director		Total salary[1] (£000)	Benefits[2] (£000)	Pensions[3] (£000)	Annual bonus[4] (£000)	LTIP[5] (£000)	Other[6] (£000)	Single figure of total remuneration (£000)
Breon Corcoran[7]	2016	642	19	96	798	0	2	1,557
	2015	n/a						
Alex Gersh[7]	2016	403	19	61	532	0	0	1,015
	2015	n/a						
Andy McCue[8]	2016	197	9	39	0	1,907	0	2,152
	2015	508	24	102	389	1,678	0	2,701
Cormac McCarthy[9]	2016	71	6	34	85	1,913	0	2,109
	2015	376	17	51	208	1,558	0	2,210

The figures in the table have been calculated as follows:

1. Total salary: amount earned for the year.
2. Benefits: comprise private medical insurance, life assurance, income protection, critical illness and car allowance.
3. Pension: the pension for Breon Corcoran, Alex Gersh and Cormac McCarthy is the value of the cash paid to them in lieu of contributions, and for Andy McCue is the Company’s pension contribution during the year.
4. Annual bonus: payment for performance during the financial year. For 2016, Breon Corcoran and Alex Gersh’s bonus comprised a pro-rated element relating to Paddy Power Betfair performance over the 2016 financial year, pro-rated to reflect the proportion of the financial year from 1 May to 31 December 2016, plus a pro-rated element relating to Betfair performance to 30 April 2016, to reflect the proportion of the financial year from 2 February to 30 April 2016. The bonus figure shown in the table above includes both the pro-rated Paddy Power Betfair bonus and the pro-rated Betfair bonus.
5. LTIP: the value at vesting of awards vesting on performance over the three-year periods ended 31 December 2016 and 31 December 2015. For 2015, the award is valued based on the spot share price on the vest date of £88.86. For 2016, as vesting occurs after the Directors’ Remuneration Report is finalised, the award is valued based on the three-month average share price to 31 December 2016 of £85.8042.

   See page 99 for detail of Breon Corcoran and Alex Gersh’s former LTIP awards granted whilst Directors of Betfair Group plc.
6. Other: includes SAYE, valued based on the embedded value at grant.
7. Remuneration to Breon Corcoran and Alex Gersh:
   - 2016 remuneration relates to the amount paid during the period 2 February to 31 December 2016. On appointment as Directors of Paddy Power Betfair plc, Breon’s total salary was £700,000 and Alex’s total salary was £440,000. For information, full-year equivalents for the 2016 financial year (January to December) are as follows: for Breon, salary of £685,871, benefits of £19,440, pension of £102,881, and bonus of £877,819; for Alex, salary of £436,667, benefits of £19,632, pension of £63,833, and bonus of £591,717.
   - 2015 remuneration for legacy Betfair Group plc Directors is not included in this table as the individuals were not Directors of Paddy Power plc during 2015. For information, prior to the Merger, Breon Corcoran’s annual salary was £530,450, his pension was 15% of salary, and his bonus opportunity was 180% of salary; Alex Gersh’s annual salary was £400,000, his pension was 10% of salary, and his bonus opportunity was 180% of salary. Full-year equivalents for the 2015 financial year (January to December) are as follows: for Breon, salary of £530,450, benefits of £3,290, pension of £79,568, and bonus of £954,053; for Alex, salary of £400,000, benefits of £3,779, pension of £40,000, and bonus of £715,430.
8. Andy McCue resigned as a Director of Paddy Power Betfair plc on 30 April 2016 and therefore the figures show the amount earned for the portion of the year for which he was employed until he left. Andy served as the Chief Executive Officer of Paddy Power plc from 1 January 2015 to 1 February 2016, and as the Chief Operating Officer of Paddy Power Betfair plc from 2 February to 30 April 2016. See page 102 for details of his loss of office payments.
9. Cormac McCarthy resigned as a Director of Paddy Power plc on 2 February 2016 and therefore the figures show the amount earned for the portion of the year for which he was employed until he left. See page 102 for details of his loss of office payments.

Andy McCue and Cormac McCarthy’s cash remuneration in respect of 2015 is converted from Euros to Pound Sterling using the 12-month average exchange rate over 2015 and 2016 of £1 = €1.3777 and £1 = €1.2203 respectively.

The Group performed very well in the year to 31 December 2016, maintaining good trading momentum during a year of considerable operational change, and this is reflected in the Executive Directors' single figures. Proforma revenue and underlying EPS increased by 18% and 44% from last year.

The Committee reviewed carefully all Executive Directors' single figures in respect of 2016, and believe they are reflective of the Group's underlying performance and the individuals' contributions during the year.

As outlined in last year's report, the Remuneration Committees of both Paddy Power plc and Betfair Group plc agreed prior to the Merger that it was in Paddy Power Betfair's best interests to align the interests of senior executives in both companies beyond the date of the Merger, and in order to mitigate against potential retention, culture and integration issues. In order to support retention, the Betfair Remuneration Committee used its discretion not to release outstanding Betfair LTIP awards on change-of-control and had a commitment from Paddy Power to make replacement LTIP awards over Paddy Power Betfair shares of equivalent value. These replacement awards will vest on their original vest dates, rather than the 'default' as set out in plan rules, whereby awards would have vested immediately at the time of the Merger. Under reporting regulations, these replacement awards are considered equivalent to buy-out awards and therefore do not form part of the single figure of total remuneration. However, for transparency, we have provided details in the table below of the 2013, 2014 and 2015 Part A (being a portion of the full 2015 LTIP awards, reduced on a pro-rata basis to the date of the Merger) LTIP awards. The remaining portion of the 2015 LTIP awards ("2015 LTIP Part B") will vest in 2018, subject to Paddy Power Betfair performance and continued employment on the vest date; full details of performance against targets and the resulting vesting outcome will be disclosed in the single figure table of the 2017 Directors' Remuneration Report.

Executive Director	LTIP	Award Date	Vest Date	LTIP value delivered through performance (£000)	LTIP value delivered through share price growth (£000)	Total LTIP value (£000)
Breon Corcoran	2013	23 Jul 2013	23 Jul 2016	1,705	5,292	**6,997**
	2014	27 Jun 2014	27 Jun 2017	1,681	4,667	**6,347**
	2015 (Part A)	1 Jul 2015	1 Jul 2018	335	185	**520**
	Total			3,721	10,144	**13,865**
Alex Gersh	2013	23 Jul 2013	23 Jul 2016	883	2,740	**3,623**
	2014	27 Jun 2014	27 Jun 2017	870	2,416	**3,287**
	2015 (Part A)	1 Jul 2015	1 Jul 2018	168	93	**261**
	Total			1,922	5,249	**7,171**

The performance tests for the replacement LTIP awards set out above relate to Betfair performance, and the awards are reported for reference only, to be fully transparent to shareholders. Awards are valued based on the three-month average share price to 31 December 2016 of £85.8042, as performance has already been tested and vesting is subject to continued employment only. LTIP awards are eligible to receive dividends, to the extent they vest.

Directors' Remuneration Report
Remuneration

Annual Report on Remuneration (continued)

Incentive Outcomes for 2016

Annual Bonus (audited)

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

Breon Corcoran and Alex Gersh received bonuses for the period to 30 April 2016 in respect of Betfair 2015/16 performance (see Betfair bonus section below) and therefore, for 2016, their Paddy Power Betfair bonus opportunity was 120% of total salary, reduced from the normal maximum of 180% of total salary to reflect the proportion of the financial year from 1 May to 31 December 2016.

Paddy Power Betfair bonus (for period 1 May to 31 December 2016)

The 2016 Paddy Power Betfair bonus was linked to EBIT and revenue, weighted 50:50. The annual bonus awards, performance measures and targets are set out below:

Measure	Annual max opportunity (% of salary)	Max opportunity pro-rated for period 1 May to 31 Dec 2016 (% of salary)	Performance targets: Threshold	Performance targets: Target	Performance targets: Maximum	Actual[1] performance	Bonus outcome pro-rated for period 1 May to 31 Dec 2016 (% of max)	Bonus outcome pro-rated for period 1 May to 31 Dec 2016 (% of salary)
EBIT[2]	90%	60%	£288m	£310m	£333m	£330m	48.1%	57.7%
Revenue[2]	90%	60%	£1,532m	£1,598m	£1,635m	£1,551m	18.5%	22.2%
Total	180%	120%					66.6%	79.9%

1. In line with common market practice, annual bonus targets and the assessment of year-end performance are based on budgeted exchange rates. The performance targets and actual performance delivered set out in the table above have been expressed to reflect actual exchange rates to provide comparability with our financial reporting. (This has no impact on the bonus outcome itself.)
2. Proforma

As shown in the table above, the Group exceeded target level for EBIT and achieved performance between threshold and target for revenue, and the bonus outcome was therefore 66.6% of maximum, or 79.9% of total salary (equivalent to 119.9% of total salary on a full-year basis).

The resulting Paddy Power Betfair bonus outcomes for Breon Corcoran and Alex Gersh are therefore as set out below:

Executive Director	Bonus outcome (% of max)	Bonus outcome (£)
Breon Corcoran	66.6%	£599,549
Alex Gersh	66.6%	£351,717

In line with the Remuneration Policy, one-third of bonus earned is deferred into shares under the DSIP, vesting 50% after one year from grant and 50% after two years from grant. Shares that are deferred under the DSIP are eligible to receive dividends, to the extent they vest. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting.

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

Andy McCue left the business on 30 April 2016 and, as part of his exit, he did not receive a bonus in respect of 2016. Cormac McCarthy received a pro-rata annual bonus in respect of 2016 of €104,000, paid in cash.

Betfair bonus (for period 2 February to 30 April 2016)

The bonuses earned by Breon Corcoran and Alex Gersh under the Betfair annual bonus were based on EBITDA, revenue and personal targets for Betfair as set out below:

Measure	Annual max opportunity (% of salary)	Max opportunity pro-rated for period 2 Feb[1] to 30 Apr 2016 (% of salary)	Performance targets: Threshold	Performance targets: Target	Performance targets: Maximum	Actual performance	Bonus outcome pro-rated for period 2 Feb[1] to 30 Apr 2016 (% of max)	Bonus outcome pro-rated for period 2 Feb[1] to 30 Apr 2016 (% of salary)
EBIT	80%	20%	£96m	£107m	£123m	£143m	44.4%	20%
Revenue	80%	20%	£462m	£513m	£544m	£564m	44.4%	20%
Personal	20%	5%	Based on a number of individual objectives				11.1%	5%
Total	180%	45%					100%	45%

1. Breon Corcoran and Alex Gersh were appointed as Directors of Paddy Power Betfair plc on 2 February 2016.

The resulting total bonus outcomes for Breon Corcoran and Alex Gersh are set out below:

Executive Director	In respect of Betfair (2 Feb to 30 Apr 2016)		In respect of Paddy Power Betfair (1 May to 31 Dec 2016)		Total Bonus outcome (2 Feb to 31 Dec 2016)
	Bonus outcome (% of salary)	Bonus outcome[1] (£)	Bonus outcome (% of salary)	Bonus outcome[1] (£)	Bonus outcome (£)
Breon Corcoran	45%	£238,703	79.9%	£559,549	£798,252
Alex Gersh	45%	£180,000	79.9%	£351,717	£531,717

1. The Betfair bonus was based on the Betfair salaries of £530,450 for Breon Corcoran and £400,000 for Alex Gersh. The Paddy Power Betfair bonus was based on the Paddy Power Betfair salaries of £700,000 for Breon Corcoran and £440,000 for Alex Gersh.

Long-Term Incentive Plan: 2016 Awards (Audited)

2016 was an extraordinary year for the Company as a result of the Merger. As volunteered by the Executive Directors and agreed to by the Remuneration Committee, Breon Corcoran and Alex Gersh were granted LTIP awards below the 'normal' levels of 300% and 250% respectively in order to ensure that grants to employees were able to be enhanced to support retention and engagement during a period of significant change. This approach, in conjunction with an increase in minimum shareholding guidelines and the implementation of a post-vesting holding period for Executive Directors, supports retention and engagement during a period of significant change.

On 20 May 2016, Breon Corcoran and Alex Gersh were granted LTIP awards of 11,871 and 6,218 nominal value options[1], respectively; details are provided in the table below:

Executive Director	Date of grant	Number of shares	Market price at date of award[2]	Face value at date of award (£000)	Face value at date of award (% of salary)
Breon Corcoran	20 May 2016	11,871	£88.447	1,050	150%
Alex Gersh	20 May 2016	6,218	£88.447	550	125%

1. Nominal value of a share at the date of grant was €0.09 and therefore the exercise price is €0.09.
2. Three-day average share price to the date of grant of 20 May 2016.

The above LTIP awards are based on growth in EPS and revenue measured over three years, weighted 75% EPS and 25% revenue. Shares are eligible to receive dividends, to the extent they vest. The three-year period over which performance is measured is 1 January 2016 to 31 December 2018, with the award eligible to vest in its entirety on the third anniversary of the date of grant (i.e. 20 May 2019), subject to achievement of performance and continued employment. Malus and clawback provisions apply to the LTIP both prior to vesting and for a period of two years post-vesting.

The performance targets for the 2016 LTIP awards are summarised in the table below.

Performance measure	Performance targets: Threshold (25% vesting)	Performance targets: Maximum (100% vesting)
EPS (75% of award)	17% p.a.	25% p.a.
Annualised growth in EPS over the three-year period 2016-2018	Award vests on a straight-line basis between the two points	
Revenue (25% of award)	8% p.a.	13% p.a.
Annualised growth in revenue over the three-year period 2016-2018	Award vests on a straight-line basis between the two points	

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Annual Report on Remuneration (continued)

Single Figure of Total Remuneration for Non-Executive Directors (Audited)
The table below sets out the single figures of total remuneration received by each Non-Executive Director who served during the year ended 31 December 2016 and the prior year:

Non-Executive Director	Current Board Committee member or chairman (as applicable)	Fees[1] (£000) 2016	2015
Zillah Byng-Thorne[2]	A N	67	-
Michael Cawley	A RC	93	69
Ian Dyson[2]	A N	82	-
Danuta Gray	A R	65	54
Peter Jackson[2]	R RC	59	-
Gary McGann[3]	N R RC	354	116
Pádraig Ó Ríordáin	R N RC	89	69
Peter Rigby[2]	R RC	73	-
Stewart Kenny[4]	n/a	48	54
Tom Grace[5]	n/a	8	63
Ulric Jerome[5]	n/a	7	54

Committee Chairman | A Audit Committee | N Nomination Committee | R Remuneration Committee | RC Risk Committee

Fees for Non-Executive Directors are pro-rated according to their appointment date, date of resignation/retirement or date of role change to the Paddy Power Betfair plc (or Paddy Power plc) Board, where appropriate.

1. Fees are converted from Euros to Pound Sterling as appropriate, using the 12-month average exchange rate over the financial year (2015: £1 = €1.378; 2016: £1 = €1.2203).
2. Became a Non-Executive Director of Paddy Power Betfair plc on 2 February 2016 (previously Non-Executive Directors of Betfair Group plc).
3. Gary McGann was appointed as a Non-Executive Director of Paddy Power plc on 24 November 2014 and as Chairman of Paddy Power plc from 1 July 2015.
4. Stewart Kenny retired as a Director on 24 August 2016.
5. Tom Grace and Ulric Jerome resigned as Non-Executive Directors on 2 February 2016.

For legacy Betfair Group plc Directors, 2016 fees relate to the period 2 February to 31 December 2016. 2015 fees for legacy Betfair Directors are not relevant for comparison purposes and are therefore omitted. At Betfair, the Company Chairman fee was £250,000, the annual Non-Executive Director base fee was £50,000, and additional fees were £10,000, £15,000 and £10,000 for the Senior Independent Director, the Audit Committee Chairman and the Remuneration Committee Chairman, respectively.

Payments for Loss of Office
As detailed in the 2016 Notice of AGM, Andy McCue ceased to be employed on 30 April 2016. In accordance with his contractual entitlements and legal obligations in Ireland, Andy received €3,494,314 (equal to 2.5 times total remuneration) and was treated as a good leaver under the Company's share plans.

Andy's outstanding LTIP awards have been reduced on a pro-rata basis by reference to his termination date. 19,027 shares (inclusive of dividend shares) from his 2013 LTIP award vested on 14 May 2016, and 13,559 shares from his 2014 LTIP award will vest on 4 March 2017. In respect of his 2015 award, 9,276 shares will vest 12 months from 30 April 2016 (i.e. on 30 April 2017), and the remaining 2,456 shares will vest on the original vest date of 3 March 2018, subject to meeting the performance conditions as detailed in last year's report. As appropriate, any dividends on the above awards will accrue and be paid on the relevant vest dates. The awards remain subject to clawback. Under the provisions of the legacy Paddy Power LTIP, retesting was applied to the unvested portion of Andy's 2012 LTIP based on performance to 31 December 2015, and as a result an additional 4.0% of the award (being 1,476 shares) vested on 8 March 2016. No further retesting (a legacy provision under the previous Paddy Power LTIP) will apply in respect of the unvested portion of Andy's 2012 LTIP.

Cormac McCarthy, the former Chief Financial Officer, ceased to be employed on 2 February 2016 for reason of redundancy. As detailed in last year's Directors' Remuneration Report, he received a redundancy payment of €157,160 and a pro-rata annual bonus in respect of 2016 of €104,000, in addition to his contractual notice period. Cormac was treated as a good leaver under the Company's share plans. Details of the treatment of his awards are provided in last year's Directors' Remuneration Report. In 2016, 19,171 shares (inclusive of dividend shares) vested to him in respect of his 2013 award.

Implementation of Remuneration Policy for 2017

Total Salary

The Committee approved the following total salaries for Executive Directors of Paddy Power Betfair, effective from 1 March 2017:

Executive Director	Role	2017 salary	2016 salary[1]	% change[2]
Breon Corcoran	Chief Executive Officer	£714,000	£700,000	2%
Alex Gersh	Chief Financial Officer	£448,800	£440,000	2%

1. Salaries effective from completion of the Merger on 2 February 2016.

2. Total salaries for the Executive Directors are split between a salary in respect of their employment and a payment in respect of their roles as Directors. Breon Corcoran's total salary was split into a salary in respect of his employment of £635,000 and a payment in respect of his role as a Director of £65,000. Alex Gersh's total salary was split into a salary in respect of his employment of £375,000 and a payment in respect of his role as a Director of £65,000. Effective from 1 March 2017, an increase of 2% will be applied to each of the two components of the Executive Director's salaries, to give a salary of £647,700 and a Director's payment of £66,300 for Breon Corcoran, and a salary of £382,500 and a Director's payment of £66,300 for Alex Gersh.

Pension and Benefits

In line with the Remuneration Policy, the Executive Directors will receive cash supplement in lieu of pension contribution of 15% of total salary in 2017. They will also receive benefits in line with the Remuneration Policy.

Annual Bonus

The maximum annual bonus opportunity for Executive Directors in 2017 will remain at 180% of total salary, as stated in the Remuneration Policy.

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

The Committee reviews the performance measures and targets on an annual basis to ensure that they remain appropriately aligned to the overall business strategy but do not encourage excessive risk taking. The Committee has determined that performance targets will not be disclosed on a prospective basis for reasons of commercial sensitivity, but will be disclosed on a retrospective basis in next year's Annual Report on Remuneration to the extent that the Committee determines that the measures are no longer commercially sensitive.

The performance measures for the 2017 bonus are as follows:

	Opportunity (% of maximum)	Opportunity (% of salary)
EBIT	50%	90%
Revenue	50%	90%
Total	100%	180%

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LTIP
The Committee has considered whether it would be appropriate to introduce non-financial targets into the LTIP scheme to ensure focus on key priorities such as responsible gaming, customer satisfaction and employee engagement. After taking into account investor feedback, along with the practicalities of such an approach, it has been decided that, on balance, the existing targets of revenue and EPS will be retained. The Committee is satisfied that the best approach to ensuring focus on these priorities is for management to be closely aligned with the long term interests of shareholders through minimum holding levels and periods. This is consistent with the changes made to the LTIP.

The levels of LTIP award in 2017 will be in line with the levels in the approved Remuneration Policy, and are 300% of total salary for the Chief Executive Officer and 250% of total salary for the Chief Financial Officer. Awards will vest on growth in EPS and revenue measured over three years, weighted 75% EPS and 25% revenue. The 2017 LTIP performance targets are as follows:

	Performance targets	
Performance measure	Threshold (25% vesting)	Maximum (100% vesting)
EPS (75% of award)	11.8% p.a.	19.2% p.a.
Annualised growth in EPS over the three-year period 2017-2019	Award vests on a straight-line basis between the two points	
Revenue (25% of award)	7.7% p.a.	12.3% p.a.
Annualised growth in revenue over the three-year period 2017-2019	Award vests on a straight-line basis between the two points	

In advance of each LTIP cycle, the Committee reviews the performance targets to ensure they are appropriately stretching over the performance period. In setting 2017 LTIP performance targets, the Committee reviewed a range of internal and external reference points. We recognise that the hurdle rates are lower than for 2016 grants, but the targets remain very stretching and are ahead of expectations for the sector. The change in targets reflects a number of changes to our business, including that a significant proportion of the Merger synergy savings have already been delivered, the measurement year 2019 not being a Football World Cup year, and further regulatory/taxation changes in our operating environment. Shareholders will note that broker consensus is towards the bottom half of the performance zone, and that significant outperformance of consensus is required for maximum vesting. The Committee has a robust approach to target-setting, and believes the 2017 LTIP targets are very stretching.

The awards will vest three years from grant date, subject to meeting the performance conditions and continued employment. Awards are eligible to receive dividend equivalents. Malus and clawback provisions apply to the LTIP both prior to vesting and for a period of two years post-vesting. In line with best practice, the Company is introducing a mandatory two-year holding period for vested LTIP awards made to Executive Directors in 2017 and subsequent years. These may not be sold during the holding period except to cover tax liabilities. These awards once vested count towards shareholding for the purpose of calculating achievement of shareholding guidelines.

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

Chairman and Non-Executive Director Fees
The fees payable to the Chairman of the Board and other Non-Executive Directors for 2017 are as follows:

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

Fees were reviewed in early 2016 against comparable companies of similar sector and size, in the context of the Group's new size (i.e. the post-Merger market capitalisation of the combined entity), sector and business complexity and were effective as of 2 February 2016. They were reviewed in December 2016 by the Board and are considered to continue to be appropriate for 2017. The current aggregate annual fee for all Non-Executive Directors, including the Chairman, is €1,177,208, which is significantly below the maximum aggregate fee allowed by the Company's Articles of Association of €2,000,000. The €2,000,000 cap is considered to be an upper limit far in excess of what is required today.

Percentage Change in Chief Executive Officer Remuneration Compared to Other Employees

The table below shows the percentage change in the Chief Executive Officer's remuneration from the prior year compared to the average percentage change in remuneration for all other employees. To provide a relevant comparison, the analysis includes only salaried corporate office UK and Ireland employees, comprising the majority of the workforce, and is based on a consistent set of employees, i.e. the same individuals appear in the 2016 and 2015 populations. The Chief Executive Officer for 2016 is based on the full year equivalent for Breon Corcoran and for 2015 is based on Andy McCue as Chief Executive Officer for Paddy Power plc.

	Chief Executive Officer			Other employees[3]
	2016[1] (£000)	2015[2] (£000)	% change	Average % change
Salary	686	508	+35%[4]	+9%
Taxable benefits	19	24	-26%	+0.9%
Annual bonus[5]	878	389	+226%	-15%

1. Based on full-year equivalent remuneration for Breon Corcoran (see note 7 to the single figure table on page 98).
2. Based on Andy McCue in his role as Chief Executive Officer of Paddy Power plc.
3. The UK and Ireland employee population is, in the view of the Committee, the most appropriate comparator group. The calculation covers employees who were continuously employed for the period (1 January 2015 to 31 December 2016).
4. Breon Corcoran's salary was reviewed by the Committee on Merger and has been set to be market competitive for the role, taking into account the scale of the post-Merger business. This reflects a significant increase on the salary of the former Chief Executive Officer of Paddy Power plc, reflecting the fact that the business has more than doubled in size since his salary was set.
5. Bonuses for the workforce for 2016 have not been concluded at the time of signing this report and therefore this is an indicative figure.

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and return of capital) from the financial year ended 31 December 2015 to the financial year ended 31 December 2016.

	2016 (£m)	2015 (£m)	% change
Dividends[1]	179	88	+103%
Return of capital[2]	-	481	n/a
Total shareholder distributions	179	569	-69%
Employee remuneration	364	357	+2%

1. Dividends include dividends paid to shareholders of Paddy Power Betfair, Paddy Power and Betfair during 2016 and 2015, including in 2016 the special dividend paid to Paddy Power plc shareholders on completion of the Merger of €80m (£62m).
2. In 2016, the Group paid a special dividend of €80m (£62m) to Paddy Power plc shareholders on completion of the Merger. In 2015, Paddy Power plc returned €391m to Paddy Power plc shareholders via a B share scheme. See Note 16 to the Consolidated Financial Statements for further detail. Also in 2015, Betfair Group plc returned £200m to Betfair Group plc shareholders via a B share scheme.

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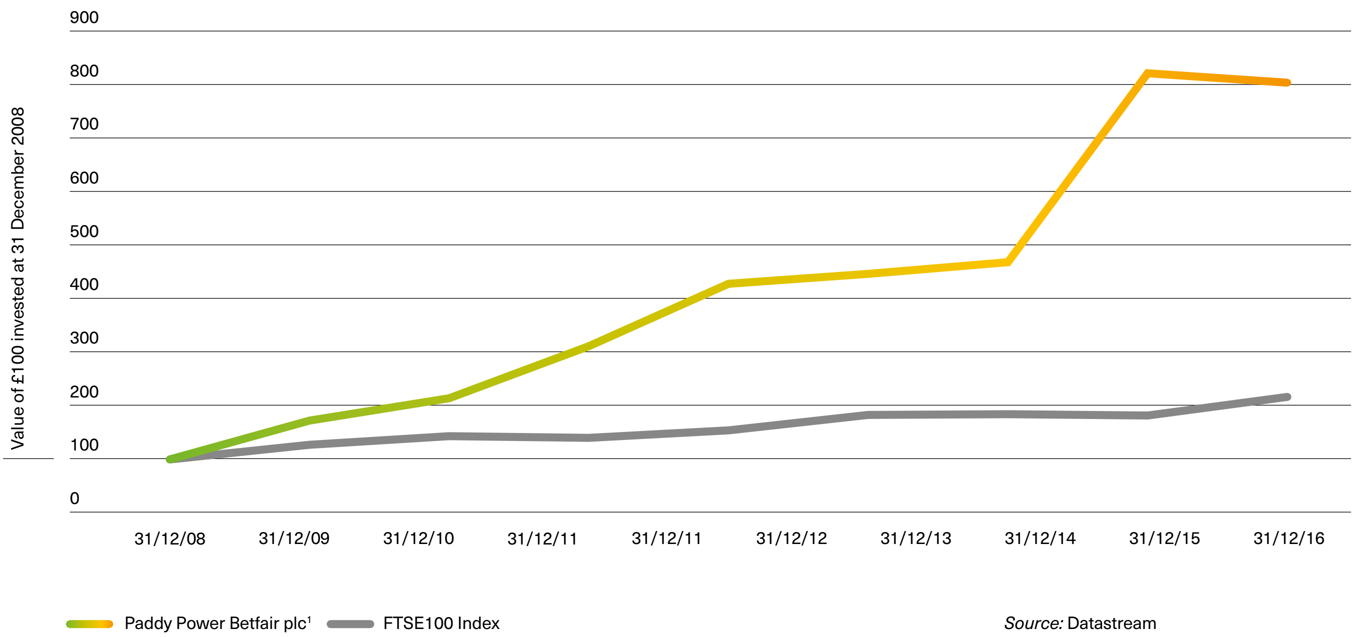
Pay for Performance

The graph below shows Paddy Power Betfair's[1] Total Shareholder Return performance (share price plus dividends paid) compared with the performance of the FTSE100 Index over the eight-year period to 31 December 2016, assuming a nominal £100 investment in Paddy Power plc[1] and the FTSE100 Index at the start of the timeframe. This index has been selected because the Company believes that the FTSE100 provides a relevant and appropriate broad market comparator index for the combined entity, and includes companies of a similar size. The table below the graph details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

Historical Total Shareholder Return performance

Growth in the value of a hypothetical £100 holding over the 8 years to 31 December 2016



Source: Datastream

1. Paddy Power plc changed its name to Paddy Power Betfair plc on completion of the Merger of Paddy Power plc and Betfair Group plc on 2 February 2016.

Change in Chief Executive Officer's single total figure of remuneration

	2009	2010	2011	2012	2013	2014	2015	2016	
Incumbent	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Patrick Kennedy	Andy McCue	Andy McCue	Breon Corcoran
CEO single figure of remuneration[1] (£000)	2,993	3,323	5,775	6,534	6,752	6,450	2,701	2,109	1,557
Annual bonus outcome (% of maximum)	74%	72%	86%	62%	55%	67%	77%	0%[5]	67%
LTIP vesting outcome[2] (% of maximum)	100%	100%	100%	100%	95%[3]	83%[4]	100%	100%	n/a

1. Remuneration is converted from Euros to Pound Sterling as appropriate, using the 12-month average exchange rate over the financial year.
2. Before retesting – note, there is no provision for retesting in respect of LTIP awards made in 2013 and future years.
3. Retesting was applied to the unvested portion of the 2011 LTIP based on performance to 31 December 2014, and as a result an additional 4.9% of the award vested in March 2015.
4. Retesting was applied to the unvested portion of the 2012 LTIP based on performance to 31 December 2015, and as a result an additional 4.0% of the award vested in March 2016.
5. Andy was not eligible for a bonus in 2016 in line with his payment for loss of office (see page 100).

Directors' shareholding

The table below shows the shareholding of each Director against their respective shareholding requirement (where relevant) as at 31 December 2016 and there have been no changes to this from then until the date of this report.

		Share and option awards					
	Beneficially owned[1]	Subject to performance[2]	Vested but not yet exercised	Subject to continued employment only[3]	Shareholding required (% total salary)	Current shareholding[4] (% of total salary)	Requirement met
Breon Corcoran	139,997	11,871	315,459	104,372	300%	1,746%	Yes
Alex Gersh	10,000	6,218	52,236	55,016	200%	198%	No
Zillah Byng-Thorne	930	n/a					
Michael Cawley	3,600						
Ian Dyson	3,163						
Danuta Gray	–						
Peter Jackson	930						
Gary McGann	2,010						
Pádraig Ó Ríordáin	7,200						
Peter Rigby	–						

1. Includes shares held by the individual and those held by persons closely associated with them.
2. Includes the portion of 2015 LTIP awards for which performance is yet to be tested.
3. Includes unvested LTIP awards for which performance has been tested (i.e. 2013, 2014 and a portion of 2015 awards).
4. Based on beneficially owned shares only, Paddy Power Betfair plc share price of £87.3250 and salaries as at 31 December 2016.

None of the Directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

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Executive Directors – Summary of Outstanding Share Awards

The interests of the Executive Directors in the Company's share schemes as at 31 December 2016 are as follows:

Executive Director	Date of original award	Date of replacement award[1]	Awards held at[2] Feb 2016	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2016[2]	Exercise price	Market price at date of original award[3]	Performance period	Vest date	Expiry date
Breon Corcoran												
Share Option Agreement	1 Aug 2012	2 Feb 2016	212,700	–	–	–	212,700	£0	£18.0565	Performance has been tested	1 Aug 2015	31 Jul 2022
LTIP 2013[4]	23 Jul 2013	2 Feb 2016	77,256	758[7]	78,014	–	78,014	£0.00235	£20.9127	Performance has been tested	23 Jul 2016	22 Jul 2023
LTIP 2014[4]	27 Jun 2014	2 Feb 2016	70,078	688[7]	–	–	70,766	£0.00235	£22.7198	Performance has been tested	27 Jun 2017	26 Jun 2024
LTIP 2015 Part A[4]	1 Jul 2015	2 Feb 2016	5,741	56[7]	–	–	5,797	£0.00223	£55.2910	Performance has been tested	1 Jul 2018	30 Jun 2025
LTIP 2015 Part B[5]	1 Jul 2015	2 Feb 2016	23,386	229[7]	–	–	23,615	£0.00223	£55.2910	2 Feb 2016 – 31 Dec 2017	1 Jul 2018	30 Jun 2025
LTIP 2016	20 May 2016	n/a	–	11,871	–	–	11,871	€0.09	£87.0225	2 Feb 2016 – 31 Dec 2018	20 May 2019	19 May 2023
DSIP 2013[6]	5 Jul 2013	2 Feb 2016	7,933	77[7]	–	–	8,010	£0.00235	£20.3662	n/a	5 Jul 2014 (50%) and 5 Jul 2015 (50%)	4 Jul 2023
DSIP 2014[6]	27 Jun 2014	2 Feb 2016	10,299	100[7]	–	–	10,399	£0.00235	£22.7198	n/a	27 Jun 2015 (50%) and 2 Feb 2016 (50%)	26 Jun 2024
DSIP 2015[6]	1 Jul 2015	2 Feb 2016	5,812	56[7]	–	–	5,868	£0.00223	£55.2910	n/a	2 Feb 2016	30 Jun 2025
DSIP 2016	21 Jun 2016	n/a	–	3,643	–	–	3,643	£0	£88.5870	n/a	21 Jun 2017 (50%) and 21 Jun 2018 (50%)	20 Jun 2023
SAYE 2013[6]	4 Oct 2013	n/a	468	–	–		468	£19.1976	£23.2134	n/a	1 Nov 2016	30 Apr 2017
SAYE 2014[6]	7 Nov 2014	n/a	421	–	–	–	421	£21.3469	£29.0165	n/a	1 Dec 2017	31 May 2018
SAYE 2016	21 Oct 2016	n/a	–	130	–	–	130	£69.1947	£86.7000	n/a	1 Dec 2019	31 May 2020
Total							431,702					

Executive Director	Date of original award	Date of replacement award[1]	Awards held at[2] Feb 2016	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2016[2]	Exercise price	Market price at date of original award[3]	Performance period	Vest date	Expiry date
Alex Gersh												
LTIP 2012[6]	13 Dec 2012	2 Feb 2016	46,279	–	–	46,279[8]	–	£0.00235	£7.3538	Performance has been tested	13 Dec 2015	12 Dec 2022
LTIP 2013[4]	23 Jul 2013	2 Feb 2016	40,003	392[7]	40,395	–	40,395	£0.00235	£20.9127	Performance has been tested	23 Jul 2016	22 Jul 2023
LTIP 2014[4]	27 Jun 2014	2 Feb 2016	36,286	355[7]	–	–	36,641	£0.00235	£22.7198	Performance has been tested	27 Jun 2017	26 Jun 2024
LTIP 2015 Part A[4]	1 Jul 2015	2 Feb 2016	2,886	28[7]	–	–	2,914	£0.00223	£55.2910	Performance has been tested	1 Jul 2018	30 Jun 2025
LTIP 2015 Part B[5]	1 Jul 2015	2 Feb 2016	11,757	114[7]	–	–	11,871	£0.00223	£55.2910	2 Feb 2016 – 31 Dec 2017	1 Jul 2018	30 Jun 2025
LTIP 2016	20 May 2016	n/a	–	6,218	–	–	6,218	€0.09	£87.0225	2 Feb 2016 – 31 Dec 2018	20 May 2019	19 May 2023
DSIP 2013[6]	5 Jul 2013	2 Feb 2016	3,105	29[7]	–	3,143[8]	–	£0.00235	£20.3662	n/a	5 Jul 2014 (50%) and 5 Jul 2015 (50%)	4 Jul 2023
DSIP 2014[6]	27 Jun 2014	2 Feb 2016	7,999	78[7]	–	587[8]	7,490	£0.00235	£22.7198	n/a	27 Jun 2015 (50%) and 2 Feb 2016 (50%)	26 Jun 2024
DSIP 2015[6]	1 Jul 2015	2 Feb 2016	4,309	42[7]	–	–	4,351	£0.00223	£55.2910	n/a	2 Feb 2016	30 Jun 2025
DSIP 2016	21 Jun 2016	n/a	–	2,747	–	–	2,747	£0	£87.3502	n/a	21 Jun 2017 (50%) and 21 Jun 2018 (50%)	20 Jun 2023
SAYE 2014[6]	7 Nov 2014	n/a	843	–	–	–	843	£21.3469	£29.5016	n/a	1 Dec 2017	31 May 2018
Total							113,470					

1. Date of completion of the Merger; these are replacement Paddy Power Betfair awards in respect of previously granted Betfair awards.
2. Includes additional dividend equivalent shares to reflect dividends accrued during the vesting period, as appropriate.
3. Betfair Group plc share prices have been converted into Paddy Power Betfair plc share prices where appropriate, by multiplying by a factor of 2.3507 (based on exchange ratio of 1 Betfair Group plc share for 0.4254 Paddy Power Betfair plc share).
4. These Betfair LTIP awards were exchanged on completion of the Merger for equivalent awards over Paddy Power Betfair plc shares. Betfair performance was assessed in the second half of 2015, and targets were deemed to have been met in full by the Betfair Remuneration Committee. Awards will vest in full on their original vest dates subject to continued employment.
5. These Betfair LTIP awards were exchanged on completion of the Merger for equivalent awards over Paddy Power Betfair shares. New targets relating to the performance of Paddy Power Betfair were set for this portion of the LTIP award and are detailed in the Directors' Remuneration Report 2015 (see Annual Report 2015).
6. These Betfair awards were rolled over on completion into equivalent Paddy Power Betfair awards. The number of awards and exercise price have been converted into Paddy Power Betfair plc equivalents on completion of the Merger.
7. Dividend shares added during the year in line with the relevant plan rules.
8. The total gain made across the 3 exercises was £4,503,193 based on the market price on day of exercise of £90.05.

Directors' Report

The Directors present their Report for the year ended 31 December 2016. The Directors' Report should be read in conjunction with the other sections of this Annual Report, all of which are incorporated into this Directors' Report by reference for the purposes of section 1373 of the Companies Act 2014 and Regulation 21 of SI 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006' and SI 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007' as applicable:

- the Strategic Report, which includes a review of the development and performance of the Group, the external environment, key strategic aims, financial and other key performance measures and principal risks and uncertainties: pages 6 to 59;
- the Corporate Governance statement: pages 62 to 115;
- the Directors' Remuneration Report, which includes information on the annual performance bonus, the long term incentive plan, share schemes, share options and Directors' service contracts: pages 84 to 109;
- details of share capital and reserves: Note 16 to the Consolidated Financial Statements on pages 160 and 161;
- details of earnings per share: Note 9 to the Consolidated Financial Statements on page 149; and
- details of derivative financial instruments: Note 29 to the Consolidated Financial Statements on pages 182 to 184.

Principal activities

Paddy Power Betfair is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions: (i) Online, which includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market leader in the fast-growing Australian online betting market; (iii) Retail, which operates over 600 Paddy Power betting shops across the UK and Ireland; and (iv) US, which combines TVG, America's leading horse-racing TV and betting network, Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange.

Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability.

Change of name

On 2 February 2016, pursuant to the completion of the all-share merger by way of an acquisition by Paddy Power plc of Betfair Group plc (the "Merger"), Paddy Power plc changed its name to Paddy Power Betfair plc.

Results

The Group's profit for the year before separately disclosed items of £266.6m reflects an increase of 138% on the 2015 profit before separately disclosed items of £112.2m. Overall Group loss for the year amounted to £5.7m after separately disclosed items amounting to £272.3m, further information is set out in Note 4 to the Consolidated Financial Statements on page 145. Adjusted diluted earnings per share amounted to £3.333 compared with £2.445 in the previous year, an increase of 36%. The financial results for the year are set out in the Consolidated Income Statement on page 124. Total equity attributable to Company equity holders at 31 December 2016 amounted to £4,316.6m (2015: £50.9m).

Business review, key performance indicators and principal risks and uncertainties

The Strategic Report on pages 6 to 59, which includes the Chairman's Statement and the Chief Executive Officer's Review, contain a review of the performance and developments of the Group during the year, including the analysis of the key performance indicators. The principal risks and uncertainties facing the Group are on pages 54 to 59.

Annual Report and Accounts: Fair, balanced and understandable

The Directors are aware of the responsibilities in respect of the Annual Report and Accounts. The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Statement of Directors' Responsibilities appears on page 118.

Annual General Meeting ("AGM") 2017

The Notice of AGM, convening the AGM to be held on 17 May 2017, has been sent out to shareholders together with this Annual Report. This contains full details of the resolutions that will be put to shareholders.

Directors and Company Secretary

Changes during the year

As a result of the completion of the Merger on 2 February 2016, Breon Corcoran and Alex Gersh were appointed as the Chief Executive Officer and the Chief Financial Officer respectively, with Ian Dyson, Zillah Byng-Thorne, Peter Jackson and Peter Rigby being appointed as Non-Executive Directors. Cormac McCarthy (former Chief Financial Officer), Tom Grace and Ulric Jerome (both Non-Executive Directors) resigned as Directors and Andy McCue became Chief Operating Officer. Subsequently, Andy McCue resigned as Chief Operating Officer effective as of 30 April 2016 and Stewart Kenny retired as a Non-Executive Director on 24 August 2016. Biographies of our current Directors can be found on pages 64 and 65. The Company Secretary is Edward Traynor.

Directors' remuneration

Details of Directors' remuneration, payments of loss of office and the Company's share schemes are detailed in the Directors' Remuneration Report on pages 84 to 109, which is incorporated into the Directors' Report.

Directors' and Company Secretary's shareholdings

The Company has established share ownership guidelines for Executive Directors to ensure their interests are aligned with those of shareholders. Further details are set out within the Directors' Remuneration Report on pages 91 and 107.

As at 6 March 2017 (being the latest practicable date before publication of this Annual Report), the Directors and the Company Secretary held the same number of beneficial interests in shares as at 31 December 2016 as set out in the table below. These shareholdings include all beneficial interests and those held by persons closely associated with them. This does not include Executive Directors or the Company Secretary's share awards under the Company's share schemes.

	Number of ordinary shares of €0.09 each	
	31 December 2016	31 December 2015 (or date of appointment to the Company if later)
Zillah Byng-Thorne	930	930
Michael Cawley	3,600	3,600
Breon Corcoran[1]	139,997	183,497
Ian Dyson	3,163	3,163
Alex Gersh	10,000	-
Danuta Gray	-	-
Peter Jackson	930	930
Gary McGann	2,010	610
Pádraig Ó Ríordáin	7,200	7,200
Peter Rigby	-	-
Edward Traynor (Company Secretary)	-	-

1. Breon Corcoran used 32,731 ordinary shares beneficially held by him as collateral for a portfolio finance facility with Barclays Bank Plc UK (London) Platform and 69,556 ordinary shares beneficially held by him as collateral for a portfolio reserve facility with Barclays Private International Limited Jersey Platform. This did not result in any change in Breon's legal or beneficial shareholding in such shares and he continues to have interest and voting rights in 139,997 shares.

None of the Directors nor the Company Secretary had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

The interests of the Executive Directors in the Company's share schemes as at 31 December 2016 are set out on pages 108 and 109 of the Directors' Remuneration Report.

The Company Secretary's interests in the Company's share schemes (including grants during the year) as at 31 December 2016, are set out below. Further details of the schemes are outlined in the Directors' Remuneration Report in this Annual Report or the Annual Report 2015 (as applicable).

Edward Traynor (Company Secretary)	Date awards granted	Awards held at 1 Jan 2016	Granted during the year	Vested during the year	Awards held at 31 Dec 2016	Exercise price (for options)	Market price at date of award	Performance period	Vest date	Expiry date
LTIP 2015 Part A	1 Oct 2015	73	n/a	-	73	n/a	£77.82	Performance has been tested	1 Oct 2018	n/a
LTIP 2015 Part B	1 Oct 2015	566	n/a	-	566	n/a	£77.82	2 Feb 2016 - 31 Dec 2017	1 Oct 2018	n/a
LTIP 2016	20 May 2016	-	1,436	-	1,436	€0.09	£87.02	2 Feb 2016 - 31 Dec 2018	20 May 2019	19 May 2023
SAYE 2016	21 Oct 2016	n/a	239	-	239	€75.21	€96.29	n/a	1 Dec 2019	31 May 2020
Total		639	1,675		2,314					

Directors' Report (continued)

Shares

Share capital, rights and obligations

On 2 February 2016, the Company (previously named Paddy Power plc) completed an all-share merger with Betfair Group plc. Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares with nominal value of €0.09 each ("ordinary shares") in the Company in exchange for each Betfair Group plc ordinary share with nominal value of 0.095p each. The Company issued 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc. Full details can be found in the Merger documents available at *www.paddypowerbetfair.com/investor-relations*

As at 6 March 2017 (being the latest practicable date before publication of this Annual Report), the Company's total issued share capital was 86,024,401 shares, comprising:

- 84,058,801 ordinary shares in issue each with a nominal value of €0.09, all of which are of the same class and carry the same rights and obligations. Ordinary shares carry the right to the profits of the Company available for distribution and to the return of capital on the winding up of the Company. Ordinary shares carry the right to attend and speak at extraordinary general meetings of the Company and each share has the right to one vote. With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which a Company share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights; and
- 1,965,600 treasury shares, which have no voting rights and no entitlement to dividends. This represents 2.28% of the Company's total issued share capital (including treasury shares).

As far as known to the Directors, the Company is not directly or indirectly owned or controlled by another company or any government. Further information on the Company's share capital is set out in Note 16 to the Consolidated Financial Statements.

At the Company's Annual General Meeting ("AGM") in 2016, shareholders authorised the Directors, by way of passing a special resolution, to be able to allot shares for cash up to 10% of the Company's total issued share capital (excluding treasury shares) without first being required to offer them to existing shareholders of the Company (5% to only be used for an acquisition or specified capital investment). At the 2017 AGM, shareholders will be requested to renew this authority for up to 5% of the Company's total issued share capital (excluding treasury shares). Save for the allotment of shares in respect of the Group's employee share schemes, the Directors have no current intention to exercise this authority.

At the Company's AGM in 2016, the shareholders authorised the Company and/or any of its subsidiaries, by way of passing a special resolution, to be able to make market purchases of a maximum of 10% of the Company's total issued share capital (excluding treasury shares). At the 2017 AGM, shareholders will be requested to renew this authority. No purchases were made during 2016.

Own shares held

During 2016, the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") transferred 396,498 (2015: 410,499) ordinary shares to employees under the Company's share schemes. At 31 December 2016, the EBT held 478,392 (2015: 874,890) ordinary shares in the Company, representing 0.57% (2015: 1.91%) of the total issued share capital of the Company (excluding treasury shares) as at that date. No shares were purchased into the EBT during the year ended 31 December 2016 (2015: 327,004). Further information is set out in Note 18 to the Consolidated Financial Statements.

Outstanding options

617,372 awards or grants over shares were made during 2016 that would be dilutive of the Company's issued share capital. We settle outstanding awards or grants under the Company's share schemes with shares purchased in the market and through issuing new shares. The Board continues to review this as appropriate. As at 31 December 2016, there were 1,949,232 options outstanding.

Substantial Shareholdings

As at 31 December 2016 and 6 March 2017 (being the latest practicable date before publication of this Annual Report), the Company had been notified of the following details of interests of over 3% in the ordinary share capital (excluding treasury shares) of the Company:

	Notified holding 31 December 2016	Notified holding 6 March 2017	Notified % holding 6 March 2017
The Capital Group Companies, Inc.[1]	8,464,010	9,480,041	11.28%
Massachusetts Financial Services Company	7,114,580	7,582,514	9.02%
BlackRock Inc.	5,717,733	5,023,872	5.98%
Parvus Asset Management Europe Limited[2]	3,386,989	4,202,492	4.99%
Marathon Asset Management LLP[3]	3,627,299	3,627,299	4.33%
David Power	3,472,822	3,472,822	4.15%

1. EuroPacific Growth Fund ("EUPAC") is a mutual fund registered in the United States and has notified the Company that it is interested in 7.01% of the then Company's ordinary share capital carrying voting rights, and that its voting rights have been delegated to Capital Research and Management Company ("CRMC"). CRMC's holdings under management are reported in aggregate by The Capital Group Companies, Inc. Accordingly, EUPAC's interests are included in the 11.28% interest which was notified by The Capital Group Companies, Inc.
2. Parvus Asset Management Europe Limited holds a derivative position via equity swap.
3. Marathon Asset Management LLP notified the Company on 5 February 2016 of its total holding of 3,627,299 ordinary shares, it has discretion authority to vote on 3,051,177 ordinary shares (3.64% of the then Company's ordinary share capital carrying voting rights).

Dividends

Details of the Company's dividends for the financial years ended 31 December 2016 and 31 December 2015 are detailed in the below table:

	Payment date	Dividend per share		Dividend total	
		pence	cents	£	€
2016 final dividend[1]	24 May 2017	113.00	-	-	-
2016 interim dividend	30 Sept 2016	40.00	46.78	33.5m	-
2016 closing dividend[2]	2 Mar 2016	-	18.00	-	7.9m
2015 special dividend	2 Mar 2016	-	181.40	-	80.0m
2015 final dividend	2 Mar 2016	-	120.00	-	52.9m
2015 interim dividend	30 Sep 2015	-	60.00	-	26.4m

1. Subject to shareholders' approval at the AGM 2017.
2. The pre-Merger Paddy Power plc closing dividend as paid to Paddy Power plc shareholders for the period from 1 January 2016 to 1 February 2016 (inclusive). The pre-Merger Betfair Group plc closing dividend as paid to Betfair Group plc shareholders for the period from 1 May 2015 to 1 February 2016 was 24.3p per Betfair Group plc share.

Employees

The Group employed 7,303 people as at 31 December 2016. The responsibility for formulating, implementing and ensuring adherence to employment policies and relevant legislation falls under the remit of our Human Resources function. The Group fully supports the principle of equal opportunity for all employees and opposes all forms of discrimination and has policies to ensure it meets its legal obligations. It is also Group policy to give full and fair consideration to the recruitment of disabled persons, and to provide such persons with the same training, career development and promotion opportunities as other employees. In the event of employees becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is provided.

The Group believes in open and continuous communications as an important part of the employee engagement process. The Group has an intranet and various internal communication channels for informing employees about financial results, business development and other news concerning the Group and its people. Our Code of Ethics applies to all employees across the Group.

Our culture and people: pages 36 to 39

Directors' Report (continued)

Other

Greenhouse emissions

Information on the Group's greenhouse emissions are set out on page 34.

Political donations

No political donations were made by the Group during the year that require disclosure in accordance with the Electoral Acts 1997 to 2002 and the Electoral Political Funding Act 2012.

Articles of Association

The Company's Articles of Association may only be amended by way of a special resolution approved by the shareholders. They were last amended, effective as of 2 February 2016, by way of a special resolution passed at the Extraordinary General Meeting held on 21 December 2015. These are available on our website at *www.paddypowerbetfair.com/investor-relations*

Significant agreements – change of control provisions

There are no significant agreements which contain provisions entitling other parties to exercise termination or other rights in the event of a change in control of the Company. The rules of certain Company share schemes include provisions which apply in the event of a takeover or reconstruction.

Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. In that context, disclosure in this Annual Report of information about any of those third parties is not considered necessary for an understanding of the development, performance or position of the Group's businesses.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's length basis and are disclosed in the Financial Statements. Transactions with Directors and parties related to them have been disclosed in Note 31 to the Consolidated Financial Statements on page 187.

Funding and liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also spreads its cash reserves across several highly rated banks and investments to mitigate counterparty risks. The Group performs regular cash flow projections to ensure that it has sufficient cash on demand to meet expected operational expenses for a period of at least 90 days. The Group has a committed revolving credit facility of €300m provided by a syndicate of banks which expires in May 2020. At 31 December 2016, €250m of this facility was drawn down.

Viability Statement

In accordance with the UK Code provision C2.2, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to December 2019. This three year timeframe was selected as it corresponds with the Board's strategic planning horizon. Also the possible impact of future regulatory change and the pace of technological change limits the Directors ability to reliably predict the longer term. This is based on long term plans prepared in 2016 with sensitivity analysis performed on key financial metrics such as sportsbook net revenue % and amounts staked.

The Directors' assessment has been made with reference to the strong cash generation capabilities of the Group, its committed debt facilities and in particular its €300m revolving credit facility which expires in May 2020, the Board's risk appetite and the principal risks and uncertainties and how they are managed, as detailed in pages 54 to 59 of this Annual Report.

The Directors also assessed the potential financial and operational impacts, in severe but plausible scenarios, of the principal risks and uncertainties and the likely degree of effectiveness of current and available mitigating actions.

Going concern, responsibilities and disclosure

The current activities of the Group and those factors likely to affect its future development, together with a description of its financial position, are described in the Strategic Report. Principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in the Understanding and Managing our Principal Risks section of the Strategic Report on pages 54 to 59. Critical accounting estimates affecting the carrying values of assets and liabilities of the Group are discussed in Note 2 to the Consolidated Financial Statements.

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for three years (in line with the Viability Statement). In making this assessment, the Directors considered the going concern status for a period of at least 12 months from the date of signing this Annual Report. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Compliance Policy Statement

It is the policy of the Directors of the Company, in line with section 225 of the Companies Act 2014 to:

(i) comply with its relevant obligations;

(ii) put in place appropriate arrangements and structures that are designed to secure material compliance with its relevant obligations;

(iii) conduct a review during each fiscal year of those arrangements and structures; and

(iv) seek and rely on the advice of persons employed by the Group or retained by it under contract for services, being persons who appear to the Board to have the requisite knowledge and experience to advise the Directors of the Company on compliance with its relevant obligations.

External Auditor
In accordance with section 383(2) of the Companies Act 2014, our External Auditor, KPMG LLP, will continue in office and a resolution authorising the Directors to fix their remuneration will be proposed at the forthcoming AGM.

Disclosure of information to the External Auditor
Each of the Directors who held office at the date of approval of the Directors' Report confirms that:

- so far as they are aware, there is no relevant audit information of which the External Auditor are unaware; and
- that they have taken all steps that they ought to have taken as a Director to make them aware of any relevant audit information and to establish that the External Auditor are aware of that information.

Books of account
The measures which the Directors have taken to ensure that adequate accounting records are kept with the requirements of sections 281 to 285 of the Companies Act 2014 are: the appointment of suitably qualified personnel; the adoption of suitable policies for recording transactions, assets and liabilities; and the appropriate use of computers and documentary systems. The Group and Company accounting records are kept at the Company's headquarters at Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland.

Listing Rule 9.8.4
For the purposes of compliance with LR 9.8.4R, the following information is included by reference within the Directors' Report (this sets out sections which are relevant to the Company; the remaining sections are not applicable):

LR Requirement	Location within Annual Report
LR 9.8.4R (4)	Details of any long-term incentive schemes are included in the Directors' Remuneration Report on pages 84 to 109

On behalf of the Board

Breon Corcoran
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2017

Paddy Power Betfair plc
Registered in Ireland, Company number 16956


Maryland
Station

Financial Statements

Statement of Directors' Responsibilities
in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company Financial Statements (the "Annual Report and Accounts"), in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), and have elected to prepare the parent Company Financial Statements in accordance with the requirements of the Companies Act 2014 and IFRS as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and parent Company and of the Group's and parent Company's profit or loss for that year. In preparing each of the Group and parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Financial Statements comply with IFRS as adopted by the EU, and as regards the Company, as applied in accordance with the Companies Act 2014; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC0 Regulations 2007) and the Interim Transparency Rules of the Irish Financial Services Regulatory Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the parent Company and which enable them to ensure that the financial statements of the parent Company comply with the provision of the Companies Act 2014. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provision of the Companies Act 2014. They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's and parent Company's website ('www.paddypowerbetfair.com'). Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement as required by the Transparency Directive and UK Corporate Governance Code (the "UK Code")

Each of the Directors confirm that, to the best of their knowledge and belief:

- the Group Financial Statements, prepared in accordance with IFRS as adopted by the European Union and the parent Company Financial Statements prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities, financial position of the Group and Company at 31 December 2016 and of the profit or loss of the Group for the year then ended;
- the Directors' Report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, provides the information necessary to assess the Group's position and performance, business model and strategy, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Breon Corcoran
Chief Executive Officer
7 March 2017

Alex Gersh
Chief Financial Officer

Independent Auditor's Report
to the Members of Paddy Power Betfair plc

Opinions and conclusions arising from our audit

1. Our opinion on the Financial Statements is unmodified

We have audited the financial statements of Paddy Power Betfair plc for the year ended 31 December 2016 set out on pages 124 to 219. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), and, as regards the Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

In our opinion:

- the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2014; and
- the Financial Statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the Financial Statements as a whole. Our opinion on the Financial Statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Financial Statements, the risks of material misstatement, in decreasing order of audit significance, which had the greatest effect on our audit were as follows:

Revenue recognition (£1,501 million) (2015: £794 million)
Risk vs 2015: ◄► (Risk unchanged)
Refer to page 77 (Report of the Audit Committee), page 130 (accounting policy) and Note 3 to the Group Financial Statements.

The risk
The Group has a number of income streams across its online and retail operations which are predominantly driven by cash and credit card transactions. The accuracy of the amounts recognised from these income streams is largely dependent on the effectiveness of the operational and fraud-related controls in place in the Group's IT systems that aim to correctly calculate commission revenues and appropriate wins and losses, as applicable. The completeness of the revenue recorded is also dependent on the Group's IT systems and controls accurately aggregating, reporting on and reconciling these transactions.

Revenue streams for the vast majority of the Group's products are computed on highly complex IT systems, with a number of different bases for calculating revenue. There are in excess of 1 billion transactions each year, all requiring a correct IT outcome. There is a risk that a system may not be configured correctly from the outset such that commissions or winning and losing bets are calculated incorrectly, that the systems do not interface correctly from the customer facing systems through to the financial information systems and that unauthorised changes may be made to any of these systems, which may result in the misstatement of revenue.

The calculation of revenue from the IT systems links directly to the reconciliation of funds between customer and corporate accounts. There is a risk that commissions or winning and losing bets are not calculated correctly and consequently that revenue and the amounts to be transferred from the customer accounts in the ring-fenced trust to Paddy Power Betfair corporate accounts could be misstated.

Independent Auditor's Report
to the Members of Paddy Power Betfair plc (continued)

Our response
Our procedures included the use of our own IT audit experts throughout the audit process. We critically assessed the design and operating effectiveness of IT controls and tested that the systems are configured appropriately. We traced bets placed on live-betting environments from the customer-facing systems to the data warehouse and then from the data warehouse to the financial information systems to assess whether that information is passed appropriately from one system to another. We tested controls over the capture of initial bets, their allocation between different products and their processing through the systems to recognition as revenue or in the appropriate customer account. We also tested the configuration of the system which monitors the information transfer between key IT systems and evaluated whether it was operating effectively.

We tested controls related to access to programs and data, program change and development and computer operations by evaluating account set-up and termination for users, password restrictions, access reviews, users with super-user access, program change and development process controls and integration monitoring, and tested whether any unauthorised changes had been made to the system. We critically assessed the overall IT environment, including: security policies and procedures, IT organisational structure, strategy and reporting, disaster recovery and back-up testing.

We tested processes and controls over customer account set-up and cash deposits and withdrawals from customer accounts. We checked customer bank balances to third party information and tested the reconciliation of these bank balances to customers' betting accounts. We also tested the effectiveness of the controls at a sample of retail betting shops in the Republic of Ireland and Great Britain.

We considered the reports issued by the Group's Internal Audit function during the year on revenue related processes and a sample of the Group's Risk and Security department's reports which are designed to identify unusual trading activity.

Furthermore, we performed substantive analytical procedures over the Group's significant revenue streams and tested the inclusion of income in the appropriate period. We also considered the adequacy of the Group's disclosures in respect of revenue recognition.

Compliance with laws and regulations
Risk vs 2015: ▲ (Risk increased)
Refer to page 77 (Report of the Audit Committee).

The risk
The Group operates in a heavily regulated industry across multiple geographic jurisdictions. Each jurisdiction has different laws and regulations in relation to licensing, data protection, money laundering, customer identification and verification, fraud, direct and indirect taxes and other legislative matters. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the Group's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provision of laws and regulation that determine the reported amounts and disclosures in the Group's Financial Statements.

The risk associated with regulation increased in certain key markets during the year following the merger. For some markets in which the Group now operates or operated in the past, online gaming regulation might not yet be formed, is unclear or continues to evolve, requiring the Directors to exercise a level of judgement surrounding the interpretation of international tax laws and their interaction within each jurisdiction. This may result in significant provisions or contingent liabilities for gaming and other indirect taxes in countries where the tax and / or other regulations are not yet formed or are unclear, the volatility of which could have a significant impact on the Financial Statements, particularly if there is a retrospective element applied to taxes. Where tax regulations are formalised in certain jurisdictions, the Group must adhere to the operating guidelines within these jurisdictions, such that taxes do not become payable elsewhere, which would result in current tax provisions being understated.

In addition to gaming taxes, the Directors must make judgements in relation to international income tax laws including transfer pricing and controlled foreign companies.

Our response
Our procedures are designed to obtain sufficient appropriate audit evidence regarding compliance with the provisions of laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the Financial Statements. Accordingly, we have performed specified procedures in accordance with auditing standards to help identify instances of non-compliance with laws and regulations, including illegal acts that may have a material effect of the Financial Statements of the Group.

Our procedures included assessing the controls and processes in place across the Group that may assist in the prevention and detection of non-compliance with laws and regulations, including illegal acts in each of the geographic locations in which the Group operates. Such procedures included discussions with the Group's in-house legal counsel and an assessment of policies and procedures implemented by the Group's Legal & Compliance functions; a consideration of the reports undertaken by the

Group's Internal Audit function during the year on these areas; and testing the Group's controls and processes over new customer account set-up.

We inspected correspondence between the Group and regulators in key jurisdictions to check the completeness and accuracy of any penalties or fines recorded as a liability.

Our procedures included using own tax specialists to assist the Group audit team in evaluating and challenging the assumptions and methodologies used by the Group and its tax advisers in relation to the recognition of direct and indirect tax liabilities and in assessing the reasonableness of the assumptions underpinning the measurement and recognition of such amounts. We tested a sample of the Group's indirect and direct taxes calculations by reference to the relevant income streams and underlying tax rates. We also considered the adequacy of the disclosures in respect of tax and uncertain tax positions.

Acquisition accounting
Risk vs 2015: ▲ (New risk)
Refer to page 76 (Report of the Audit Committee), page 136 (accounting policy) and Note 13 to the Group Financial Statements.

The risk
On 2 February 2016, Paddy Power plc completed an all-share merger with Betfair Group plc (the "Merger") resulting in Paddy Power plc shareholders owning 52% and Betfair Group plc shareholders owning 48% of Paddy Power Betfair plc (previously Paddy Power plc). The Merger is accounted for as an acquisition of Betfair by Paddy Power on that date for consideration of £4.3 billion which was based on the value of the Company's shares issued to Betfair Group plc's shareholders and the fair value of the replacement share options. There was also judgement used in identifying who the accounting acquirer was in the acquisition as the resulting shareholdings mentioned cannot be used definitively to identify the acquirer.

Under business combination accounting, goodwill and additional intangible assets have arisen and the valuation of these assets is complex and highly sensitive to underlying assumptions around future cash flows and discount rates. The Directors have exercised judgement in identifying and estimates in arriving at the fair value of the separately identifiable intangibles comprising brands, customer relations, technology and licenses as part of the acquisition. The fair value of these intangible assets recognised in the business combination accounting amount to £627.6 million. This amount is sensitive to the underlying assumptions around forecast future cash flows and the discount rate applied in their respective valuations and these judgements could have an impact in the recognition of the amount for goodwill (£3,745.4 million) if alternative assumptions had been adopted.

Our response
In this area our procedures included understanding the key terms and rationale for the Merger through inspection of purchase agreements, board minutes and discussions with the Directors.

Using our own valuation specialists we inspected the Group's valuation analysis prepared by the Directors and the third party valuation experts who assisted the Directors, which was the basis for the determination of the fair value of the intangible assets used in the business combination accounting. We critically challenged the key assumptions within, and in particular evaluated the reasonableness of assumptions underlying the future trading forecasts of the operations acquired, growth rates and the discount rate applied, as they support the valuation of separately identified intangible assets. Our challenge included considering the inputs used in calculating the Weighted Average Cost of Capital that then, adjusted as appropriate in deriving the applicable discount rates, was used in deriving fair values. We also critically assessed royalty rates used in the valuation of brand intangibles. In performing this assessment we had regard to the performance of the existing business and trading forecasts for operations acquired which were used as a basis for asset valuation calculations, including considering the historical accuracy of the Directors' forecasts, to assess the reasonableness of the forecasts that were used to estimate the fair value of the intangible assets.

We assessed the facts of the Merger against the applicable accounting standards and challenged the Directors' conclusion that Paddy Power was the accounting acquirer in the Merger.

We also assessed whether the Group's disclosures regarding the acquisition and the estimation required are appropriate and comply with those required by the relevant accounting standards.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group Financial Statements as a whole was set at £12.0 million (2015: £6.6 million). This has been calculated using a benchmark of Group profit before taxation and exceptional items of which it represents 5% (2015: 5%), which we have determined, in our professional judgement, to be one of the principal benchmarks within the Financial Statements relevant to members of the Company in assessing financial performance.

We excluded exceptional items for the purposes of calculating our materiality level on the basis that they are not considered normal recurring items. The Group team performed procedures on the exceptional items excluded from Group profit before taxation.

We reported to the Audit Committee all corrected and uncorrected misstatements we identified through our audit in excess of £595,000 (2015: £330,000), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The full scope audits of five (2015: one) components for Group reporting purposes were performed by component auditors in Ireland, Malta (three components), and Australia (2015: Australia). The increase from one component to five is a result of the Merger with the Betfair Group, and Ireland becoming a component for Group reporting purposes. The Group audit team performed the audit over Paddy Power Betfair group, including that of a

Independent Auditor's Report
to the Members of Paddy Power Betfair plc (continued)

component in the UK, which has some operations in Ireland and Gibraltar, and consolidation-type adjustments (2015: Ireland and consolidation type adjustments). These Group audit procedures covered 92% (2015: 100%) of Group revenue, 97% (2015: 100%) of the total profits and losses that made up Group profit before tax and 99% (2015: 100%) of the Group net assets and liabilities. We performed comprehensive audit procedures, including those in relation to the significant risks above, on those transactions and balances for which the central Group finance team provides accounting support at a Group level.

For the remaining four components (US, Portugal, Italy and Romania) (2015: none), we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The audits undertaken for Group reporting purposes at the reporting components of the Group in Ireland, Malta and Australia (2015: Australia) were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component, ranging between £0.1 million and £6.5 million (2015: at £1.8 million), having regard to the mix of size and risk profile across the components.

Detailed audit instructions were sent to the auditors of the Group's significant components listed above. These instructions covered the significant audit areas to be covered by the audit (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported to the Group audit team. The Group audit team, including the lead engagement partner, discussed the audit findings arising from the significant components below with the local audit teams and Group Management.

In the current year the Group audit team also visited Ireland, Australia and Malta, including to assess the audit risk and strategy, and telephone meetings were also held with the component auditors throughout the current year. At these visits and meetings, the findings reported to the Group team were discussed in more detail and the Group team assessed the adequacy of the work performed by the component auditors.

4. Our conclusions on other matters on which we are required to report by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
In our opinion the accounting records of the parent Company were sufficient to permit the Financial Statements to be readily and properly audited and the Financial Statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the Financial Statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group Financial Statements is consistent with the Group Financial Statements.

In addition we report, in relation to information given in the Corporate Governance Statement on pages 62 to 74, that:

- based on knowledge and understanding of the parent Company and its environment obtained in the course of our audit, no material misstatements in the information identified above have come to our attention ;
- based on the work undertaken in the course of our audit, in our opinion:
  - the description of the main features of the internal control and risk management systems in relation to the process for preparing the Group Financial Statements, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 and specified by the Companies Act 2014 for our consideration, are consistent with the Financial Statements and have been prepared in accordance with the Companies Act 2014; and
  - the Corporate Governance Statement contains the information required by the Companies Act 2014.

5. Our conclusions on other matters on which we are required to report under the terms of our engagement is unmodified

In addition to our audit of the Financial Statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the UK Companies Act 2006, as if those requirements were to apply to the company.

6. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement on viability on pages 54 to 59 and page 114, concerning the principal risks, their management, and based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to December 2019; and
- the disclosures in Note 2 of the Financial Statements concerning the use of the going concern basis of accounting.

We have nothing to report in respect of the above responsibilities.

7. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK & Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the Financial Statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified any material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Corporate Governance Statement does not appropriately disclose those matters that we communicated to the Audit Committee.

Under the Listing Rules of the Irish Stock Exchange and the UK Listing Authority we are required to review:

- the Directors' statements, set out on page 114, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Statement on pages 62 to 74, relating to the Company's compliance with the provisions of the 2014 UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Board of Directors' Remuneration Committee.

Under the Companies Act 2014 we are required us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

Under the terms of our engagement we are required to report to you if, in our opinion the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns.

We have nothing to report in respect of the above responsibilities.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 118, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Group and Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of an audit of Financial Statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of Financial Statements is provided on our website at (www.kpmg.com/uk/auditscopeother2014). This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014, and, in respect of any further matters on which we have agreed to report, on terms we have agreed with the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Harper
7 March 2017

for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm
15 Canada Square
London
E14 5GL

Consolidated Income Statement
Year ended 31 December 2016

	Note	Before separately disclosed items 2016 £m	Separately disclosed items (Note 4) 2016 £m	Total 2016 £m	Restated (Notes 34 & 35) Before separately disclosed items 2015 £m	Restated (Note 35) Separately disclosed items (Note 4) 2015 £m	Restated (Notes 34 & 35) Total 2015 £m
Continuing operations							
Revenue	3	**1,500.8**	**-**	**1,500.8**	794.3	-	794.3
Cost of sales	3	**(346.5)**	**-**	**(346.5)**	(191.3)	-	(191.3)
Gross profit		**1,154.3**	**-**	**1,154.3**	603.0	-	603.0
Operating costs excluding depreciation and amortisation		**(767.3)**	**(123.1)**	**(890.4)**	(432.1)	(7.4)	(439.5)
EBITDA[1]		**387.0**	**(123.1)**	**263.9**	170.9	(7.4)	163.5
Depreciation and amortisation		**(67.9)**	**(180.6)**	**(248.5)**	(38.4)	-	(38.4)
Operating profit / (loss)		**319.1**	**(303.7)**	**15.4**	(132.5)	(7.4)	125.1
Financial income	6	**1.5**	**-**	**1.5**	1.4	-	1.4
Financial expense	6	**(5.0)**	**-**	**(5.0)**	(2.0)	-	(2.0)
Profit / (loss) before tax		**315.6**	**(303.7)**	**11.9**	131.9	(7.4)	124.5
Tax (expense) / credit	8	**(49.0)**	**31.4**	**(17.6)**	(19.7)	3.4	(16.3)
Profit / (loss) for the year – all attributable to equity holders of the Company		**266.6**	**(272.3)**	**(5.7)**	112.2	(4.0)	108.2

(Loss) / earnings per share

	Note			Total 2016			Total 2015
Basic	9			**(£0.072)**			£2.399
Diluted[2]	9			**(£0.072)**			£2.358

1. EBITDA is defined as profit for the year before depreciation and amortisation, 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, as it is 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.

2. Where any potential ordinary shares would have the effect of decreasing a loss per share, they have not been treated as dilutive.

Notes 1 to 35 on pages 130 to 193 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
Year ended 31 December 2016

	Note	2016 £m	Restated (Note 35) 2015 £m
(Loss) / profit for the year – all attributable to equity holders of the Company		**(5.7)**	108.2
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	6	**7.6**	(4.5)
Fair value of foreign exchange cash flow hedges transferred to income statement	6	**(9.3)**	8.3
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities	6	**49.7**	(20.2)
Deferred tax on fair value of cash flow hedges	19	**0.2**	(0.5)
Other comprehensive income / (loss)		**48.2**	(16.9)
Total comprehensive income for the year – all attributable to equity holders of the Company		**42.5**	91.3

Notes 1 to 35 on pages 130 to 193 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2016

	Note	31 December 2016 £m	Restated (Notes 34 & 35) 31 December 2015 £m	Restated (Notes 34 & 35) 31 December 2014 £m
Assets				
Property, plant and equipment	10	**134.0**	92.0	98.7
Intangible assets	11	**581.2**	60.3	59.5
Goodwill	12	**3,891.1**	79.9	80.1
Deferred tax assets	19	**8.6**	6.7	6.4
Investments		**0.1**	-	-
Available-for-sale financial assets	14	**1.3**	-	-
Trade and other receivables	14	**5.8**	-	1.5
Total non-current assets		**4,622.1**	238.9	246.2
Trade and other receivables	14	**55.2**	22.7	25.2
Derivative financial assets	14	**-**	1.8	-
Financial assets – restricted cash	15	**64.8**	60.2	53.7
Financial assets – deposits	15	**-**	-	15.0
Cash and cash equivalents	15	**249.9**	86.1	153.3
Total current assets		**369.9**	170.8	247.2
Total assets		**4,992.0**	409.7	493.4
Equity				
Issued share capital and share premium	16	**417.2**	8.7	39.0
Treasury shares		**(40.7)**	(40.7)	(44.8)
Shares held by employee benefit trust		**(30.9)**	(49.2)	(47.9)
Other reserves		**173.0**	8.5	27.2
Retained earnings		**3,798.0**	123.6	327.9
Total equity attributable to equity holders of the Company		**4,316.6**	50.9	301.4
Liabilities				
Trade and other payables	20	**320.6**	184.1	156.9
Derivative financial liabilities	20	**8.6**	12.5	13.2
Provisions	21	**4.6**	0.4	0.4
Current tax payable		**38.8**	10.9	13.5
Borrowings	22	**0.2**	0.2	-
Total current liabilities		**372.8**	208.1	184.0
Trade and other payables	20	**26.9**	5.0	4.5
Derivative financial liabilities	20	**-**	-	0.1
Provisions	21	**1.1**	1.0	0.9
Deferred tax liabilities	19	**61.0**	2.9	2.5
Borrowings	22	**213.6**	141.8	-
Total non-current liabilities		**302.6**	150.7	8.0
Total liabilities		**675.4**	358.8	192.0
Total equity and liabilities		**4,992.0**	409.7	493.4

Notes 1 to 35 on pages 130 to 193 form an integral part of these consolidated financial statements.

On behalf of the Board

Breon Corcoran
Chief Executive Officer
7 March 2017

Alex Gersh
Chief Financial Officer

Consolidated Statement of Cash Flows
Year ended 31 December 2016

	Note	2016 £m	Restated (Notes 34 & 35) 2015 £m
Cash flows from operating activities			
(Loss) / profit for the year – all attributable to equity holders of the Company		**(5.7)**	108.2
Separately disclosed items	4	**272.3**	4.0
Tax expense before separately disclosed items		**49.0**	19.7
Financial income	6	**(1.5)**	(1.4)
Financial expense	6	**5.0**	2.0
Depreciation and amortisation before separately disclosed items		**67.9**	38.4
Employee equity-settled share-based payments expense before separately disclosed items	18	**20.8**	12.1
Foreign currency exchange gain	7	**(2.5)**	(1.9)
Loss on disposal of property, plant and equipment and intangible assets	7	**0.3**	0.2
Cash from operations before changes in working capital		**405.6**	181.3
(Increase) / decrease in trade and other receivables		**(3.5)**	0.2
(Decrease) / increase in trade, other payables and provisions		**(50.4)**	33.6
Cash generated from operations		**351.7**	215.1
Tax paid		**(43.1)**	(19.2)
Net cash from operating activities before merger fees and integration and restructuring costs		**308.6**	195.9
Merger fees and integration and restructuring costs paid		**(104.4)**	(7.4)
Net cash from operating activities		**204.2**	188.5
Purchase of property, plant and equipment	10	**(40.8)**	(20.2)
Purchase of intangible assets	11	**(32.3)**	(21.9)
Purchase of retail businesses, net of cash acquired	13	**(0.2)**	(4.0)
Cash acquired from merger with Betfair Group plc	13	**147.5**	-
Capitalised internal development expenditure	11	**(7.0)**	-
Payment of contingent deferred consideration	13	**(3.8)**	(1.1)
Proceeds from disposal of property, plant and equipment and intangible assets		**0.2**	0.2
Transfers from financial assets – deposits		**-**	15.4
Interest received		**1.3**	1.5
Net cash from / (used) in investing activities		**64.9**	(30.1)
Proceeds from the issue of new shares	16	**2.5**	2.0
Purchase of shares by employee benefit trust		**-**	(18.5)
Dividends paid	17	**(142.3)**	(55.4)
Return of capital to shareholders (including associated costs)		**-**	(282.8)
Net amounts drawn down on borrowings facility	22	**44.1**	139.6
Fees in respect of borrowings facility		**-**	(1.8)
Interest paid		**(2.9)**	(1.5)
Betfair Group plc closing dividend	17	**(22.6)**	-
Net cash used in financing activities		**(121.2)**	(218.4)
Net increase / (decrease) in cash and cash equivalents		**147.9**	(60.0)
Cash and cash equivalents at start of year		**86.1**	153.3
Foreign currency exchange gain / (loss) on cash and cash equivalents		**15.9**	(7.2)
Cash and cash equivalents at end of year	15	**249.9**	86.1

Notes 1 to 35 on pages 130 to 193 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
Year ended 31 December 2016

	Attributable to equity holders of the Company (see Note 16)									
	Number of ordinary shares in issue millions	**Issued share capital and share premium £m**	**Foreign exchange translation reserve £m**	**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**
Balance at 1 January 2016	***46.0***	**8.7**	**(20.2)**	**1.5**	**1.7**	**(40.7)**	**(49.2)**	**25.5**	**123.6**	**50.9**
Total comprehensive income / (loss) for the year										
Loss for the year	-	-	-	-	-	-	-	-	**(5.7)**	**(5.7)**
Foreign exchange translation (Note 6)	-	-	**49.7**	-	-	-	-	-	-	**49.7**
Net change in fair value of cash flow hedge reserve (Note 6)	-	-	-	**(1.7)**	-	-	-	-	-	**(1.7)**
Deferred tax on cash flow hedges (Note 19)	-	-	-	**0.2**	-	-	-	-	-	**0.2**
Total comprehensive income / (loss) for the year	-	-	**49.7**	**(1.5)**	-	-	-	-	**(5.7)**	**42.5**
Transactions with owners of the Company, recognised directly in equity										
Shares issued (Note 16)	***0.4***	**2.5**	-	-	-	-	-	-	-	**2.5**
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	**28.4**	-	**28.4**
Equity-settled transactions – vestings	-	-	-	-	-	-	**18.3**	**(19.8)**	**2.0**	**0.5**
Tax on share-based payments	-	-	-	-	-	-	-	-	**(1.5)**	**(1.5)**
Transfer to retained earnings on exercise of share options (Note 16)	-	-	-	-	-	-	-	**(25.6)**	**25.6**	-
Shares issued as consideration for acquisition of Betfair Group plc (Note 13)	***39.6***	**4,202.3**	-	-	-	-	-	-	-	**4,202.3**
Capital reduction – share premium cancellation (Note 16)	-	**(3,796.3)**	-	-	-	-	-	-	**3,796.3**	-
Dividends to shareholders (Note 17)	-	-	-	-	-	-	-	-	**(142.3)**	**(142.3)**
Issue of replacement share options (Note 13)	-	-	-	-	-	-	-	**111.4**	-	**111.4**
Replacement share options – expense recorded in income statement (Note 4)	-	-	-	-	-	-	-	**21.9**	-	**21.9**
Total contributions by and distributions to owners of the Company	***40.0***	**408.5**	-	-	-	-	**18.3**	**116.3**	**3,680.1**	**4,223.2**
Balance at 31 December 2016	***86.0***	**417.2**	**29.5**	-	**1.7**	**(40.7)**	**(30.9)**	**141.8**	**3,798.0**	**4,316.6**

Consolidated Statement of Changes in Equity
Year ended 31 December 2015

	Attributable to equity holders of the Company (see Note 16)									
	Number of ordinary shares in issue millions	Restated Issued share capital and share premium £m	Restated Foreign exchange translation reserve £m	Restated Cash flow hedge reserve £m	Restated Other reserves £m	Restated Treasury shares £m	Restated Shares held by employee benefit trust £m	Restated Share-based payment reserve £m	Restated Retained earnings £m	Restated Total equity £m
Balance at 1 January 2015	*51.1*	39.0	-	(1.8)	1.0	(44.8)	(47.9)	28.0	327.9	301.4
Total comprehensive income / (loss) for the year										
Profit for the year	-	-	-	-	-	-	-	-	108.2	108.2
Foreign exchange translation (Note 6)	-	-	(20.2)	-	-	-	-	-	-	(20.2)
Net change in fair value of cash flow hedge reserve (Note 6)	-	-	-	3.8	-	-	-	-	-	3.8
Deferred tax on cash flow hedges (Note 19)	-	-	-	(0.5)	-	-	-	-	-	(0.5)
Total comprehensive (loss) / income for the year	-	-	(20.2)	3.3	-	-	-	-	108.2	91.3
Transactions with owners of the Company, recognised directly in equity										
Shares issued (Note 16)	-	2.0	-	-	-	-	-	-	-	2.0
Own shares acquired by employee benefit trust – net of B shares' receipt (Note 18)	-	-	-	-	-	-	(18.5)	-	-	(18.5)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	12.1	-	12.1
Equity-settled transactions – vestings	-	-	-	-	-	-	17.2	(14.0)	(2.5)	0.7
Tax on share-based payments	-	-	-	-	-	-	-	-	0.1	0.1
Transfer to retained earnings on exercise of share options (Note 16)	-	-	-	-	-	-	-	(0.6)	0.6	-
Return of capital to shareholders (including associated costs) (Note 16)	-	-	-	-	-	-	-	-	(282.8)	(282.8)
Capital reduction – share consolidation	*(5.1)*	(0.7)	-	-	0.7	4.1	-	-	(4.1)	-
Capital reduction – share premium cancellation (Note 16)	-	(31.6)	-	-	-	-	-	-	31.6	-
Dividends to shareholders (Note 17)	-	-	-	-	-	-	-	-	(55.4)	(55.4)
Total contributions by and distributions to owners of the Company	*(5.1)*	(30.3)	-	-	0.7	4.1	(1.3)	(2.5)	(312.5)	(341.8)
Balance at 31 December 2015	*46.0*	8.7	(20.2)	1.5	1.7	(40.7)	(49.2)	25.5	123.6	50.9

Notes 1 to 35 on pages 130 to 193 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Paddy Power Betfair plc (the "Company") and its subsidiaries (together referred to as the "Group") is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions; (i) Online, which includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market leader in the fast-growing Australian online betting market; (iii) Retail, which operates over 600 Paddy Power betting shops across the UK and Ireland; and (iv) US, which combines TVG, America's leading horse-racing TV and betting network, Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange.

During the year ended 31 December 2016, the Company completed an all-share merger with Betfair Group plc (the "Merger") – see Note 13 for further information on the Merger. The results of Betfair Group plc prior to completion of the Merger are not included in these consolidated financial statements.

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the London Stock Exchange, and a secondary listing on the Irish Stock Exchange. The address of its registered office is set out on page 224 of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2016 comprise the financial statements of the Company and its subsidiary undertakings and were approved for issue by the Board of Directors on 7 March 2017.

2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis except for betting transactions and foreign exchange forward contracts (which are recorded as derivative financial instruments), 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, a change from the previous presentation currency of euro, 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 2016.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year, except as set out below.

Changes in accounting policies and restatement of comparatives
The Group has reviewed and amended its accounting policies in light of the Merger. The changes do not impact the Group's reported operating profit. The treatment of these items has developed over the past few years and the Group has reviewed its presentation of these items to align reporting for the Group subsequent to the Merger and to bring treatment in line with current industry practice for comparability purposes. Where adjustments have been made to comparative information in respect of the year ended 31 December 2015 the relevant financial statement or note is headed up as 'Restated'.

The revised accounting policy for revenue is:

Revenue
The services provided by the Group comprise sports betting (sportsbook, the exchange sports betting product and pari-mutuel betting products), fixed odds games betting, online games and casino, peer-to-peer games including online bingo and poker and business-to-business services. Revenue is stated exclusive of value-added tax.

The Group's betting and gaming activities are classified as derivative financial instruments, with the exception of the exchange sports betting product and pari-mutuel betting products on which commission income is earned, peer-to-peer games on which commission income and tournament fees are earned, and business-to-business services on which fees are earned.

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

Revenue from sportsbook betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the revenue line as this represents the Group's principal activity. Customer promotions (including free bets) and bonuses are deducted from sportsbook betting revenue.

Revenue from the exchange sports betting product represents commission earned on betting activity and is recognised on the date the outcome for an event is settled.

Revenue from pari-mutuel betting products represents a percentage of stake and is recognised on settlement of the event, and is stated net of customer promotions and bonuses in the period.

Revenue from fixed odds games and the online casinos represents net winnings ("customer drop"), being amounts staked net of customer winnings, and is stated net of customer promotions and bonuses incurred in the period.

Revenue from peer-to-peer games represents commission income ("rake") and tournament fees earned from games completed by the period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

Revenue from business-to-business services represents fees charged for the services provided in the period.

There are no changes to revenue recognition for prior year comparatives as per the new accounting policy outlined above.

The revised accounting policy for cost of sales is:

Cost of sales
Cost of sales principally comprises betting and gaming taxes, software supplier costs, customer payment transaction fees, sporting levies and other data rights charges.

The revised accounting policy for operating segment reporting is:

Operating segment reporting
Operating segments are distinguishable components of the Group that have been established based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker (the Board of Directors) in order to assess each segment's performance and to allocate resources to them. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its operating segments of Online, Australia, Retail and US are its reportable segments. See Note 3 for further information on operating segments.

The revised accounting policy for other non-derivative financial instruments is:

Other non-derivative financial instruments
Other non-derivative financial instruments comprise cash and cash equivalents, restricted cash, deposits, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

Notes to the Consolidated Financial Statements
(continued)

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

Restricted cash represents cash held by the Group but which is ring fenced, or used as security for specific arrangements (such as cash held on the balance sheet in designated client fund accounts where certain jurisdiction licences require the Group to do so, or as collateral for a bank guarantee), and to which the Group has restricted access for a period of time. It includes funds held to cover monies owed to customers, as per the terms of the Australian corporate sports book making licenses issued to Sportsbet. Restricted cash is classified as held to maturity and carried at amortised cost. Restricted cash balances are further classified as current or non-current depending on when the restriction first ends.

Neither cash and cash equivalents or restricted cash include certain customer funds deposited in a stakeholder account held by The Sporting Exchange (Clients) Limited, a wholly-owned subsidiary of the Group, on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7, 'Statement of Cash Flows', these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Subsequent to initial recognition, cash and cash equivalents, deposits and trade and other payables are measured at amortised cost.

The revised accounting policy for bank and credit card charges is:

Bank and credit card charges
Bank and credit card charges and fees that are considered integral to the operations of the Group's business are recognised in 'cost of sales' in the consolidated income statement. Bank charges and fees that are related to the Group's financing activities are recognised in 'financial expense' in the consolidated income statement.

The impact of the changes, by reporting segment, on the major components of operating profit (before separately disclosed items), on the consolidated statement of financial position, and on the major components of the consolidated statement of cash flows, for the year ended 31 December 2015 is disclosed in Note 34 to the consolidated financial statements.

Following the Merger with Betfair Group plc, the Group changed its presentation currency from euro to pounds sterling. The change in presentation currency has been applied retrospectively.

The revised accounting policy for functional and presentation currency is:

Functional and presentation currency
Pounds sterling represents the primary currency for transactions and as such the Group has chosen to present its financial statements in pounds sterling, a change from the previous presentation currency of euro. The Company's functional currency is euro. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which are primarily pounds sterling, euro, Australian dollar and US dollar.

Foreign currency transactions
Transactions in foreign currencies are translated at the relevant foreign exchange rate ruling at the date of the transaction. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currencies at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within 'operating costs excluding depreciation and amortisation' in the income statement rather than as financial income or expense, as the Directors consider that the gains or losses arising relate to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

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

Foreign currency translation of foreign operations

To the extent that the Group's foreign operations are considered to have functional currencies which are different from the Group's presentation currency, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and long term intra-group loans that are part of the net investment because repayment is not planned or foreseen, are translated to GBP at the foreign exchange rates ruling at the reporting date. The revenues and expenses of these foreign operations are translated to GBP at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve within equity.

Further information on the procedures used to restate comparative information is provided in Note 35 to the consolidated financial statements.

Sportsbook amounts staked

Sportsbook amounts staked, which is an Alternative Performance Measure ("APM"), was disclosed in the consolidated income statement in previous years, but is no longer disclosed in the consolidated income statement due to the increasing diversification post-Merger of the Group's revenue streams. Details in respect of sportsbook amounts staked are disclosed in the Operating and Financial Review.

Going concern

The Group has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore they continue to adopt the going concern basis in the consolidated financial statements. Further detail is contained in the Directors' Report on page 114.

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 2016:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation
- Amendments to IAS 1: Disclosure Initiative

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

Adopted IFRSs not yet applied

The following Adopted 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:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed)
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed)

The following Adopted IFRS has been issued but has not been applied in these financial statements. The Group is currently considering the impact of this amendment on future annual reports.

- IFRS 16 Leases (effective date to be confirmed).

Notes to the Consolidated Financial Statements
(continued)

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 IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes.

Note 12 – Measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets
An impairment review has been performed of all goodwill and intangible assets held by the Group. The impairment review is performed on a "value-in-use" basis, which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and an appropriate growth rate.

Note 13 - Business combinations
The identification of the acquirer and valuation of separable assets and liabilities on the all-share merger with Betfair Group plc and the determination of appropriate useful economic lives for those assets required judgement.

Note 18 – Measurement of share-based payments
Estimation and judgement is required in determining the fair value of shares at the date of award. The fair value is estimated using valuation techniques which take into account the award's term, the risk-free interest rate and the expected volatility of the market price of shares of the Group.

Note 19 – Deferred tax
Deferred tax assets and liabilities represent management's best estimate in determining the amounts to be recognised. When assessing the extent to which deferred tax assets should be recognised, consideration is given to the timing and level of future taxable income.

Note 20 and 21 – Valuation of tax provisions and liabilities
Judgement and estimation is required to interpret international tax laws and the way they interact within each jurisdiction, in order to identify and value provisions in relation to gaming taxes as applicable. In addition to gaming taxes, judgement is required in relation to international tax laws including transfer pricing. The tax provision and liability amounts due at 31 December 2016 represents management's best estimate of the amounts that will be payable.

Note 29 – Determination of fair value of deferred and contingent consideration
Deferred and contingent consideration is initially recognised at fair value and subsequently reassessed at each reporting date to reflect changes in estimates and assumptions. Fair value is determined using an income approach which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and an appropriate growth rate.

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

Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Significant unobservable inputs and valuation adjustments are monitored on an on-going basis.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in the different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 29 – contingent deferred consideration and measurement of sports betting open positions.

Research and development
Expenditure on research activities is recognised in the income statement as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an internally generated intangible asset only when the necessary criteria are met; including demonstrating the technical feasibility of the product and having sufficient certainty over future revenue or cost savings that will be generated from the product. The qualifying expenditure capitalised represents costs directly attributable to the development of the asset. This expenditure is capitalised from the date when they first meet the recognition criteria and until the date at which the asset is available for use. If the criteria are not met the expenditure is recognised in profit or loss as an expense in the period in which it is incurred. Capitalised development expenditure assets are amortised on a straight-line basis from the date they are available for use over their useful economic life.

Financial income
Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest. Financial income includes changes in the fair value of financial assets at fair value through profit or loss.

Financial expense
Financial expense comprises interest expense on borrowings (except in respect of borrowing costs relating to qualifying assets), interest on guarantee contracts entered into with third parties, and the unwinding of the discount on provisions and other non-current liabilities.

Notes to the Consolidated Financial Statements
(continued)

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

Business combinations
Acquisitions of subsidiaries are accounted for using the acquisition method. The value of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS 3, 'Business Combinations (2008)', is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the fair values of the relevant net assets acquired is dealt with through retained earnings.

Costs relating to the acquisition of businesses that occurred since 1 January 2010 are expensed to the income statement when incurred. Costs related to the acquisition of non-controlling interests are recognised directly in retained earnings.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Previously, the Group would have immediately recognised all borrowing costs as an expense.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'total operating expenses' in the income statement.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight-line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.

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

Intangible assets

Intangible assets, principally comprising brands, customer relations, computer software and technology, development expenditure, licences and broadcasting and wagering rights are capitalised and amortised over their estimated useful economic lives on a straight-line basis, with the exception of customer relations which is amortised on a reducing balance basis.

Brands represent the fair value of brands and trade-mark assets acquired in business combinations.

Customer relations represent the fair value of customer relations acquired in business combinations.

Computer software and technology includes the costs incurred in acquiring and bringing specific software programs into use and the fair value of software and technology acquired in business combinations. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

Development expenditure represents internally generated costs incurred on development activities. These costs have been capitalised in accordance with the requirements of IAS 38 "Intangible Assets".

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences), licences for electronic point-of-sale ("EPOS") system software, and gambling licences across a number of jurisdictions globally.

Broadcasting and wagering rights represent assets acquired as part of the Merger and in particular relate to the US segment.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Brands	8 years
Customer relations	4 years reducing balance, based on estimated customer lifecycle
Computer software and technology	2 – 5 years
Development expenditure	3 years
Licences	2 – 20 years
Broadcasting and wagering rights	6 years

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business in 2008, the acquisition of an additional betting shop in Northern Ireland in 2011 and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited in 2009 are not amortised for the reasons set out in Note 11.

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the Consolidated Financial Statements
(continued)

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

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Borrowings

Borrowings are recorded at the fair value of the proceeds received, net of any directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Derivative financial instruments

The Group holds certain derivative financial instruments which are initially recognised at fair value.

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Tax

Tax in the income statement comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse based on laws that have been enacted or substantively enacted at the reporting date.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

In determining the current and deferred tax the Group considers the impact of uncertain tax positions and whether additional taxes or interest may be due. Uncertainties reviewed by the group including those regarding transfer pricing policies in place and interpretation of tax laws internationally have been measured using the best estimate of the likely outcome. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks and the Group believes that the accrual for tax liabilities at 31 December 2016 is adequate for all uncertain tax positions based on its assessment of the range of factors outlined above.

Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is considered probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Long service leave
The provision for long service leave (that arises under the provisions of Australian state legislation) is measured at the present value of expected future payments to be made in respect of services rendered by employees of the Australia operating segment up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Lease reinstatement
Where there exists a legal obligation for properties held under operating leases to be reinstated to their original condition on expiry of the lease, a provision is established to recognise the estimated cost of such reinstatement work on a straight-line basis over the term of the lease.

Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived from a contract by the Group are less than the unavoidable costs of meeting its obligations under the terms of the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Gaming tax
Gaming tax provisions relate to amounts provided for taxes in certain jurisdictions where the interpretation of tax legislation is uncertain. Judgement and estimation is required to interpret international tax laws and the way that they interact within each jurisdiction, in order to identify and value provisions in relation to gaming taxes as applicable.

Notes to the Consolidated Financial Statements
(continued)

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

Employee benefits
Pensions
The Group operates a number of defined contribution schemes under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the obligation falls due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Long-term incentive bonus plans
The Group accounts for obligations relating to long term incentive bonus plans for employees at the present value of the defined benefit obligation at the reporting date. The service cost relating to such plans is allocated to the financial years over which service under the plan is rendered by the employee. The income statement expense represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period, in addition to any associated finance costs where material.

Share-based payments
The Group operates equity-settled long term and medium term incentive plans for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and / or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve in equity. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Group also currently operates a deferred share incentive plan ("DSIP") whereby one-third of any annual incentive payment (determined under the Annual Cash Incentive Plan) to be paid in deferred shares. Any such deferred element granted under the DSIP will vest 50% after 1 year and 50% after 2 years from the date of grant and will be fair valued using the same methodology as other long and medium term incentive plans. The two-thirds cash portion is measured on an undiscounted basis and expensed as the related service is provided. A liability is recognised for the amount expected to be paid under this cash portion if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates an equity-settled share save scheme ("SAYE") for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group has operated equity-settled share option schemes for employees under which employees acquired options over Company shares. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group operates certain cash-settled long term incentive plans for selected senior executives (other than Directors) and other key management under which they are conditionally awarded notional Company shares which vest upon the achievement of predetermined earnings targets and future service periods. The estimated costs of the awards are spread over the period during which the employees become unconditionally entitled to the payment. The beneficiaries are paid in cash based on the Company's share price on the date of vesting and the liability is re-measured at each reporting date using the closing share price on that day.

Share capital
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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

Shares held by employee benefit trust
The costs of purchases of the Company's shares by the employee benefit trust, which have been conditionally awarded to executives under the terms of the share award schemes, are shown separately as deductions from equity in the consolidated statement of financial position.

Repurchase of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Transaction costs relating to the purchase by the Company of its own shares are recognised directly in retained earnings. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is recognised in retained earnings.

Where the Company purchases its own shares and subsequently cancels those shares, the cost of the shares cancelled is written off directly to retained earnings. The nominal value of the shares cancelled is transferred from share capital to the capital redemption reserve fund.

Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 33.

Earnings per share
The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include awards under share award schemes and share options granted to employees.

Separately disclosed items
The Group applies an income statement format which seeks to highlight items within Group profit or loss for the period. Separately disclosed items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either on the face of the consolidated income statement or in the notes thereto.

3. Operating segments

Revenue
Income for the years ended 31 December 2016 and 2015 is analysed as follows:

	2016 £m	Restated 2015 £m
Revenue in respect of sportsbook and gaming activities	**1,161.0**	785.0
Other commission and fee revenue (included in Online, Australia and US revenue)	**339.8**	9.3
Revenue	**1,500.8**	794.3

As more fully described in the accounting policies, betting activities are considered to be derivative financial instruments as set out in IAS 39, 'Financial Instruments: Recognition and Measurement'. Other commission and fee revenue is earned from the exchange sports betting product and pari-mutuel betting products, peer-to-peer gaming, and business-to-business services and, as these activities do not involve customers taking a direct position against the Group, such revenue is not classified as income from derivative financial instruments.

The Group's reportable segments are divisions that are managed separately, due to a combination of factors including method of service delivery, geographical location and the different services provided.

Notes to the Consolidated Financial Statements
(continued)

3. Operating segments (continued)

Reportable business segment information
Subsequent to the Merger, the Group's reportable segments are as follows:

- Online;
- Australia;
- Retail;
- US.

The reportable segments reflect the way financial information is reviewed by the Group's Chief Operating Decision Maker ("CODM"). The Group has restated the operating segment information for 2015 accordingly.

The Online segment derives its revenues primarily from sports betting (sportsbook and the exchange sports betting product) and / or gaming (games, casino, bingo and poker) services in all business-to-customer ("B2C") geographies that the Group operates in except the US and Australia, and business-to-business ("B2B") services globally. Online services are delivered primarily through the internet with a small proportion delivered through the public telephony system. The previous reportable segments of Online (ex Australia) and Telephone are included in the Online segment.

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 Australia segment was previously called Online Australia.

The Retail segment derives its revenues from sports betting and / or gaming machine services delivered through licenced bookmaking shop estates in the UK and Ireland. The previous reportable segments of UK Retail and Irish Retail are included in the Retail segment.

The US segment earns its revenues from sports betting (including the exchange sports betting product) and gaming services provided to US customers via the internet.

Corporate administrative costs (Board, Finance, Legal, Internal Audit, HR, Property and other central functions) cannot be readily allocated to individual operating segments and are not used by the CODM for making operating and resource allocation decisions. These are shown in the reconciliation of reportable segments to Group totals.

The accounting policies in respect of operating segments reporting are the same as those described in the basis of preparation and summary of significant accounting policies set out in Note 2.

The Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the Online, US and Retail segments. The Australian segment manages its own treasury function under Group Treasury oversight.

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 2016:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	**809.4**	**311.5**	**295.3**	**84.6**	**-**	**1,500.8**
Cost of sales	**(183.4)**	**(80.5)**	**(62.8)**	**(19.8)**	**-**	**(346.5)**
Gross profit	**626.0**	**231.0**	**232.5**	**64.8**	**-**	**1,154.3**
Operating costs excluding depreciation and amortisation	**(352.1)**	**(137.4)**	**(170.2)**	**(53.4)**	**(54.2)**	**(767.3)**
EBITDA	**273.9**	**93.6**	**62.3**	**11.4**	**(54.2)**	**387.0**
Depreciation and amortisation	**(32.6)**	**(9.6)**	**(17.7)**	**(8.0)**	**-**	**(67.9)**
Reportable segment profit / (loss) before separately disclosed items	**241.3**	**84.0**	**44.6**	**3.4**	**(54.2)**	**319.1**
Separately disclosed items (Note 4):						
- Merger fees and associated costs						**(35.5)**
- Integration and restructuring costs						**(65.7)**
- Amortisation of merger related intangible assets						**(174.1)**
- Replacement share options						**(21.9)**
- Impairment of property, plant and equipment and intangible assets						**(6.5)**
Operating profit						**15.4**

Reportable business segment information for the year ended 31 December 2015:

	Restated Online £m	Restated Australia £m	Restated Retail £m	Restated US £m	Restated Corporate £m	Restated Total £m
Revenue from external customers	295.5	232.5	266.3	-	-	794.3
Cost of sales	(74.4)	(58.4)	(58.5)	-	-	(191.3)
Gross profit	221.1	174.1	207.8	-	-	603.0
Operating costs excluding depreciation and amortisation	(138.5)	(104.5)	(156.2)	-	(32.9)	(432.1)
EBITDA	82.6	69.6	51.6	-	(32.9)	170.9
Depreciation and amortisation	(14.4)	(8.7)	(15.3)	-	-	(38.4)
Reportable segment profit / (loss) before separately disclosed items	68.2	60.9	36.3	-	(32.9)	132.5
Separately disclosed items (Note 4):						
- Merger fees and associated costs						(4.2)
- Restructuring costs						(3.2)
Operating profit						125.1

Notes to the Consolidated Financial Statements
(continued)

3. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	2016 £m	Restated 2015 £m
Revenue		
Total revenue from reportable segments, being total Group revenue	**1,500.8**	794.3
Profit and loss		
Operating profit	**15.4**	125.1
Unallocated amounts:		
Financial income – non-Australia [1]	**0.6**	0.3
Financial income – Australia	**0.9**	1.1
Financial expense – non-Australia [1]	**(4.9)**	(1.9)
Financial expense – Australia	**(0.1)**	(0.1)
Profit before tax	**11.9**	124.5

1. Non-Australia above comprises the Online, Retail, and US operating segments. Financial expense relating to these segments is primarily in respect of interest on borrowings, guarantee and facility fees payable, other interest amounts payable, and the unwinding of discounts on provisions and other non-current liabilities.

Geographical segment information

The Group considers that its primary geographic segments are 'UK and Ireland', 'Australia', 'US' and 'Rest of World'. The UK and Ireland geographic segment consists of the Retail bookmaking business, online and telephone sports betting from UK and Irish customers, and online gaming from UK and Irish customers. The Australia geographic segment consists of online and telephone sports betting from Australian customers. The US geographic segment is comprised of online 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 and Ireland, Australia and the US are not considered sufficiently significant to warrant separate reporting.

Group revenues by geographical segment are as follows:

	2016 £m	Restated 2015 £m
UK and Ireland	**978.3**	539.8
Australia	**311.5**	232.5
US	**84.6**	-
Rest of World	**126.4**	22.0
Total	**1,500.8**	794.3

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 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
UK and Ireland	**4,137.3**	146.1	149.1
Australia	**94.1**	63.1	65.2
US	**365.0**	-	-
Rest of World	**17.1**	23.0	25.5
Total	**4,613.5**	232.2	239.8

4. Separately disclosed items

	2016 £m	Restated 2015 £m
Merger fees and associated costs	**(35.5)**	(4.2)
Integration and restructuring costs	**(65.7)**	(3.2)
Amortisation of merger related intangible assets	**(174.1)**	-
Replacement share options	**(21.9)**	-
Impairment of property, plant and equipment and intangible assets	**(6.5)**	-
Operating profit impact of separately disclosed items	**(303.7)**	(7.4)
Tax credit on separately disclosed items	**31.4**	0.4
Corporation tax provision	**-**	3.0
Total separately disclosed items	**(272.3)**	(4.0)

Merger fees and associated costs
Merger fees and associated costs relate to costs incurred in the period directly as a result of the Merger. This includes stamp duty of £20.7m and professional fees of £14.8m which were subject to completion of the Merger. This does not include any professional fees incurred by Betfair Group plc and its subsidiaries prior to the Merger.

Integration and restructuring costs
Integration costs relate to incremental, one-off costs incurred as a result of integration and restructuring related activities.

Amortisation of merger related intangible assets
Non-cash amortisation of £174.1m has been incurred in the period primarily as a result of intangible assets separately identified under IFRS 3 as a result of the Merger.

Replacement share options
Under the terms of the Merger, outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans would not vest on completion but would be replaced by share option awards over an equivalent number of ordinary shares in the Company, calculated by reference to the exchange ratio of 0.4254. Whilst the awards will vest in line with their previous terms, the replacement of the options, under IFRS 3, requires them to be accounted for at fair value on acquisition. As a result, non-cash accounting charges of £21.9m were incurred in the period.

Impairment of property, plant and equipment and intangible assets
Non-cash impairments amounting to £6.5m in relation to certain property, plant and equipment and intangible assets has also been incurred in light of integration related activities post-Merger.

Corporation tax provision
In 2015, the Group released a specific historic provision of £3.0m that was no longer required.

Merger fees and associated costs, integration and restructuring costs and replacement share options are included in the Consolidated Income Statement within operating costs excluding depreciation and amortisation. Amortisation of merger related intangible assets and impairment of property, plant and equipment and intangible assets are included in the Consolidated Income Statement within depreciation and amortisation.

Notes to the Consolidated Financial Statements
(continued)

5. Employee expenses and numbers

Employee expenses excluding separately disclosed items (see Note 4) are:

	2016 £m	Restated 2015 £m
Wages and salaries	**272.1**	164.6
Social security costs	**26.4**	15.7
Defined contribution pension and life assurance costs	**11.4**	6.9
Share-based payment costs	**20.8**	12.1
Other staff costs	**21.5**	13.2
	352.2	212.5

The average number of persons employed by the Group (including Executive Directors), all of whom were involved in the provision of sports betting and gaming services, during the year was	**7,557**	5,069

Details on the remuneration of Directors are set out in the Directors Remuneration Report on pages 98 to 102.

6. Financial income and expense

	2016 £m	Restated 2015 £m
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost		
Interest income on short term bank deposits	**1.5**	1.3
Unwinding of the discount on non-current assets	**-**	0.1
	1.5	1.4
Financial expense:		
On financial liabilities at amortised cost		
Interest on borrowings, bank guarantees and bank facilities and other interest payable	**2.8**	1.9
Unwinding of the discount on provisions and other non-current liabilities	**2.2**	0.1
	5.0	2.0

	2016 £m	Restated 2015 £m
Recognised in other comprehensive income / (loss):		
Effective portion of changes in fair value of cash flow hedges	**7.6**	(4.5)
Fair value of foreign exchange cash flow hedges transferred to income statement	**(9.3)**	8.3
Net change in fair value of cash flow hedge reserve	**(1.7)**	3.8
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities	**49.7**	(20.2)
	48.0	(16.4)

No amounts were recorded in the income statement in respect of ineffective cash flow hedges in the year ended 31 December 2016 (2015: £Nil).

7. Statutory and other information

	2016 £m	Restated 2015 £m
Auditor's remuneration for audit and other assurance services	**1.1**	0.7
Depreciation and impairment of property, plant and equipment	**33.3**	20.4
Amortisation and impairment of intangible assets	**205.0**	18.0
Amortisation of capitalised development costs	**10.2**	-
Loss on disposal of property, plant and equipment and intangible assets	**0.3**	0.2
Foreign currency exchange gain – monetary items	**(2.5)**	(1.9)
Operating lease rentals, principally premises	**32.8**	24.8
Research and development	**16.3**	2.3
Operating lease income (representing sub-lease income)	**(0.4)**	(0.3)

Remuneration to Group external auditor (KPMG LLP)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the auditor's remuneration figures presented below represent fees paid to KPMG LLP only and are exclusive of value added tax. In 2015, the Group external auditor was KPMG Ireland.

	2016 £m	Restated 2015 £m
Audit	**0.4**	0.1
Other assurance services – audit of subsidiaries	**0.1**	-
Other assurance services – miscellaneous	**0.1**	0.4
Tax advisory services	**0.1**	-
Other non-audit services	**0.1**	-
Total	**0.8**	0.5

Further analysis of the total fees paid to the Group external auditor, KPMG, worldwide for audit and non-audit services is presented below:

Analysis of total auditor's remuneration for audit and other assurance services

	2016 £m	Restated 2015 £m
Audit of Group (KPMG LLP)	**0.4**	0.1
Audit of subsidiaries (KPMG LLP)	**0.1**	-
Audit of subsidiaries (other KPMG offices)	**0.5**	0.1
Other assurance services – miscellaneous (KPMG LLP and other offices)	**0.1**	0.5
Total	**1.1**	0.7

Analysis of amounts paid to the auditor in respect of non-audit services

	2016 £m	Restated 2015 £m
Tax advisory services (KPMG LLP)	**0.1**	-
Tax advisory services (other KPMG offices)	**0.6**	0.1
Other non-audit services	**0.1**	-
Total	**0.8**	0.1

Notes to the Consolidated Financial Statements
(continued)

8. Tax expense

	2016 £m	Restated 2015 £m
Recognised in profit or loss:		
Current tax charge	**44.0**	20.9
Prior year over provision	**(1.9)**	(4.0)
Total current tax	**42.1**	16.9
Deferred tax credit	**(25.3)**	(1.4)
Prior year under provision	**0.8**	0.8
Decrease in net deferred tax liability (Note 19)	**(24.5)**	(0.6)
Total tax expense in income statement	**17.6**	16.3

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of corporation tax to profit before tax is as follows:

	2016 £m	Restated 2015 £m
Profit before tax	**11.9**	124.5
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	**1.5**	15.5
Depreciation on non-qualifying property, plant and equipment	**1.4**	1.1
Effect of different statutory tax rates in overseas jurisdictions	**7.6**	4.1
Non-deductible expenses	**10.2**	(1.2)
Interest income taxable at higher rates	**-**	0.1
Effect of changes in statutory tax rates	**(1.7)**	(0.1)
Movement on deferred tax balances not recognised	**(0.3)**	-
Over provision in prior year	**(1.1)**	(3.2)
Total tax expense	**17.6**	16.3

Total tax expense for 2016 includes a credit for separately disclosed items amounting to £31.4m (2015: £3.4m) (see Note 4).

Tax rates

The Group's consolidated effective tax rate on profits including separately disclosed items for 2016 is 148.2%. The tax effect of separately disclosed items in the current year amounted to a tax credit of £31.4m.

The Group's underlying effective tax rate of 15.5% is materially impacted by the geographic mix of profits and reflects a combination of higher and lower headline rates of tax in the various jurisdictions in which the Group operates when compared with the Irish standard rate of corporation tax of 12.5%.

The increase in the tax effect of non-deductible expenses during the year primarily relates to additional disallowable expenditure incurred as a result of the acquisition of Betfair Group plc in February 2016.

No significant changes are expected to statutory tax rates other than those announced and enacted at 31 December 2016; principally the reduction in the headline rate of UK corporation tax to 19% in April 2017 and further to 17% in April 2020.

The effect of the reduction in the UK headline rate of corporation tax on deferred tax balances in the UK is reflected in the above tax reconciliation.

The future effective tax rate of the Group is principally affected by the ongoing geographic mix of profits in accordance with the OECD guidelines in relation to Base Erosion and Profit Shifting.

9. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares has been adjusted for amounts held as Treasury Shares and amounts held by the Group's Employee Benefit Trust ("EBT").

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

The calculation of basic and diluted EPS is as follows:

	2016	Restated 2015
Numerator in respect of basic and diluted earnings per share (£m):		
(Loss) / profit attributable to equity holders of the Company	**(5.7)**	108.2
Numerator in respect of adjusted earnings per share (£m):		
(Loss) / profit attributable to equity holders of the Company	**(5.7)**	108.2
Separately disclosed items (see Note 4)	**272.3**	4.0
Profit for adjusted earnings per share calculation	**266.6**	112.2
Weighted average number of ordinary shares in issue during the year (in 000's)	**79,986**	45,115
Basic (loss) / earnings per share	**(£0.072)**	£2.399
Adjusted basic earnings per share	**£3.333**	£2.488
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	**79,986**	45,115
Dilutive effect of share options and awards on issue	**-**	780
Adjusted weighted average number of ordinary shares in issue during the year	**79,986**	45,895
Diluted (loss) / earnings per share	**(£0.072)**	£2.358
Adjusted diluted earnings per share	**£3.333**	£2.445

The average market value of the Company's shares of £90.40 (2015: £63.54) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

Where any potential ordinary shares would have the effect of decreasing a loss per share, they have not been treated as dilutive.

Notes to the Consolidated Financial Statements
(continued)

10. Property, plant and equipment

	Land, buildings and leasehold improvements £m	Fixtures and fittings £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
Balance at 1 January 2015 (restated)	69.9	115.1	55.6	0.4	241.0
Additions	3.4	8.5	7.5	-	19.4
Additions – business combinations (Note 13)	-	0.5	-	-	0.5
Disposals	(0.2)	(1.3)	(7.3)	(0.1)	(8.9)
Foreign currency translation adjustment	(4.1)	(6.4)	(3.4)	(0.1)	(14.0)
Balance at 31 December 2015 (restated)	69.0	116.4	52.4	0.2	238.0
Additions	**5.8**	**15.4**	**19.6**	**-**	**40.8**
Additions – business combinations (Note 13)	**3.4**	**5.2**	**10.3**	**-**	**18.9**
Disposals	**(0.6)**	**(6.3)**	**(0.7)**	**(0.1)**	**(7.7)**
Foreign currency translation adjustment	**12.3**	**21.2**	**11.5**	**-**	**45.0**
Balance at 31 December 2016	**89.9**	**151.9**	**93.1**	**0.1**	**335.0**
Depreciation and impairment					
Balance at 1 January 2015 (restated)	25.8	74.6	41.7	0.2	142.3
Depreciation charges	3.2	9.1	8.0	0.1	20.4
Disposals	(0.1)	(1.1)	(7.2)	(0.1)	(8.5)
Foreign currency translation adjustment	(1.5)	(4.2)	(2.5)	-	(8.2)
Balance at 31 December 2015 (restated)	27.4	78.4	40.0	0.2	146.0
Depreciation and impairment charges	**6.6**	**12.6**	**14.1**	**-**	**33.3**
Disposals	**(0.3)**	**(6.2)**	**(0.6)**	**(0.1)**	**(7.2)**
Foreign currency translation adjustment	**5.2**	**14.6**	**9.1**	**-**	**28.9**
Balance at 31 December 2016	**38.9**	**99.4**	**62.6**	**0.1**	**201.0**
Net book value					
At 31 December 2016	**51.0**	**52.5**	**30.5**	**-**	**134.0**
At 31 December 2015 (restated)	41.6	38.0	12.4	-	92.0
At 31 December 2014 (restated)	44.1	40.5	13.9	0.2	98.7

The net book value of land, buildings and leasehold improvements at 31 December 2016 includes £47.0m (2015: £36.7m, 2014: £40.1m) in respect of leasehold improvements.

The Directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

11. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise computer software and technology, licences, development expenditure, brands, customer relations, and broadcasting and wagering rights, were as follows:

	Computer software and technology £m	Licences £m	Development expenditure £m	Brands £m	Customer relations £m	Broadcasting and wagering rights £m	Total £m
Cost							
Balance at 1 January 2015 (restated)	83.8	23.0	-	12.4	-	-	119.2
Additions	20.9	0.1	-	-	-	-	21.0
Foreign currency translation adjustment	(4.7)	(0.3)	-	(0.8)	-	-	(5.8)
Balance at 31 December 2015 (restated)	100.0	22.8	-	11.6	-	-	134.4
Additions	**32.2**	**0.1**	**-**	**-**	**-**	**-**	**32.3**
Additions – internally developed	**-**	**-**	**7.0**	**-**	**-**	**-**	**7.0**
Additions – business combinations (Note 13)	**43.2**	**4.8**	**18.0**	**332.4**	**252.9**	**29.2**	**680.5**
Disposals	**(5.2)**	**-**	**-**	**-**	**-**	**-**	**(5.2)**
Foreign currency translation adjustment	**18.7**	**1.4**	**0.6**	**6.4**	**1.4**	**5.4**	**33.9**
Balance at 31 December 2016	**188.9**	**29.1**	**25.6**	**350.4**	**254.3**	**34.6**	**882.9**
Amortisation and impairment							
Balance at 1 January 2015 (restated)	52.5	3.6	-	3.6	-	-	59.7
Amortisation charges	17.7	0.3	-	-	-	-	18.0
Foreign currency translation adjustment	(3.1)	(0.3)	-	(0.2)	-	-	(3.6)
Balance at 31 December 2015 (restated)	67.1	3.6	-	3.4	-	-	74.1
Amortisation and impairment charges	**43.8**	**2.4**	**10.2**	**38.1**	**116.0**	**4.7**	**215.2**
Disposals	**(5.2)**	**-**	**-**	**-**	**-**	**-**	**(5.2)**
Foreign currency translation adjustment	**12.2**	**1.2**	**0.1**	**2.2**	**0.7**	**1.2**	**17.6**
Balance at 31 December 2016	**117.9**	**7.2**	**10.3**	**43.7**	**116.7**	**5.9**	**301.7**
Net book value							
At 31 December 2016	**71.0**	**21.9**	**15.3**	**306.7**	**137.6**	**28.7**	**581.2**
At 31 December 2015 (restated)	32.9	19.2	-	8.2	-	-	60.3
At 31 December 2014 (restated)	31.3	19.4	-	8.8	-	-	59.5

The value of betting shop licences of £18.1m (2015: £18.1m, 2014: £18.1m) acquired as a result of the purchase of D McGranaghan Limited in 2008 and an additional betting shop in Northern Ireland in 2011 are not being amortised as the Directors consider these licences to have an indefinite life because:

- existing law in Northern Ireland restricts entry of new competitors;
- there exists a proven and future expected demand for bookmaking services and products; and
- the Group has a track record of renewing its betting permits and licences at minimal cost.

The value of brand intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to £13.9m at 31 December 2016 (2015: £11.6m, 2014: £12.4m)) are not being amortised as the Directors consider that the relevant brands have indefinite lives because:

- the Directors intend to utilise the brands in the businesses for the foreseeable future (with the exception of the IAS brand – see below); and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

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11. Intangible assets (continued)

The Group reviews the carrying value of licences and brands for impairment annually (or more frequently if there are indications that the value of the licences and brands may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell).

In 2011, the Directors reviewed the carrying value of the IAS brand of AUD 6.9m and determined, on the basis of future plans, that an impairment provision was required against the value of that brand at 31 December 2011. A similar review was performed at 31 December 2015 and at 31 December 2016 (when the GBP equivalent value of the brand was £3.4m and £4.0m, respectively) which indicated that there had been no changes in the circumstances that gave rise to the impairment provision and that continued provision was appropriate.

12. Goodwill

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

	Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2015 (restated)	10.4	40.5	-	16.3	12.9	80.1
Arising on acquisitions during the year (Note 13)	-	-	-	0.4	3.8	4.2
Foreign currency translation adjustment	(0.6)	(2.5)	-	(0.5)	(0.8)	(4.4)
Balance at 31 December 2015 (restated)	9.8	38.0	-	16.2	15.9	79.9
Arising on acquisitions during the year (Note 13)	**3,420.9**	**-**	**324.5**	**0.1**	**0.1**	**3,745.6**
Foreign currency translation adjustment	**1.6**	**7.2**	**52.5**	**1.6**	**2.7**	**65.6**
Balance at 31 December 2016	**3,432.3**	**45.2**	**377.0**	**17.9**	**18.7**	**3,891.1**

The Online segment goodwill amount arose from the acquisition by the Group in 2011 of CT Networks Limited (“Cayetano”), a games developer based in the Isle of Man and Bulgaria, and the Betfair online business (excluding operations in the US) acquired as part of the all-share merger with Betfair Group plc in 2016, described more fully in Note 13.

The Australia segment goodwill amount arose from the acquisition by the Group 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 by the Group in 2016 of the US business associated with Betfair Group plc, consisting of TVG, an online horseracing betting operator based in California, and Betfair Casino, an online casino site in New Jersey (see Note 13).

Goodwill on 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 (see Note 13).

Goodwill on Irish Retail arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of three retail bookmaking businesses in 2007 and the acquisition of a number of retail bookmaking shop properties since 2009 (see Note 13).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets
In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2016.

For the purpose of impairment testing, the Group’s cash generating units include amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and a shop acquisition in 2011, and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Note 11).

12. Goodwill (continued)

The details of the impairment reviews in respect of the cash generating units as of 31 December 2016 are presented below:

	31 December 2016 £m	Restated 31 December 2015 £m
Online – goodwill	**3,432.3**	9.8

The recoverable amount of the Online operating segment underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period to 2019. Further projections from 2020 to 2026 are based on experience and are consistent with management's expectations for market development. The terminal growth rate for the extrapolated period after 2026 is projected to be approximately 3% (2015: 3%) per annum. The growth rate assumption is considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. A pre-tax discount rate of 9% (2015: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2016 £m	Restated 31 December 2015 £m
Australia – goodwill and brands	**59.1**	49.7
Less: IAS brand impairment provision	**(4.0)**	(3.4)
Australia – goodwill and brands net of impairment provision	**55.1**	46.3

The recoverable amount of the Australia operating segment underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 3% (2015: 3%) per annum and is based on a weighted average income growth rate of 3% (2015: 3%) and a gross win rate of 12% (2015: 12%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 13% (2015: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Australia operating segment goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts (with the exception of the IAS brand amounting to £4.0m at 31 December 2016 (2015: £3.4m) – see Note 11).

	31 December 2016 £m	Restated 31 December 2015 £m
US – goodwill	**377.0**	-

The recoverable amount of the US operating segment underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period to 2019. Further projections from 2020 to 2026 are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The terminal growth rate for the extrapolated period after 2026 is projected to be approximately 5% per annum. The growth rate assumptions are considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. A pre-tax discount rate of 13.5% which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the US segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Notes to the Consolidated Financial Statements
(continued)

12. Goodwill (continued)

	31 December 2016 £m	Restated 31 December 2015 £m
UK Retail – goodwill and licences	**36.0**	34.3

The recoverable amount of the UK Retail cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2015: 2%) per annum and is based on a weighted average income growth rate of 2% (2015: 2%) and a gross win rate of 12% (2015: 12%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2015: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK Retail cash generating unit goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

	31 December 2016 £m	Restated 31 December 2015 £m
Irish Retail – goodwill	**18.7**	15.9

The recoverable amount of the Irish Retail underlying cash generating unit was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2015: 2%) per annum and is based on a weighted average income growth rate of 2% (2015: 2%) and a gross win rate of 12% (2015: 12%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2015: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish Retail cash generating unit goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The discount rates applied to each cash generating unit's cash flows represents a post-tax rate that reflects the Group's weighted average cost of capital (WACC) adjusted for any risks specific to that cash generating unit.

Based on the reviews as described above, with the exception of the IAS brand impairment of AUD6.9m initially provided for in 2011 (see Note 11), no impairment has arisen.

13. Business combinations

Year ended 31 December 2016

Acquisition of Betfair Group plc

On 2 February 2016, Paddy Power plc completed an all-share merger with Betfair Group plc (the "Merger") resulting in Paddy Power plc shareholders owning 52% and Betfair Group plc shareholders owning 48% of Paddy Power Betfair plc (previously Paddy Power plc) (the "Company", together with its subsidiaries, the "Group"), on a fully diluted basis taking into account existing share options and award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015). Post-merger, the Company is the Ultimate Parent of Betfair Group Limited (previously Betfair Group plc).

13. Business combinations (continued)

Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares with nominal value of EUR 0.09 each in the Company ("ordinary shares") in exchange for one ordinary share of 0.095 pence each held in Betfair Group plc ("Exchange Ratio"). Accordingly, the Company issued a total of 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc, in addition to replacement share option awards in lieu of outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans. The consideration was £4.3bn based on the value of the Company's shares issued to Betfair Group plc's shareholders and the fair value of the replacement share options. No cash consideration was transferred.

Betfair was an innovative online betting and gaming operator which pioneered the betting exchange in 2000, changing the landscape of the sports betting industry. The main drivers for the Merger include increased scale driving growth and creating greater returns on product and marketing investment; highly complementary products and geographies; distinct brands with strong online capabilities; and a stronger combined group with market-leading talent, technology and operations.

In a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. IFRS 3 provides guidance as to how to identify the acquirer in a business combination. Careful consideration by the Board was given to this guidance when concluding on the accounting for the Merger and subsequent recognition of Betfair Group plc as an acquisition by Paddy Power plc.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	As at 2 February 2016 £m
Assets	
Property, plant and equipment	18.8
Intangible assets	680.5
Available-for-sale financial asset and Investments	1.4
Total non-current assets	**700.7**
Trade and other receivables	22.9
Financial assets – restricted cash	17.1
Cash and cash equivalents	147.5
Total current assets	**187.5**
Total assets	**888.2**
Liabilities	
Trade and other payables	184.9
Provisions	4.3
Current tax payable	33.2
Total current liabilities	**222.4**
Trade and other payables	20.9
Deferred tax liabilities	76.6
Total non-current liabilities	**97.5**
Total liabilities	**319.9**
Net assets acquired	**568.3**
Goodwill	**3,745.4**
Consideration	**4,313.7**
Consideration satisfied by:	
Issue of 39,590,574 PPB plc ordinary shares	4,202.3
Issue of replacement share options	111.4
	4,313.7

Notes to the Consolidated Financial Statements
(continued)

13. Business combinations (continued)

Included within the intangible assets were £627.6m of separately identifiable intangibles comprising brands, customer relations, technology and licences acquired as part of the acquisition, with the additional effect of a deferred tax liability of £95.0m thereon. These intangible assets are being amortised over their useful economic lives of up to eight years.

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 cost savings of the merged operations.

Receivables acquired amounted to £22.9m. The book value equated to the fair value as all amounts are expected to be received. The Group also acquired £250.1m of cash and cash equivalents held on trust in The Sporting Exchange (Clients) Limited, on behalf of the customers of Betfair Group plc and its subsidiaries (the "Betfair Group"), and is equal to amounts deposited into customer accounts. These balances are not consolidated and reported in the consolidated statement of financial position for the Group.

The Betfair Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements. 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. No contingent liabilities have been booked on acquisition. Total revenue and total profit of the combined entities is disclosed in the operating and finance review on page 47 of the Annual Report. Betfair Group's statutory revenue and profit cannot be readily defined due to the integration of the two businesses during the period post-Merger. Merger and acquisition costs in respect of this acquisition can be found in Note 4.

Shop property business acquisitions
In 2016, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

Details of the net assets acquired and the goodwill arising on these acquisitions under IFRS are as follows:

	Provisional fair values 31 December 2016 £m
Identifiable net assets acquired:	
Property, plant and equipment	**0.1**
Goodwill arising on acquisition – UK Retail and Irish Retail	**0.2**
Consideration	**0.3**

The consideration is analysed as:	
Cash consideration	**0.2**
Contingent deferred consideration	**0.1**
	0.3

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 2016 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. The contingent deferred consideration amount of £0.1m at 31 December 2016 represents management's best estimate of the fair value of the amounts that will be payable.

During 2016, the Group settled deferred consideration liabilities of £0.4m in relation to prior years' Retail acquisitions.

13. Business combinations (continued)

Year ended 31 December 2015

Shop property business acquisitions

In 2015, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in Great Britain and Ireland.

Details of the net assets acquired and the goodwill arising on these acquisitions under IFRS are as follows:

	Restated Fair values 31 December 2015 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.5
Goodwill arising on acquisition – UK Retail and Irish Retail	4.2
Consideration	4.7
The consideration is analysed as:	
Cash consideration	4.0
Contingent deferred consideration	0.7
	4.7

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 2015 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. The contingent deferred consideration amount of £0.7m at 31 December 2015 represents management's best estimate of the fair value of the amounts that will be payable.

During 2015, the Group settled deferred consideration liabilities of £1.1m in relation to prior years' Retail acquisitions (see below).

Net cash (inflow) / outflow from purchase of businesses

	31 December 2016 £m	Restated 31 December 2015 £m
Cash consideration – acquisitions in the year	**0.2**	4.0
Cash acquired – acquisitions in the year	**(147.5)**	-
Cash consideration – acquisitions in previous years	**3.8**	1.1
	(143.5)	5.1
Analysed for the purposes of the statement of cash flows as:		
Purchase of retail businesses, net of cash acquired	**0.2**	4.0
Cash acquired from merger with Betfair Group plc	**(147.5)**	-
Payment of contingent deferred consideration	**3.8**	1.1
	(143.5)	5.1

In addition to settlement of deferred consideration liabilities for prior years' Retail acquisitions (£0.4m), the Group also paid £3.4m relating to deferred consideration payable to the Stronach Group, due to Betfair's historical acquisition of HRTV, a horseracing television network based in the US.

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14. Available-for-sale financial assets, trade and other receivables and derivative financial assets

Non-current assets

	31 December 2016 £m	31 December 2015 £m	31 December 2014 £m
Available-for-sale financial assets	**1.3**	-	-

Available-for-sale financial assets
As a result of the Merger, the Group at 31 December 2016, has a non-controlling interest in LMAX Limited of 31.4% (£1.2m) and a non-controlling interest in Featurespace of 6.4% (£0.1m). The Group does not have any significant influence over the operations and decision making of LMAX Limited and does not have any representation on the Board.

	31 December 2016 £m	31 December 2015 £m	Restated 31 December 2014 £m
Trade and other receivables			
Prepayments and accrued income	**5.8**	-	1.5

Current assets

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Trade and other receivables			
Trade receivables – credit betting customers	**3.5**	2.5	3.2
Trade receivables – other sports betting counterparties	**6.8**	1.6	1.1
Trade receivables	**10.3**	4.1	4.3
Other receivables	**3.7**	1.1	1.3
Value-added tax and goods and services tax	**-**	-	1.0
Prepayments and accrued income	**41.2**	17.5	18.6
	55.2	22.7	25.2

Trade and other receivables
Trade and other receivables are non-interest bearing.

	31 December 2016 £m	Restated 31 December 2015 £m	31 December 2014 £m
Derivative financial assets			
Foreign exchange forward contracts – cash flow hedges (Note 29)	**-**	1.8	-

Foreign exchange forward contracts – cash flow hedges
The notional principal amount of outstanding foreign exchange forward contracts at 31 December 2015 was £74.8m. Gains and losses recognised in the cash flow hedge reserve in equity at 31 December 2015 on foreign exchange forward contracts designated as cash flow hedges under IAS 39, ‘Financial Instruments: Recognition and Measurement’, were released to the income statement at various dates during 2016.

15. Financial assets and cash and cash equivalents

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Current			
Financial assets – restricted cash	**64.8**	60.2	53.7
Financial assets – deposits	**-**	-	15.0
Cash and cash equivalents	**249.9**	86.1	153.3
	314.7	146.3	222.0

The effective interest rate on bank deposits at 31 December 2016 was 0.65% (2015: 1.78%, 2014: 1.05%); these deposits have an average original maturity date of 14 days (2015: 12 days, 2014: 41 days). The bank deposits also have an average maturity date of 7 days from 31 December 2016 (2015: 4 days, 2014: 19 days). The Directors believe that all short term bank deposits can be withdrawn without significant penalty.

Financial assets - restricted cash, financial assets - deposits and cash and cash equivalents are analysed by currency as follows:

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
GBP	**185.4**	76.8	74.4
EUR	**41.0**	26.4	93.2
AUD	**52.1**	41.2	51.1
USD	**27.2**	1.8	2.7
Other	**9.0**	0.1	0.6
	314.7	146.3	222.0

Financial assets
Included in financial assets – restricted cash at 31 December 2016 are bank deposits which were either (1) restricted at that date, as they represented customer funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities. These customer funds that are not held in trust are matched by liabilities of equal value.

As at 31 December 2016, £349.2m (31 December 2015: £Nil, 31 December 2014: £Nil) 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.

Notes to the Consolidated Financial Statements
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16. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2015: 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 period was as follows:

On 2 February 2016, the Company completed an all-share merger with Betfair Group plc. The Merger resulted in the holders of Paddy Power plc shares owning 52% of the Company, and the holders of Betfair Group plc shares owning 48% of the Company, on a fully diluted basis taking into account existing share options and share award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015).

Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares of €0.09 each ("ordinary shares") in the Company in exchange for each Betfair Group plc ordinary share of 0.095 pence each. The Company issued 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc giving rise to a share premium of £4.2bn.

During the year ended 31 December 2016, 318,523 ordinary shares (2015: 77,150) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £2.5m (2015: £2.0m).

In 2016, following shareholder approval at an Extraordinary General Meeting on 21 December 2015 and court approval on 28 April 2016, the Company cancelled a portion of its share premium account transferring £3.8bn (€4.9bn) to the retained earnings account within reserves. In 2015, following shareholder approval at the Annual General Meeting on 14 May 2015 and court approval on 6 November 2015, the Company cancelled a portion of its share premium account and transferred £31.6m (€44.9m) to the retained earnings account within reserves.

Also in 2015, the Group returned £282m (€391.5m) to shareholders via a B share scheme, and completed a capital reorganisation which involved the consolidation of its ordinary share capital on a nine for ten basis. The transaction involved a number of steps. The existing ordinary shares in issue at the date of the capital reorganisation of 51,118,370 of €0.10 each were converted into 51,118,370 'intermediate' ordinary shares of €0.081 each and 51,118,370 B shares of €0.019 each. An amount of 2,184,000 B shares were issued to the Company and certain of its subsidiaries as a result of treasury shares held. Such shares were not entitled to receive a dividend or redemption payment. The holders of the remaining B shares in issue of 48,934,370 were entitled to receive a payment of €8 per share by way of a once off dividend or a redemption payment. Subsequent to the dividend or redemption payment all B shares were cancelled during the year. The 'intermediate' ordinary shares were consolidated and sub-divided into 46,006,533 'new' ordinary shares of €0.09 each.

A total of 1,965,600 ordinary shares were held in treasury as of 31 December 2016 (31 December 2015: 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 2016 (31 December 2015: £40.7m). The cost of treasury shares held by the Company at 31 December 2016 was £4.2m (2015: £4.2m), with a further £36.5m of shares being held by the Company's subsidiaries (2015: £36.5m).

At 31 December 2016, the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") held a further 478,392 (2015: 874,890) of the Company's own shares, which were acquired at a total cost of £30.9m (2015: £49.2m), in respect of potential future awards relating to the Group's employee share plans (see Note 18). The Company's distributable reserves at 31 December 2016 are further restricted by this cost amount. In the year ended 31 December 2016, 396,498 shares with an original cost of £18.3m were transferred from the EBT to beneficiaries of the EBT consequent to the vesting thereof (2015: 410,499 shares with an original cost of £17.2m). During the year ended 31 December 2015, the EBT purchased 327,004 Paddy Power plc ordinary shares for a total consideration of £22.1m and received £3.6m from the B share scheme return of capital to shareholders. No such purchases were made in 2016 (see Note 18).

16. Share capital and reserves (continued)

The foreign exchange translation reserve at 31 December 2016 had a credit balance of £29.5m (2015: debit balance of £20.2m), and arose from the retranslation of the Group's net investment in Euro, AUD and USD functional currency entities. The movement in the foreign exchange translation reserve for the year ending 31 December 2016 reflects the strengthening of USD, AUD and Euro against GBP in the year.

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a net wealth tax reserve. The capital redemption reserve fund of £1.4m (2015: £1.4m) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled, and in 2015, the nominal value of shares in the Company cancelled as part of the return of capital to shareholders. The capital conversion reserve fund of £0.2m (2015: £0.2m) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to Euro.

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. The Group had entered into foreign exchange forward contracts to hedge a portion of GBP exposures expected to arise from GBP denominated income in the year ended 31 December 2016. No such contracts were outstanding at 31 December 2016.

In 2016, an amount of £25.6m (2015: £0.6m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of £5.9m of deferred tax relating to the Group's share-based payments was charged to retained earnings in 2016 (2015: credit of £0.1m) – see also Note 19. An amount of £4.4m of current tax relating to the Group's share-based payments was credited to retained earnings in 2016 (2015: £Nil).

As permitted by section 304 of the Companies Act 2014, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €63.1m (2015: €323.9m), which includes dividends receivable from subsidiary companies amounting to €73.8m (2015: €298.7m).

17. Dividends paid on ordinary shares

	2016 £m	Restated 2015 £m
Ordinary shares:		
- final dividend of €1.20 (£0.933) per share for the year ended 31 December 2015 (31 December 2014: €1.02)	**40.8**	36.1
- special dividend of €1.814 (£1.411) per share (31 December 2015: €Nil)	**61.9**	-
- Paddy Power plc closing dividend of €0.18 (£0.140) per share (31 December 2015: €Nil)	**6.1**	-
- Interim dividend of £0.40 per share (2015: €0.60 (£0.44))	**33.5**	19.3
Amounts recognised as distributions to equity holders in the year	**142.3**	55.4

The Directors have proposed a final dividend of 113.0 pence per share which will be paid on 24 May 2017 to shareholders on the Company's register of members at the close of business on the record date of 7 April 2017. This dividend, which amounts to approximately £95.0m, has not been included as a liability at 31 December 2016.

The pre-merger Paddy Power plc closing dividend as paid to Paddy Power plc shareholders for the period from 1 January 2016 to 1 February 2016 (inclusive).

During the year end ended 31 December 2016, the Group paid the Betfair Group plc closing dividend amounting to £22.6m, which represented the period prior to Merger completion.

Notes to the Consolidated Financial Statements
(continued)

18. Share-based payments

Summary of equity-settled share-based payments
The Group had the following share-based payment schemes brought forward from the previous financial year:
- The Paddy Power plc November 2000 Share Option Scheme;
- The Paddy Power plc Sharesave Scheme; and
- The Paddy Power Long Term Incentive Plan.

In addition, a number of schemes were acquired at the Merger date:
- The Betfair Sharesave Scheme;
- The Betfair Restricted Share Scheme; and
- The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan.

Subsequent to the Merger, the Group has issued new awards in the financial year under the following new schemes:
- The Paddy Power Betfair plc Sharesave Scheme; and
- The Paddy Power Betfair plc Long Term Incentive Plan, Medium Term Incentive Plan and Deferred Share Incentive Plan.

The above schemes are settled via a mixture of the allotment of shares from the Paddy Power Betfair plc EBT and the issue of new shares. As a result, all schemes are accounted for as equity-settled in the financial statements. Going forward, no new awards will be granted under any pre-Merger schemes.

The equity-settled share-based payments expense recognised in the income statement in respect of all schemes is as follows:

	2016 **£m**	Restated 2015 £m
Underlying		
The Paddy Power Sharesave Scheme	**0.6**	0.6
Paddy Power Long Term Incentive Plan (“LTIP”)	**6.7**	11.5
The Betfair Sharesave Scheme	**0.7**	-
The Betfair Restricted Share Scheme	**0.2**	-
The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan	**6.8**	-
Paddy Power Betfair plc Sharesave Scheme	**0.5**	-
The Paddy Power Betfair plc Long Term, Medium Term and Deferred Share Incentive Plans (“LTIP”, “MTIP” & “DSIP”)	**5.3**	-
	20.8	12.1
Separately disclosed items (see Note 4 – included within integration and restructuring costs)	**7.6**	-
Replacement share options (see Note 4)	**21.9**	-
	50.3	12.1

General
The aggregate number of shares which may be utilised under the employee share schemes in any ten year period may not exceed ten per cent of the Company’s issued ordinary share capital. The percentage of share capital which can be utilised under these schemes comply with guidelines issued by the Irish Association of Investment Managers in relation to such schemes.

18. Share-based payments (continued)

Summary of options outstanding

At 31 December 2016, 2,365,410 awards and options (31 December 2015: 1,162,732) in the capital of the Group remain outstanding and are exercisable up to 2026 as follows:

	2016	2015
The Paddy Power Share Option Scheme	**2,000**	19,500
The Paddy Power Sharesave Scheme	**158,258**	219,700
Paddy Power Long Term Incentive Plan ("LTIP")	**416,178**	923,532
The Betfair Sharesave Scheme	**137,149**	-
The Betfair Restricted Share Scheme	**467**	-
The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan	**1,046,237**	-
Paddy Power Betfair plc Sharesave Scheme	**270,101**	-
The Paddy Power Betfair plc Long Term, Medium Term and Deferred Share Incentive Plans ("LTIP", "MTIP" & "DSIP")	**335,020**	-
	2,365,410	1,162,732

The Paddy Power plc November 2000 Share Option Scheme

The Paddy Power Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme was open to Directors, other than Non-Executive Directors, and employees. Options could be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. No further options can or have been granted under this scheme since 7 December 2010. Share Options lapse ten years after the date of grant.

Movements in the share options under this scheme during the year were as follows:

Year ended 31 December 2016

Outstanding at 1 January 2016	Exercised during year	Outstanding at 31 December 2016	Earliest exercise date	Latest exercise date	Exercise price
4,000	**(4,000)**	**-**	October 2009	October 2016	€14.40
15,500	**(13,500)**	**2,000**	September 2010	September 2017	€24.17
19,500	**(17,500)**	**2,000**			

Options over 2,000 shares were outstanding at 31 December 2016 (2015: 19,500), all of which were exercisable at 31 December 2016 and 31 December 2015.

The weighted average exercise price for share options exercised during the year is €21.93 (31 December 2015: €24.17).

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18. Share-based payments (continued)

The Paddy Power plc Sharesave Scheme

The Paddy Power plc Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including Executive Directors) who have not less than six months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme could be invited to apply for options to acquire shares. The purchase price for each ordinary share in respect of which an option is granted could not be less than 75 per cent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme is €500 / £500.

Movements in the share options under this scheme during the year were as follows:

Year ended 31 December 2016

Outstanding at 1 January 2016	Granted during year	Lapsed during year	Exercised during year	Outstanding at 31 December 2016	Earliest exercise date*	Exercise price
1,331	-	-	**(1,331)**	-	2013 and 2016	€19.87
9,235	-	**(15)**	**(4,325)**	**4,895**	2014 and 2017	€27.79
1,170	-	**(590)**	**(234)**	**346**	2014 and 2017	£25.99
20,071	-	**(117)**	**(10,435)**	**9,519**	2015 and 2017	€41.36
1,068	-	**(234)**	**(121)**	**713**	2015 and 2017	£35.61
53,793	-	**(815)**	**(22,035)**	**30,943**	2016 and 2018	€45.52
7,669	-	**(595)**	**(3,737)**	**3,337**	2016 and 2018	£40.79
104,136	-	**(7,899)**	**(4,826)**	**91,411**	2017 and 2019	€39.60
21,227	-	**(3,956)**	**(177)**	**17,094**	2017 and 2019	£33.76
219,700	-	**(14,221)**	**(47,221)**	**158,258**		

* Share options lapse 3.5 and 5.5 years after date of grant.

The weighted average exercise price for share options exercised during the year is £34.22 (31 December 2015: £26.49).

The fair value of options granted under the Sharesave Scheme was determined using a Black-Scholes model and is expensed over the vesting period. The following assumptions were used in the Black-Scholes pricing model for the above options:

	2010 - 2014
Share price at date of grant	€26.49 – €60.70
Exercise price (€)	€19.87 – €45.52
Exercise price (£)	£25.99 – £40.79
Expected volatility	19% – 36%
Expected term until exercised	3.5 – 5.5 years
Risk-free interest rate	-0.06% – 4.6%

Paddy Power Long Term Incentive Plan

Summary of share awards outstanding

The total number of share awards outstanding under the Paddy Power Long Term Incentive Plan at 31 December 2016 was 416,178 (2015: 923,532). The movements in share awards during the year ended 31 December 2016 (excluding related dividends awarded as shares) were as follows:

	Outstanding at 1 January 2016	Granted during year	Lapsed during year	Vested during year	Outstanding at 31 December 2016
2004 LTIP scheme	**46,895**	-	**(36,194)**	**(10,701)**	-
2013 LTIP scheme	**876,637**	-	**(91,986)**	**(368,473)**	**416,178**
Total	**923,532**	-	**(128,180)**	**(379,174)**	**416,178**

18. Share-based payments (continued)

2004 Long Term Incentive Plan

On 22 June 2004, the 2004 Long Term Incentive Plan ("2004 LTIP") for senior executives was adopted by the shareholders, under which the Remuneration Committee could make conditional awards of a number of Company shares to executives. LTIP awards made prior to 2013 are subject to the rules of the 2004 scheme. In accordance with the rules, the awards vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over a minimum vesting period of three years. To the extent the award has not vested on or before the latest vest date, the award will automatically lapse in its entirety immediately following such date. The relevant growth target in relation to the awards made in 2012 was partially (82%) achieved in 2014 and accordingly, in accordance with the plan rules, 82% of the awards vested in March 2015. In addition, the relevant growth target in relation to the 5% of 2011 awards that did not vest in March 2014 was met and accordingly, in accordance with the plan rules, these awards also vested in March 2015. In relation to the remaining awards made in 2012, the relevant growth target in relation to these awards was partially (4%) achieved in 2015 and accordingly, in accordance with the plan rules, 4% of the 2012 awards vested in March 2016. The remaining shares lapsed in 2016.

2013 Long Term Incentive Plan

On 14 May 2013, the shareholders adopted the 2013 Long Term Incentive Plan ("2013 LTIP") for senior executives, under which the Remuneration Committee can also make conditional awards of a number of Company shares to executives. LTIP awards made from 2013 onwards are subject to the rules of this scheme. In accordance with the rules, the awards vest proportionately to the achievement of an EPS compound growth target of between 7% and 15% over the vesting period of three years. Full vesting of the awards will only occur if EPS growth of at least 15% per annum is achieved over the vesting period. A minimum annual compound EPS growth target of 7% over the vesting period must be achieved to trigger 25% award vesting, with vesting occurring on a sliding scale ranging from 25% of awards (if the minimum EPS compound growth target of 7% per annum is met) to 100% of awards (if the EPS compound growth target of 15% per annum is met). Under the terms of the Merger of Paddy Power plc with Betfair Group plc, awards made in 2013 and 2014 vest in their entirety on the normal scheduled vesting dates in 2016 and 2017, respectively, and are not subject to the EPS growth target testing as outlined above. Awards made in 2015 will vest based on (1) 100% as applied to the awards balance calculated based on the time pro-rata proportion of the three year vesting period (from date of grant) that has elapsed at the date of Merger completion (2 February 2016) (the "Paddy Power Fixed Vesting Level") and (2) the balance of the awards not reflected in the Paddy Power Fixed Vesting Level will remain outstanding and will be capable of vesting in 2018 according to the extent to which specified performance conditions relating to the performance of the combined Paddy Power Betfair plc Group are satisfied.

Until the vesting of the award in accordance with the rules of the schemes, the award holder will have no rights over or in respect of the shares subject to the award and, on vesting, the award holder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the schemes. The awards are not transferable. Upon the vesting of a share award, as part of the award holders' rights they also receive a small number of additional shares in respect of dividends on those shares between the grant date and vesting date, regarded as a de facto part of the original share award.

No new awards were made under this scheme in 2016 (2015: 250,145).

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18. Share-based payments (continued)

Betfair Sharesave (“SAYE”) scheme
Similar to the Paddy Power plc Group prior to the merger, the Betfair Group offered an HMRC approved SAYE share option scheme in which all UK employees and some international employees can participate. Participants save a fixed amount of up to £500 per month for three years and are then able to use these savings to buy shares in Betfair Group plc at a price fixed at a 20% discount to the market value at the start of the savings period. There are no market conditions associated with the SAYE option grants.

Options previously granted under the Betfair Sharesave Plan were exercisable for a period of six months following the Merger Court Sanction Date (1 February 2016). These options were exercisable over Betfair Shares to the extent of savings made under the related savings contracts at the time of exercise. As part of the Merger, participants in the Betfair Sharesave Plan were also offered the opportunity (as an alternative to exercise) to exchange their options over Betfair shares for equivalent options over Paddy Power Betfair (“PPB”) shares which will be eligible to vest at the normal maturity dates.

Outstanding at 1 January 2016	Acquired on Merger	Granted during year	Lapsed / cancelled during year	Exercised during year	Outstanding at 31 December 2016
-	**209,162**	**-**	**(25,207)**	**(46,806)**	**137,149**

The options are exercisable up to 2018.

The weighted average exercise price for share options exercised during the year is £20.24 (31 December 2015: £Nil) at a weighted average share price at the date of exercise of £87.56 (31 December 2015: £Nil).

The options granted in 2013 are all vested as at 31 December 2016 and are available to exercise up to May 2017.

The fair value of the options is expensed over the period that the options vest. The following assumptions were used in the Black-Scholes pricing model for the above options:

	2013 – 2014
Share price at date of grant	£23.81 – £31.75
Exercise price	£19.20 – £21.35
Expected volatility	30.67% – 33.36%
Expected term until exercised	3.25 years
Expected dividend yield	1.29% – 1.48%
Risk-free interest rate	0.89% – 0.94%

Betfair Restricted Share Scheme
On Merger, the Group acquired a restricted share scheme with 5,785 options outstanding.

Outstanding at 1 January 2016	Acquired on Merger	Granted during year	Lapsed / cancelled during year	Exercised during year	Outstanding at 31 December 2016
-	**5,785**	**-**	**-**	**(5,318)**	**467**

Restricted shares are valued with reference to the market value of the shares on the date of grant. As part of the Merger, participants holding such options were offered the opportunity (as an alternative to exercise) to exchange such options for equivalent vested options over PPB Shares (calculated by reference to the Exchange Ratio). These replacement options are exercisable until the normal lapse dates that would have applied to the original options over Betfair Shares had the Merger not occurred (being not later than the tenth anniversary of the grant date of the original option).

18. Share-based payments (continued)

Unvested options granted over the Betfair Restricted Share Scheme which were outstanding at the date of the Court Order vested in full in accordance with the applicable rules on the date of the Court Order.

The weighted average exercise price for share options exercised during the year was £0.001 (31 December 2015: £Nil) at a weighted average share price at the date of exercise of £86.55 (31 December 2015: £Nil).

The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan.
The following share plans were acquired on the Merger completion date ("Completion") and were originally introduced in the Betfair Group to incentivise and reward for the successful delivery of the short-term and long-term business strategy:

- The Betfair Long Term Incentive Plan ("LTIP") which consists of restricted share awards;
- The Betfair Deferred Share Incentive Plan ("DSIP") which consists of cash and restricted share awards.

The schemes have awards in the form of cash and restricted shares. The level of award granted in each of the schemes were based on a mixture of the individual performance of the employee and Group-wide performance over the term of the award which was between one and three years.

Prior to the Merger, Paddy Power and Betfair agreed that outstanding unvested awards granted under the Betfair Long Term Incentive Plan (''Betfair LTIP Awards'') in 2013/14, 2014/15 and 2015/16 would not vest on Completion but would be replaced by awards over an equivalent number of the Company's shares (calculated by reference to the Exchange Ratio) which would have the same normal vesting dates as the original awards but be subject to certain absolute vesting levels.

The vesting levels of the replacement awards would crystalise on grant reflecting the extent to which the Betfair Remuneration Committee considered that the performance conditions applying to the relevant awards would have been satisfied at the end of the original vesting periods (the ''Betfair Fixed Vesting Level''). The Betfair Fixed Vesting Levels for each of the awards were agreed to be as follows:

- 2013/14 Betfair LTIP Awards - 100% of the underlying shares to vest in full on the normal vesting dates between July 2016 and April 2017;
- 2014/15 Betfair LTIP Awards - 100% of the underlying shares to vest in full on the normal vesting dates between June 2017 and March 2018; and
- 2015/16 Betfair LTIP Awards - a proportion of the underlying shares to vest in full on the normal vesting date in July 2018 or, if later, three years after the applicable date of grant. This proportion would be the time pro-rata proportion of the three year vesting period (from the date of grant) elapsed at the later of the date of Completion and the date on which the 2015 Performance Based Award (as defined below) became effective.

In the case of the 2015/16 Betfair LTIP Awards, an additional replacement award was granted in respect of the balance of the awards not reflected in the Betfair Fixed Vesting Level which would be capable of vesting on the third anniversary of the date of grant according to the extent to which specified performance conditions relating to the performance of the Group are satisfied (the ''2015 Performance Based Award''). These performance conditions are set out in the Directors' Remuneration Report in the 2015 Annual Report of Paddy Power Betfair plc, as were agreed post-Completion by the Remuneration Committee. This was at a level which was considered to be no more or less challenging to achieve in the context of the Group than would have been the case for the original Betfair performance conditions had the Merger not occurred, taking account of the performance of Betfair in the period up to Completion.

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18. Share-based payments (continued)

As part of the Merger, participants holding vested DSIP options were offered the opportunity (as an alternative to exercise) to exchange such options for equivalent vested options over the Company's shares (calculated by reference to the Exchange Ratio). These replacement options are exercisable until the normal lapse dates that would have applied to the original options over Betfair Shares had the Merger not occurred (being not later than the tenth anniversary of the grant date of the original option).

Unvested options granted over the Betfair DSIP which were outstanding at the date of the Court Order vested in full in accordance with the applicable rules on the date of the Court Order.

	Outstanding at 1 January 2016	Acquired on Merger	Granted during year	Lapsed / cancelled during year	Exercised during year	Outstanding at 31 December 2016
2012	-	261,099	-	-	(48,335)	212,764
2013	-	333,216	2,691	(1,322)	(129,281)	205,304
2014	-	432,779	4,099	-	(16,613)	420,265
2015	-	253,061	2,163	(39,871)	(7,449)	207,904
	-	1,280,155	8,953	(41,193)	(201,678)	1,046,237

Financial year granted	Exercise price £	Exercisable before
2012	0.001	2022
2013	0.001	2023
2014	0.001	2024
2015	0.001	2025

The weighted average exercise price for share options exercised during the year was £0.001 (31 December 2015: £Nil) at a weighted average share price at the date of exercise of £91.85 (31 December 2015: £Nil).

The options granted in the year represent dividend roll-ups, in line with documented scheme rules.

The fair value of the share options in the LTIP scheme is expensed over the three year period that the options vest.

Paddy Power Betfair Sharesave scheme
During the year, 271,226 options were granted under the new Paddy Power Betfair plc Sharesave scheme. These SAYE options must ordinarily be exercised within six months of completing the relevant savings period. In line with market practice, the exercise of these options is not subject to any performance conditions.

Similar to the schemes offered prior to the Merger, all employees (including Executive Directors) with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 per cent of the closing price of the shares on the Irish and London Stock Exchanges on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with all Sharesave related schemes is €500 / £500.

	Outstanding at 1 January 2016	**Acquired on Merger**	**Granted during year**	**Lapsed / cancelled during year**	**Exercised during year**	**Outstanding at 31 December 2016**
2016	**-**	**-**	**271,226**	**(1,125)**	**-**	**270,101**

Year granted	**Exercise price £**	**Exercisable before**
2016	**69.19**	**2020**

18. Share-based payments (continued)

No options were exercised during the year.

The fair value of the options is expensed over the period that the options vest. The following assumptions were used in the Black-Scholes pricing model for the above options:

	2016
Share price at date of grant	**£85.70**
Exercise price	**£69.19**
Expected volatility	**30.56%**
Expected term until exercised	**3.25 years**
Expected dividend yield	**2.18%**
Risk-free interest rate	**0.28%**

The Paddy Power Betfair plc Long Term Incentive Plan, Medium Term Incentive Plan and Deferred Share Incentive Plan

The following share plans were introduced post-Merger to incentivise and reward for the successful delivery of the short, medium and long-term business strategy:

- Long Term Incentive Plan ("LTIP") which consists of restricted share awards;
- Medium Term Incentive Plan ("MTIP") which consists of restricted share awards; and
- Deferred Share Incentive Plan ("DSIP") which consists of cash and restricted share awards.

The level of award granted in each of the schemes is based on a mixture of the individual performance of the employee and the Group wide performance over the term of the award which is between one and three years.

The DSIP has cash elements which are fixed in value and are paid and expensed in the first year that the awards are issued. The cash award represents two-thirds of the total award. There is no option given to elect to have these issued in shares. The cash element issued is classified as a cash bonus in the income statement and not a 'cash-settled share-based payment' on the basis that the employee does not have the option to choose whether they receive cash or shares, and the award value is fixed and not based on share price movements. The restricted share portion of the DSIP award will vest over the second and third year of the scheme.

	Outstanding at 1 January 2016	Acquired on Merger	Granted during year	Lapsed / cancelled during year	Exercised during year	Outstanding at 31 December 2016
2016	-	-	**337,193**	**(2,173)**	-	**335,020**

Year granted	Exercise price £	Exercisable before
2016	-	**2026**

No options were exercised during the year.

The value of each award was calculated at the grant date and expensed over a period of up to three years in which the awards vest.

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18. Share-based payments (continued)

Paddy Power Betfair plc Employee Benefit Trust

The Paddy Power Betfair plc Employee Benefit Trust (the "EBT") prior to the Merger managed the Paddy Power Long Term Incentive Plan. Post-Merger, certain other awards may also vest from the EBT. Purchases of Paddy Power Betfair plc ordinary shares from 1 January 2015 to 31 December 2016 (from 1 January 2015 to 2 February 2016 – Paddy Power plc ordinary shares), and shares vested (including related dividends awarded as shares) from the EBT during that period, are shown below:

	Number of Paddy Power Betfair plc ordinary shares	Cost of purchase £m
Shares held by the EBT at 1 January 2015	1,020,372	47.9
Purchased – May 2015	20,005	1.1
Purchased – June 2015	179,999	10.5
Purchased – October 2015	43,000	3.1
Purchased – November 2015	7,500	0.6
Purchased – December 2015	76,500	6.8
Total purchased – 2015	327,004	22.1
Redemption of B shares	(61,987)	(3.6)
Vested from the EBT in 2015	(410,499)	(17.2)
Shares held by the EBT at 31 December 2015	**874,890**	**49.2**
Vested from the EBT in 2016	**(396,498)**	**(18.3)**
Shares held by the EBT at 31 December 2016	**478,392**	**30.9**

The results of the EBT are included in the Paddy Power Betfair plc Company financial statements. The shares held by the EBT at the reporting date are shown as a deduction from equity in the consolidated statement of financial position in accordance with the Group's accounting policy (see Note 16).

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2016			31 December 2015 (restated)			31 December 2014 (restated)		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Property, plant and equipment	**4.5**	**-**	**4.5**	1.7	-	1.7	1.4	-	1.4
Intangible assets	**-**	**(76.0)**	**(76.0)**	-	(3.4)	(3.4)	-	(3.5)	(3.5)
Employee benefits	**17.7**	**-**	**17.7**	5.2	-	5.2	5.3	-	5.3
Derivative financial assets	**-**	**-**	**-**	-	(0.2)	(0.2)	0.3	-	0.3
Other	**1.4**	**-**	**1.4**	0.5	-	0.5	0.4	-	0.4
Net assets / (liabilities)	**23.6**	**(76.0)**	**(52.4)**	7.4	(3.6)	3.8	7.4	(3.5)	3.9

Deferred tax assets and liabilities have been offset at 31 December 2016 and 2015 where there is a legally enforceable right to such set-off in each jurisdiction. Included in the statement of financial position is a deferred tax asset of £8.6m (2015: £6.7m, 2014: £6.4m) and a deferred tax liability of £61.0m (2015: £2.9m, 2014: £2.5m).

The deferred tax liability in relation to intangible assets disclosed above primarily relates to the deferred tax liability arising on the Betfair Group plc intangible assets acquired during the year. This deferred tax liability will unwind as the intangible assets are amortised over their useful economic life.

The deferred tax asset arising on employee benefits relates to future tax deductions the Group expects to receive in relation to share-based payments operated by the Group to reward its employees. The asset is recognised at the tax rate at which it is expected to unwind.

19. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	Property, plant and equipment £m	Business combinations - intangible assets £m	Employee benefits £m	Derivative financial liabilities / (assets) £m	Other £m	Total £m
Balance at 1 January 2015 (restated)	1.4	(3.5)	5.3	0.3	0.4	3.9
Recognised in income	0.4	0.1	-	-	0.1	0.6
Recognised in other comprehensive income	-	-	-	(0.5)	-	(0.5)
Recognised directly in equity	-	-	0.1	-	-	0.1
Foreign currency translation adjustment	(0.1)	-	(0.2)	-	-	(0.3)
Balance at 31 December 2015 (restated)	1.7	(3.4)	5.2	(0.2)	0.5	3.8
Acquired on Merger	**4.9**	**(97.5)**	**15.2**	**-**	**0.8**	**(76.6)**
Recognised in income	**(2.3)**	**24.4**	**2.2**	**-**	**0.2**	**24.5**
Recognised in other comprehensive income	**-**	**-**	**-**	**0.2**	**-**	**0.2**
Recognised directly in equity	**-**	**-**	**(5.9)**	**-**	**-**	**(5.9)**
Foreign currency translation adjustment	**0.2**	**0.5**	**1.0**	**-**	**(0.1)**	**1.6**
Balance at 31 December 2016	**4.5**	**(76.0)**	**17.7**	**-**	**1.4**	**(52.4)**

Unrecognised deferred tax assets

The Group has unrecognised deferred tax assets in respect of losses of £15.6m, and unrecognised deferred tax assets in respect of depreciation in excess of capital allowances of £0.7m relating to the acquisition of Betfair Group plc during the year. These have not been recognised on the basis that there is insufficient certainty of there being future taxable profits in the relevant jurisdictions, and therefore the assets will not be realisable. There were no unrecognised deferred tax assets at 31 December 2015.

20. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Trade and other payables			
Trade payables	**9.8**	12.1	8.8
Customer balances	**62.2**	58.4	52.3
PAYE and social security	**6.6**	4.7	4.5
Value-added tax and goods and services tax	**0.2**	3.1	-
Betting duty, data rights, and product and racefield fees	**40.4**	26.1	12.6
Employee benefits	**46.1**	25.9	24.3
Contingent deferred consideration – business combinations (Note 29)	**3.7**	0.8	1.5
Accruals and other liabilities	**151.6**	53.0	52.9
	320.6	184.1	156.9

Derivative financial liabilities			
Foreign exchange forward contracts – cash flow hedges (Note 29)	**-**	-	2.1
Sports betting open positions (Note 29)	**8.6**	12.5	11.1
	8.6	12.5	13.2

Notes to the Consolidated Financial Statements
(continued)

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

Non-current liabilities

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Trade and other payables			
PAYE and social security	**0.2**	0.1	0.2
Employee benefits	**5.0**	4.1	3.8
Contingent deferred consideration – business combinations (Note 29)	**20.4**	-	0.1
Accruals and other liabilities	**1.3**	0.8	0.4
	26.9	5.0	4.5
Derivative financial liabilities			
Sports betting open positions (Note 29)	**-**	-	0.1

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.

Included within non-current liabilities is contingent deferred consideration of £20.4m which was acquired as a result of the Merger. This is payable to the Stronach Group due to Betfair's historical acquisition of HRTV, a horseracing television network based in the US. The amount payable at 31 December 2016 amounted to £23.9m, with £20.4m due after one year from the reporting date.

21. Provisions

Current

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Employee benefits (long service leave)	**0.5**	0.3	0.2
Betting duty, data rights, and product and racefield fees (gaming tax)	**2.6**	-	-
Accruals and other liabilities (lease reinstatement and onerous contracts)	**1.5**	0.1	0.2
	4.6	0.4	0.4

Non-current

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Employee benefits (long service leave)	**0.6**	0.5	0.3
Accruals and other liabilities (lease reinstatement and onerous contracts)	**0.5**	0.5	0.6
	1.1	1.0	0.9

21. Provisions (continued)

The movements in provisions during 2015 and 2016 were as follows:

Current

	Long service leave £m	Lease reinstatement £m	Onerous contracts £m	Gaming tax £m	Total £m
Balance at 1 January 2015 (restated)	0.2	0.1	0.1	-	0.4
Transfers from non-current liabilities	-	-	0.1	-	0.1
Charged / (credited) to the income statement:					
- Additional provisions recognised	0.1	-	-	-	0.1
- Unused amounts reversed	-	(0.1)	-	-	(0.1)
Amounts used during the year	-	-	(0.1)	-	(0.1)
Balance at 31 December 2015 (restated)	0.3	-	0.1	-	0.4
Acquired on Merger	**-**	**-**	**-**	**4.3**	**4.3**
Charged to the income statement:					
- Additional provisions recognised	**0.1**	**-**	**3.7**	**-**	**3.8**
Amounts used during the year	**-**	**-**	**(2.3)**	**(2.4)**	**(4.7)**
Foreign currency translation adjustment	**0.1**	**-**	**-**	**0.7**	**0.8**
Balance at 31 December 2016	**0.5**	**-**	**1.5**	**2.6**	**4.6**

Non-current

	Long service leave £m	Lease reinstatement £m	Onerous contracts £m	Total £m
Balance at 1 January 2015 (restated)	0.3	0.1	0.5	0.9
Transfers to current liabilities	-	-	(0.1)	(0.1)
Charged to the income statement:				
- Additional provisions recognised	0.2	-	-	0.2
Balance at 31 December 2015 (restated)	0.5	0.1	0.4	1.0
Charged to the income statement:				
- Additional provisions recognised	**0.1**	**-**	**-**	**0.1**
Balance at 31 December 2016	**0.6**	**0.1**	**0.4**	**1.1**

Long service leave

The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the balance sheet date avail of their entitlement to leave and their expected salaries at that time. As of 31 December 2016, it was expected that cash outflows would occur primarily within the following five years (2015: within the following five years).

Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the expected term of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. The cash outflows are expected to occur at various stages over the next 24 years as longer term leases are not renewed (2015: the next 25 years).

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21. Provisions (continued)

Onerous contracts
The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of these net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over a period of up to 15 years (2015: 16 year period).

Gaming tax
Gaming tax provisions relate to amounts provided for taxes in certain jurisdictions where the interpretation of tax legislation is uncertain. When the group disagrees with the application of unclear tax legislation, for example when it is applied retrospectively and / or results in a one-off disproportionate tax equivalent to many times the profit derived by the Group from its historic activities in that jurisdiction, the Group continues to challenge these interpretations.

Whilst the maximum potential obligation for all ongoing cases could be greater than the recognised provision, and the outcomes may not be known for some time, a liability has been recorded for the Directors' best estimate of the cash outflows that will ultimately be required in respect of each claim.

22. Borrowings

Current liabilities

	31 December 2016 £m	Restated 31 December 2015 £m	31 December 2014 £m
Accrued interest on borrowings	**0.2**	0.2	-

Non-current liabilities

	31 December 2016 £m	Restated 31 December 2015 £m	31 December 2014 £m
Revolving credit facility	**214.0**	143.1	-
Less: expenses relating to revolving credit facility	**(0.4)**	(1.3)	-
	213.6	141.8	-

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300m provided by a syndicate of banks which expires in May 2020. At 31 December 2016, €250.0m (£214.0m) of this facility was drawn down (2015: €195.0m (£143.1m)). During 2016, the Group drew down €211.0m (£170.9m) and repaid €156.0m (£126.8m) under this facility.

Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at EURIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.

Upfront participation and arrangement fees plus associated costs incurred in arranging the RCF have been capitalised and offset against the loan in the consolidated statement of financial position and are being amortised to the income statement over the expected life of the facility.

It is the Directors' opinion that due to the Group's bank borrowings being subject to floating interest rates and the proven cash generation capability of the Group, there is no significant difference between the book value and fair value of the Group's borrowings.

Under the terms of the RCF, the Group is required to comply with the following financial covenants on a semi-annual basis.
- **Net Leverage Ratio:** Consolidated net borrowings shall not be more than 3.0 times underlying consolidated EBITDA.
- **Interest Cover Ratio:** Underlying consolidated EBITDA shall not be less than 4.0 times net finance charges.

During the year ended 31 December 2016, all covenants have been complied with.

23. Financial risk management

The Group has the following risk exposures in relation to its use of financial instruments:

- Market risk;
- Credit risk;
- Liquidity risk;
- Foreign currency risk; and
- Interest rate risk.

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 24 to 27.

General
The Board of Directors has overall responsibility for the management of the Group's risks. This responsibility is delegated to a number of committees over which the Board has oversight. The primary Board committees set up to manage risks are the Risk Committee and the Audit Committee. Both these Committees report regularly to the Board on their activities. The oversight of the Group's treasury operations is performed by an Investment Committee, chaired by the Chief Financial Officer, which reports annually to the Audit Committee on its activities.

Market risk
Market risk relates to the risk that changes in prices, including sports betting prices / odds, foreign currency exchange rates and interest rates (see also 'Interest rate risk' section below), will impact the Group's income or the value of its financial instruments. Market risk management has the function of managing and controlling the Group's exposures to market risk to within acceptable limits, while at the same time ensuring that returns are optimised.

The management of market risk is performed by the Group under the supervision of the Risk Committee and the Investment Committee and according to the guidelines approved by them. The Group will utilise hedges where there is an identified requirement to manage profit or loss volatility.

Sports betting prices / odds
Managing the risks associated with sportsbook bets is a fundamental part of the Group's business. The Group has a separate Risk Department which has responsibility for the compilation of bookmaking odds and for sportsbook risk management. The Risk Department is responsible for the creation and pricing of all betting markets and the trading of those markets throughout their lives. A mix of traditional bookmaking approaches married with risk management techniques from other industries is applied, and extensive use is made of mathematical models and information technology. The Group has set predefined limits for the acceptance of sportsbook bet risks. Stake and loss limits are set by reference to individual sports, events and bet types. These limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged with third parties in certain circumstances to minimise potential losses. The profits and losses recorded on sportsbook hedging activities are recorded in 'revenue' in the income statement.

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(continued)

24. Credit risk

Credit risk
The Group's credit risk represents the risk that a financial loss may result in the event that a counterparty to a financial instrument, a trading partner or customers fail to meet their contractual obligations.

Trade and other receivables
The Group's sports betting and gaming businesses are predominantly cash and credit card / debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. The impairment allowance also includes a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. There is no material concentration of sales with individual customers.

Cash investments and foreign exchange forward contracts
It is Group treasury policy to limit investments in cash deposits and foreign exchange forward contracts to counterparties that have a Moody's (or equivalent) long term credit rating of A3 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved by the Investment Committee. (As at the date of this report there are specific approvals for a number of lower rated banks where they have been invested in by the Irish state or by the UK government and / or are perceived by the Investment Committee to be systemically important).

A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with any individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the reporting date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

The Group continues to carefully measure counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and to take action to mitigate such risks as are identified. The Group has accordingly restricted its cash deposit investments to counterparties that had higher credit ratings and has, when required, shortened the maturities of deposits placed.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2016 £m	Restated 31 December 2015 £m
Restricted cash	**64.8**	60.2
Trade receivables	**10.3**	4.1
Other receivables	**3.7**	1.1
Derivative financial assets	**-**	1.8
Cash and cash equivalents	**249.9**	86.1
	328.7	153.3

24. Credit risk (continued)

The maximum exposure to credit risk for trade and other receivables by geographic region at 31 December was:

	31 December 2016 £m	Restated 31 December 2015 £m
United Kingdom and Ireland	**5.3**	2.5
Australia	**3.4**	2.3
US	**4.6**	-
Other	**0.7**	0.4
	14.0	5.2

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 31 December was:

	31 December 2016 £m	Restated 31 December 2015 £m
Trade receivables – credit betting customers	**3.5**	2.5
Trade receivables – other sports betting counterparties	**6.8**	1.6
Other receivables	**3.7**	1.1
	14.0	5.2

Significant customers
There were no individual customers at 31 December 2016 or 31 December 2015 that represented over ten per cent of trade receivables.

Impairment losses
The ageing of trade receivables (stated net of impairment provisions) at 31 December was as follows:

	31 December 2016 £m	Restated 31 December 2015 £m
Not past due	**6.3**	2.9
Past due 0 days to 30 days	**2.0**	0.9
Past due 31 days to 120 days	**1.5**	0.2
Past due 121 days to 365 days	**0.4**	0.1
More than one year	**0.1**	-
	10.3	4.1

The gross trade receivables balance is £12.0m (2015: £5.0m) with an allowance for impairment in respect of these receivables of £1.7m (2015: £0.9m). No material amounts have been written off in the current or prior year.

Notes to the Consolidated Financial Statements
(continued)

25. Liquidity risk

Liquidity risk
This represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for liquidity management is to ensure that there is sufficient liquidity in place to meet its liabilities as they fall due, both under normal or potential adverse conditions, and without resulting in undue loss or damage to the Group.

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of up to 12 months. Information on the overall maturity of deposits at 31 December 2016 and 2015 is set out in Note 15. It is the Directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- A committed revolving credit bank loan facility ("RCF") of €300m obtained from a syndicate of banks in 2015 which expires in May 2020. At 31 December 2016, €250.0m (£214.0m) of this facility was drawn down. Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at EURIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling £5.9m (€7.0m). Interest is payable thereon at the bank's prime overdraft rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power Betfair plc in favour of Allied Irish Banks p.l.c.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling £6.5m (€7.6m). Interest is payable thereon at the bank's sterling base rate plus 3.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power Betfair plc in favour of AIB Group (UK) p.l.c.

At 31 December 2016 and 31 December 2015, none of the bank overdraft facilities were being utilised.

The following are the contractual maturities of financial liabilities as at 31 December:

	31 December 2016						
	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 years and over £m
Non-derivative financial liabilities							
Trade and other payables	**323.4**	**324.3**	**316.4**	**0.5**	**5.1**	**1.3**	**1.0**
Contingent deferred consideration	**24.1**	**33.0**	**1.4**	**2.3**	**3.7**	**4.5**	**21.1**
Borrowings	**214.2**	**225.6**	**1.6**	**1.7**	**3.4**	**3.4**	**215.5**
	561.7	**582.9**	**319.4**	**4.5**	**12.2**	**9.2**	**237.6**
Derivative financial liabilities							
Sports betting open positions	**8.6**	**8.6**	**8.5**	**0.1**	**-**	**-**	**-**
	570.3	**591.5**	**327.9**	**4.6**	**12.2**	**9.2**	**237.6**

25. Liquidity risk (continued)

	31 December 2015 (restated)						
	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 years and over £m
Non-derivative financial liabilities							
Trade and other payables	188.3	188.6	182.5	0.8	3.6	0.9	0.8
Contingent deferred consideration	0.8	0.8	0.3	0.5	-	-	-
Borrowings	143.3	151.5	1.2	1.2	2.5	2.5	144.1
	332.4	340.9	184.0	2.5	6.1	3.4	144.9
Derivative financial liabilities							
Sports betting open positions	12.5	12.5	12.3	0.2	-	-	-
	344.9	353.4	196.3	2.7	6.1	3.4	144.9

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, and may vary depending on the future performance of the acquired businesses and the Group as a whole.

26. Currency risk

The Group is exposed to currency risk in respect of revenue, expenses, receivables, cash and cash equivalents, and other financial assets and financial liabilities (primarily trade payables, accruals and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are pound sterling ("GBP"), euro ("EUR"), Australian dollar ("AUD") and US dollar ("USD").

It is Group policy to ensure that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into the subsidiaries' functional currency at spot rates. Foreign exchange impacts therefore arise on the retranslation of their income and expense into their functional currency for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and other derivatives to manage foreign currency exposures on expected future cash flows.

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, it remains exposed to exchange rate risk in respect of its expected future foreign currency denominated income and expenses in its foreign operations.

Notes to the Consolidated Financial Statements
(continued)

26. Currency risk (continued)

Currency risk exposure
As of 31 December 2016 and 2015, the Group's foreign currency risk exposure, based on the functional currencies of its operations, was as follows:

	31 December 2016					31 December 2015 (restated)				
	EUR £m	**GBP £m**	**AUD £m**	**USD £m**	**Other £m**	EUR £m	GBP £m	AUD £m	USD £m	Other £m
Trade and other receivables	**-**	**2.1**	**-**	**-**	**-**	-	1.2	-	-	-
Financial assets – restricted cash, and cash and cash equivalents	**0.6**	**74.0**	**0.1**	**1.2**	**0.7**	0.1	76.4	0.3	1.8	0.1
Non-derivative financial liabilities	**(8.1)**	**(57.6)**	**12.8**	**(3.1)**	**(0.3)**	(6.7)	(78.7)	21.7	(2.6)	(0.2)
Derivative financial liabilities	**-**	**(2.0)**	**-**	**-**	**-**	-	(7.1)	-	-	-
Gross statement of financial position exposure	**(7.5)**	**16.5**	**12.9**	**(1.9)**	**0.4**	(6.6)	(8.2)	22.0	(0.8)	(0.1)

At 31 December 2015, the Group had hedged £74.8m of its expected 2016 GBP cash flows at an average EUR-GBP rate of 0.7199. A derivative financial asset of £1.8m in respect of foreign exchange forward contracts due to mature in 2016 had been recorded in the Group's consolidated statement of financial position (see Notes 14 and 29). No such contracts were outstanding at 31 December 2016.

The following are the significant exchange rates that applied during the year:

To 1 GBP:	Average rate		31 December (mid-spot rate)	
	2016	2015	**2016**	2015
EUR	**1.220**	1.377	**1.168**	1.362
AUD	**1.816**	2.036	**1.705**	2.030
USD	**1.351**	1.529	**1.231**	1.484

Sensitivity analysis
A ten per cent increase and decrease in the value of pound sterling against the following currencies at 31 December 2016 and 2015 would have increased / (decreased) profit and equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Equity	
	10% increase £m	**10% decrease £m**	**10% increase £m**	**10% decrease £m**
31 December 2016				
EUR	**0.5**	**(0.6)**	**(2.6)**	**3.2**
AUD	**(1.0)**	**1.3**	**(8.4)**	**13.5**
USD	**0.2**	**(0.2)**	**-**	**-**
31 December 2015 (restated)				
EUR	0.7	(0.8)	(2.4)	3.0
AUD	(1.8)	2.1	(6.2)	7.6
USD	0.1	(0.1)	-	-

27. Interest rate risk

Interest rate risk arises primarily from the Group's borrowings which are at a floating rate. The Group may manage this risk through the use of interest rate derivatives as appropriate. At 31 December 2016, the Group was not party to any such derivative. Excess cash funds are invested in interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit.

Profile

At 31 December 2016 and 31 December 2015 the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2016 £m	Restated 31 December 2015 £m
Variable rate instruments		
Financial assets – restricted cash	**64.8**	60.2
Financial assets – cash	**249.9**	86.1
Borrowings	**(214.0)**	(143.1)
	100.7	3.2

Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ("bps") in interest rates at 31 December 2016 and at 31 December 2015 would have (decreased) / increased profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Equity	
	50 bps increase £m	**50 bps decrease £m**	**50 bps increase £m**	**50 bps decrease £m**
31 December 2016				
Variable rate instruments	**(0.3)**	**0.3**	**-**	**-**
31 December 2015 (restated)				
Variable rate instruments	(0.3)	0.4	-	-

28. Capital management

Capital management

The capital structure of the Group consists of cash and cash equivalents, debt finance, issued capital, reserves and retained earnings. The efficiency of the Group's capital structure is kept under regular review by the Board. Relevant considerations include the Group's strong cash flow generation, its investment plans and general capital market conditions.

The Board is adopting a progressive dividend policy consistent with the Group's expected growth, which balances returns to shareholders with the need to retain sufficient funds to drive growth through investment. The target payout ratio for the Group's dividend will be approximately 50% of underlying profits after tax.

The Group has the authority to buy back up to ten per cent of the Company's issued share capital between the dates of its Annual General Meetings ("AGM"s), subject to the annual approval of its shareholders at the Company's AGM. Shares bought back may either be cancelled or held in treasury. The Company's ordinary shares may also be acquired on the market periodically by the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") to meet the EBT's obligations under share award schemes. These shares are held by the EBT and ownership is transferred to the EBT's beneficiaries if and when the related share awards vest.

At 31 December 2016 and 31 December 2015, neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements.

Notes to the Consolidated Financial Statements
(continued)

29. Fair values

Fair values versus carrying amounts
The following are the fair values and carrying amounts of financial assets and liabilities in the statement of financial position:

	31 December 2016		31 December 2015	
	Carrying amount £m	**Fair value £m**	Restated Carrying amount £m	Restated Fair value £m
Carried at fair value				
Assets				
Available-for-sale financial assets	**1.3**	**1.3**	-	-
Derivative financial assets – forward contract cash flow hedges	**-**	**-**	1.8	1.8
	1.3	**1.3**	1.8	1.8
Liabilities				
Derivative financial liabilities – sports betting open positions	**(8.6)**	**(8.6)**	(12.5)	(12.5)
Non-derivative financial liabilities – contingent deferred consideration	**(24.1)**	**(24.1)**	(0.8)	(0.8)
	(32.7)	**(32.7)**	(13.3)	(13.3)
Net	**(31.4)**	**(31.4)**	(11.5)	(11.5)
Carried at amortised cost				
Assets				
Trade receivables	**10.3**	**10.3**	4.1	4.1
Other receivables	**3.7**	**3.7**	1.1	1.1
Restricted cash	**64.8**	**64.8**	60.2	60.2
Cash and cash equivalents	**249.9**	**249.9**	86.1	86.1
	328.7	**328.7**	151.5	151.5
Liabilities				
Trade and other payables	**(323.4)**	**(323.4)**	(188.3)	(188.3)
Borrowings	**(214.2)**	**(214.2)**	(143.3)	(143.3)
	(537.6)	**(537.6)**	(331.6)	(331.6)
Net	**(208.9)**	**(208.9)**	(180.1)	(180.1)
Total	**(240.3)**	**(240.3)**	(191.6)	(191.6)

Fair value hierarchy
Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

29. Fair values (continued)

	31 December 2016			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Available-for-sale financial assets	**-**	**1.3**	**-**	**1.3**
Derivative financial liabilities	**-**	**-**	**(8.6)**	**(8.6)**
Non-derivative financial liabilities	**-**	**-**	**(24.1)**	**(24.1)**
	-	**-**	**(32.7)**	**(32.7)**

	31 December 2015 (restated)			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets	-	1.8	-	1.8
Derivative financial liabilities	-	-	(12.5)	(12.5)
Non-derivative financial liabilities	-	-	(0.8)	(0.8)
	-	-	(13.3)	(13.3)

Basis for determining fair values

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Financial instruments carried at amortised cost

Trade and other receivables (Level 2)

The fair value of trade and other receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Financial assets and cash and cash equivalents (Level 2)

The fair values of restricted cash and cash and cash equivalents are based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

Trade and other payables (Level 2)

The fair value of trade and other payables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Borrowings (Level 2)

The fair value of borrowings is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Financial instruments carried at fair value

Available-for-sale financial assets (Level 2)

The fair value of available-for-sale financial assets is valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Derivative financial instruments

Derivative financial instruments comprise foreign exchange forward contracts (Level 2) and sports betting open positions (Level 3).

The fair value of foreign exchange forward contracts is determined using quoted forward foreign currency exchange rates at the balance sheet date.

The fair value of open sports bets at the year-end has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions.

Notes to the Consolidated Financial Statements
(continued)

29. Fair values (continued)

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate using a market interest rate. The fair value was estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios. The significant unobservable inputs are the performance of the acquired businesses.

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value
The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2016 and 2015:

Sports betting open positions
The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. There are no reasonably probable changes to assumptions and inputs that would lead to material changes in the fair value methodology although final value will be determined by future sporting results.

Contingent deferred consideration
The fair value of contingent deferred consideration is primarily dependent on the future performance of the acquired businesses against predetermined targets and on management's current expectations thereof. Additional contingent deferred consideration of £22.0m was acquired as a result of the Merger. This is payable to the Stronach Group due to Betfair's historical acquisition of HRTV, a horseracing television network based in the US. The amount payable to the Stronach Group at 31 December 2016 amounted to £23.9m, with £20.4m due after one year from the reporting date. There are no reasonably probable changes to assumptions and inputs that would lead to a material change in the fair value of the total amount payable.

Movements in the year in respect of Level 3 financial instruments carried at fair value
The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	Sports betting open positions £m	Contingent deferred consideration £m	Total £m
Balance at 1 January 2015 (restated)	(11.2)	(1.6)	(12.8)
Arising on acquisition (Note 13)	-	(0.7)	(0.7)
Recognised in the income statement	(785.0)	0.4	(784.6)
Settlements	783.7	1.1	784.8
Balance at 31 December 2015 (restated)	**(12.5)**	**(0.8)**	**(13.3)**
Arising on Retail acquisitions (Note 13)	**-**	**(0.1)**	**(0.1)**
Acquired as part of Merger	**(0.3)**	**(22.0)**	**(22.3)**
Recognised in the income statement	**(1,161.0)**	**(1.7)**	**(1,162.7)**
Settlements	**1,165.2**	**3.8**	**1,169.0**
Foreign currency translation adjustment	**-**	**(3.3)**	**(3.3)**
Balance at 31 December 2016	**(8.6)**	**(24.1)**	**(32.7)**

30. Commitments and contingencies

(a) Guarantees

The Group has uncommitted working capital overdraft facilities of £12.4m (2015: £11.7m) with Allied Irish Banks p.l.c. These facilities are secured by a Letter of Guarantee from Paddy Power Betfair plc.

The Group has bank guarantees: (1) in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies; and (2) in respect of certain third party rental and other property commitments, merchant facilities and third party letter of credit facilities. The maximum amount of the guarantees at 31 December 2016 was £29.1m (2015: £11.2m). No claims had been made against the guarantees as of 31 December 2016 (2015: £Nil). The guarantees are secured by counter indemnities from Paddy Power Betfair plc and certain of its subsidiary companies. The value of cash deposits over which the guaranteeing banks hold security was £0.9m at 31 December 2016 (2015: £Nil).

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 2016, the total value of relevant customer balances attributable to the Australia business segment was £39.8m (AUD68.0m) (2015: £25.5m (AUD51.8m)) and the combined cash and cash equivalent balances held by Sportsbet at that date totalled £50.9m (AUD86.8m) (2015: £41.2m (AUD83.6m)). The Group holds cash amounts totalling £25.0m in respect of customer funds that are not held on trust in The Sporting Exchange (Clients) Limited in accordance with local regulations. Customer funds that are not held on trust are matched by liabilities of an equal value.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

As mentioned in Note 22, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

(b) Contingent liabilities

The Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements.

The Board monitors legal and regulatory developments and their potential impact on the business, however given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted.

(c) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred was as follows:

	31 December 2016 £m	Restated 31 December 2015 £m
Property, plant and equipment	**3.9**	0.7

Notes to the Consolidated Financial Statements
(continued)

30. Commitments and contingencies (continued)

(d) Operating leases
The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately six years left to run (if the Group was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2016 and 2015, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2016 £m	Restated 31 December 2015 £m
Within one year	**32.6**	24.8
Between two and five years	**100.1**	77.6
After five years	**52.7**	51.8
	185.4	154.2

The Group has a small number of shop properties that are sublet. Sublease payments of £0.4m (2015: £0.4m) are expected to be received during the year ended 31 December 2017.

During 2016, an amount of £33.3m was recognised in profit or loss in respect of operating leases (2015: £25.3m). Contingent rent expense in profit or loss amounted to a credit of £0.5m (2015: credit of £0.5m). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to £0.4m in 2016 (2015: £0.3m).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Group has determined that the leases are operating leases.

31. Related parties

The principal related party transactions requiring disclosure under IAS 24 Related Party Transactions relate to the existence of subsidiaries and transactions with these entities entered into by the Group, transactions with Directors and the identification and compensation of key management personnel.

Subsidiaries
The consolidated financial statements include the financial statements of the Company and its subsidiaries. A listing of the material subsidiaries is provided in Note 32. Transactions to and from subsidiaries have been eliminated in the preparation of the consolidated financial statements.

31. Related parties (continued)

Transactions with Directors

The Company has a policy of not lending to Directors and consequently there were no loans outstanding to any Director at any time during the year. Details of Directors' remuneration, interests in share awards and share options are set out on pages 98 to 111. Other related party transactions between the Group and the Directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

- Stewart Kenny was a director until 24 August 2016. In 2015, he received €200,000 in respect of consulting fees. He did not receive any such fees in 2016.
- Pádraig Ó Ríordáin is a Partner in Arthur Cox. During the year ended 31 December 2016, the Group incurred fees of €2,149,699 (2015: €1,682,574) relating to legal and taxation advice received from Arthur Cox.

Transactions with key management personnel, comprising Executive Directors, Non-Executive Directors and other members of the Group's Executive Committee

Key management personnel compensation is as follows:

	2016 £m	Restated 2015 £m
Short-term employee benefits	**6.3**	5.6
Non-Executive Directors fees	**0.9**	0.6
Post-employment benefits	**0.3**	0.3
Payments for loss of office	**3.0**	-
Share-based payments costs	**7.6**	5.9
	18.1	12.4

Notes to the Consolidated Financial Statements
(continued)

32. Group entities

The Company had the following 100% subsidiary undertakings carrying on businesses which materially affect the profits and assets of the Group at 31 December 2016:

Name	Equity interest at 31 December 2016	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited [1]	100%	England and Wales	Bookmaker	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Victoria House, Gloucester Street, Belfast, BT1 4LS, Northern Ireland
Sportsbet Pty Limited	100%	Australia	Online sports betting	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
CT Networks Limited	100%	Isle of Man	Games developer	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN
Paddy Power Services Limited	100%	Alderney	Online gaming	Inchalla, Le Val, Alderney, Channel Islands, GY9 3UL
Paddy Power Australia Pty Limited	100%	Australia	Holding company	Level 3, 367 Collins Street, Melbourne, Victoria 3000
Paddy Power Holdings Limited [1]	100%	Isle of Man	Holding company	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN
Betfair Group Limited [1, 2]	100%	England and Wales	Holding company	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
TSED Unipessoal LDA [2]	100%	Portugal	R&D activities	Avenida de Camilo 96, 4300-096 Porto, Portugal
Betfair Casino Limited [2]	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
PPB Entertainment Limited [2]	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
PPB Counterparty Services Limited [2]	100%	Malta	Online sports betting	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
Betfair International Plc [2]	100%	Malta	Online sports betting and gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
Betfair Interactive US LLC [2]	100%	USA	Online gaming	Suite 2650, 525 Washington Boulevard, Jersey City, NJ 07310
TSE (Gibraltar) LP [2]	100%	Gibraltar	Online sports betting	Suites 2/4 and 2/5 Waterport Place, Gibraltar
PPB Games Limited [2]	100%	Malta	Online Gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
Betfair Romania Development S.R.L.	100%	Romania	R&D activities	Cladirea The Office, B-dul 21 Decembrie 1989, Nr.77, Corp A, Etaj 4, Cluj-Napoca, 400604, Romania
ODS Technologies LP [2]	100%	USA	Horse racing broadcaster and betting network	6701 Center Drive West, Suite 800, Los Angeles, CA 90045
HRTV LLC [2]	100%	USA	Horse racing broadcaster and betting network	6701 Center Drive West, Suite 800, Los Angeles, CA 90045
Betfair US LLC [2]	100%	USA	Online sports betting	6701 Center Drive West, Suite 800, Los Angeles, CA 90045
TSE Holdings Limited [2]	100%	England and Wales	Holding company	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Betfair Holding (Malta) Limited [2]	100%	Malta	Holding company	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
Polco Limited [2]	100%	Malta	Online sports betting	Triq il-Kappillan Mifsud, Santa Venera, SVR1851, Malta
Tradefair Spreads Limited [2]	99.75% [3]	England and Wales	Spread betting services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Betfair Italia S.R.L. [2]	100%	Italy	Online sports betting and gaming	Palazzo Cova, Via Carducci 36, 20123, Milan, Italy

1 These companies are held directly by Paddy Power Betfair plc.

2 These subsidiary undertakings prior to the Merger were subsidiaries of Betfair Group plc and had a year-end date of 30 April 2016. The year-end date for these companies is now 31 December 2016. All other subsidiaries had a year-end date of 31 December 2016 and 31 December 2015.

3 Non-controlling interest of 0.25% exists in relation to Tradefair Spreads Limited. The value of the non-controlling interest was less than £0.1m at 31 December 2016.

32. Group entities (continued)

All subsidiary undertakings have been included in the Group consolidated financial statements.

In addition to the above subsidiary undertakings, the Group utilises an employee trust, Paddy Power Betfair plc Employee Benefit Trust, with a registered address at PO Box 76, Wests Centre, St Helier, Jersey, JE4 8PQ, and which holds shares under certain share award schemes.

33. Events after the reporting date

Dividend
In respect of the current year, the Directors propose that a final dividend of 113.0 pence per share will be paid to shareholders on 24 May 2017. 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 7 April 2017. The total estimated dividend to be paid amounts to £95.0m.

34. Changes in accounting policies

Under the new Group accounting policies as outlined in Note 2, payment transaction costs, previously accounted for as operating expenses are accounted for as cost of sales, and affiliate commissions, previously accounted for as cost of sales are accounted for as operating expenses. In addition, certain amounts previously reported within the Online, Australia and Retail operating segments are reported within the Corporate operating segment. The impact of the changes, by reporting segment, on the major components of operating profit for the year ended 31 December 2015 are as follows:

Year ended 31 December 2015

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Cost of sales						
As reported under previous accounting policies	(79.9)	(60.6)	(57.2)	-	-	(197.7)
Restatement	5.5	2.2	(1.3)	-	-	6.4
As reported under new accounting policies	(74.4)	(58.4)	(58.5)	-	-	(191.3)
Operating costs excluding depreciation and amortisation						
As reported under previous accounting policies	(159.7)	(105.5)	(160.5)	-	-	(425.7)
Restatement	21.2	1.0	4.3	-	(32.9)	(6.4)
As reported under new accounting policies	(138.5)	(104.5)	(156.2)	-	(32.9)	(432.1)
Impact on operating profit	26.7	3.2	3.0	-	(32.9)	-

The total restatement between cost of sales and operating costs excluding depreciation and amortisation for the year ended 31 December 2016 amounted to £6.4m (€8.8m).

Notes to the Consolidated Financial Statements
(continued)

34. Changes in accounting policies (continued)

Under the new Group accounting policies as outlined in Note 2, certain amounts previously accounted for as cash and cash equivalents and included in the statement of cash flows are accounted for as financial assets – restricted cash and are excluded from the statement of cash flows. The impact of the changes on the major components of the consolidated statement of cash flows in the year ended 31 December 2015 are as follows:

	2015 As reported under previous accounting policies £m	2015 As reported under new accounting policies £m
Net cash from operating activities	196.2	188.5
Net cash used in investing activities	(30.1)	(30.1)
Net cash used in financing activities	(222.2)	(218.4)
Net decrease in cash and cash equivalents	(56.1)	(60.0)
Cash and cash equivalents at start of year	176.4	153.3
Foreign currency exchange loss on cash and cash equivalents	(8.5)	(7.2)
Cash and cash equivalents at end of year	111.8	86.1

The impact of the changes on the consolidated statement of financial position as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015 As reported under previous accounting policies £m	31 December 2015 As reported under new accounting policies £m	31 December 2014 As reported under previous accounting policies £m	31 December 2014 As reported under new accounting policies £m
Financial assets – restricted cash	34.5	60.2	30.6	53.7
Cash and cash equivalents	111.8	86.1	176.4	153.3

35. Change in presentation currency

In restating the Group financial statements for 2015, the reported information was converted to pounds sterling from euro using the following procedures:

- assets and liabilities of foreign operations where the functional currency is other than pounds sterling were translated into pounds sterling at the relevant closing rates of exchange, namely 1 January 2015 and 31 December 2015. Non-sterling trading results were translated into sterling at the actual rates of exchange for the transactions (or the relevant average rates of exchange where this was a reasonable approximation). Differences arising from the retranslation of the opening net assets and the results for the year have been taken to the foreign currency translation reserve;
- the cumulative foreign currency translation reserve was set to nil at 1 January 2015, the date at the beginning of the prior year comparative period. All subsequent movements comprising differences on the retranslation of the opening net assets of non-sterling entities have been taken to the foreign currency translation reserve. Share capital, share premium and other reserves were translated into pounds sterling at the rate of exchange at 1 January 2015 and at the historic rates prevailing at the dates of transactions thereafter; and
- all exchange rates used were extracted from the Group's underlying financial records.

35. Change in presentation currency (continued)

Consolidated Income Statement

	Before separately disclosed items 2015 As restated in EUR €m	Separately disclosed items 2015 As restated in EUR €m	Total 2015 As restated in EUR €m	Before separately disclosed items 2015 As restated in GBP £m	Separately disclosed items 2015 As restated in GBP £m	Total 2015 As restated in GBP £m
Continuing operations						
Revenue	1,094.0	-	1,094.0	794.3	-	794.3
Cost of sales	(267.5)	-	(267.5)	(191.3)	-	(191.3)
Gross profit	826.5	-	826.5	603.0	-	603.0
Operating costs excluding depreciation and amortisation	(593.5)	(10.2)	(603.7)	(432.1)	(7.4)	(439.5)
EBITDA	233.0	(10.2)	222.8	170.9	(7.4)	163.5
Depreciation and amortisation	(52.6)	-	(52.6)	(38.4)	-	(38.4)
Operating profit / (loss)	180.4	(10.2)	170.2	132.5	(7.4)	125.1
Financial income	1.9	-	1.9	1.4	-	1.4
Financial expense	(2.6)	-	(2.6)	(2.0)	-	(2.0)
Profit / (loss) before tax	179.7	(10.2)	169.5	131.9	(7.4)	124.5
Income tax (expense) / credit	(27.0)	4.8	(22.2)	(19.7)	3.4	(16.3)
Profit / (loss) for the year – all attributable to equity holders of the Company	152.7	(5.4)	147.3	112.2	(4.0)	108.2

Consolidated Statement of Comprehensive Income

	2015 As originally reported €m	2015 As restated in GBP £m
Profit for the year – all attributable to equity holders of the Company	147.3	108.2
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	(6.2)	(4.5)
Fair value of foreign exchange cash flow hedges transferred to income statement	11.3	8.3
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities	3.9	(20.2)
Deferred tax on fair value of cash flow hedges	(0.6)	(0.5)
Other comprehensive income / (loss)	8.4	(16.9)
Total comprehensive income for the year – all attributable to equity holders of the Company	155.7	91.3

Notes to the Consolidated Financial Statements
(continued)

35. Change in presentation currency (continued)

Consolidated Statement of Financial Position

	31 December 2015 As restated in EUR €m	31 December 2015 As restated in GBP £m	31 December 2014 As restated in EUR €m	31 December 2014 As restated in GBP £m
Assets				
Property, plant and equipment	125.4	92.0	126.8	98.7
Intangible assets	82.1	60.3	76.4	59.5
Goodwill	108.9	79.9	102.8	80.1
Deferred tax assets	9.1	6.7	8.2	6.4
Trade and other receivables	-	-	2.0	1.5
Total non-current assets	325.5	238.9	316.2	246.2
Trade and other receivables	31.0	22.7	32.4	25.2
Derivative financial assets	2.4	1.8	-	-
Financial assets – restricted cash	81.9	60.2	68.9	53.7
Financial assets – deposits	-	-	19.3	15.0
Cash and cash equivalents	117.3	86.1	196.8	153.3
Total current assets	232.6	170.8	317.4	247.2
Total assets	558.1	409.7	633.6	493.4
Equity				
Issued share capital and share premium	6.8	8.7	50.1	39.0
Treasury shares	(51.8)	(40.7)	(57.5)	(44.8)
Shares held by employee benefit trust	(63.1)	(49.2)	(61.5)	(47.9)
Other reserves	40.9	8.5	34.8	27.2
Retained earnings	136.5	123.6	421.1	327.9
Total equity attributable to equity holders of the Company	69.3	50.9	387.0	301.4
Liabilities				
Trade and other payables	250.7	184.1	201.4	156.9
Derivative financial liabilities	17.0	12.5	17.0	13.2
Provisions	0.6	0.4	0.5	0.4
Current tax payable	14.9	10.9	17.4	13.5
Borrowings	0.3	0.2	-	-
Total current liabilities	283.5	208.1	236.3	184.0
Trade and other payables	6.8	5.0	5.8	4.5
Derivative financial liabilities	0.1	-	0.1	0.1
Provisions	1.3	1.0	1.2	0.9
Deferred tax liabilities	3.9	2.9	3.2	2.5
Borrowings	193.2	141.8	-	-
Total non-current liabilities	205.3	150.7	10.3	8.0
Total liabilities	488.8	358.8	246.6	192.0
Total equity and liabilities	558.1	409.7	633.6	493.4

35. Change in presentation currency (continued)

Consolidated Statement of Cash Flows

	2015 As restated in EUR €m	2015 As restated in GBP £m
Cash flows from operating activities		
Profit for the year – all attributable to equity holders of the Company	147.3	108.2
Separately disclosed items	5.5	4.0
Tax expense before separately disclosed items	27.0	19.7
Financial income	(1.9)	(1.4)
Financial expense	2.6	2.0
Depreciation and amortisation before separately disclosed items	52.6	38.4
Employee equity-settled share-based payments expense before separately disclosed items	16.8	12.1
Foreign currency exchange gain	(2.1)	(1.9)
Loss on disposal of property, plant and equipment and intangible assets	0.3	0.2
Cash from operations before changes in working capital	248.1	181.3
Decrease in trade and other receivables	0.5	0.2
Increase in trade, other payables and provisions	45.0	33.6
Cash generated from operations	293.6	215.1
Tax paid	(26.3)	(19.2)
Net cash from operating activities before merger fees and integration and restructuring costs	267.3	195.9
Merger fees and integration and restructuring costs paid	(10.2)	(7.4)
Net cash from operating activities	257.1	188.5
Purchase of property, plant and equipment	(27.8)	(20.2)
Purchase of intangible assets	(30.1)	(21.9)
Purchase of retail businesses, net of cash acquired	(5.5)	(4.0)
Payment of contingent deferred consideration	(1.5)	(1.1)
Proceeds from disposal of property, plant and equipment and intangible assets	0.3	0.2
Transfers from financial assets – deposits	21.0	15.4
Interest received	2.0	1.5
Net cash used in investing activities	(41.6)	(30.1)
Proceeds from the issue of new shares	2.7	2.0
Purchase of shares by employee benefit trust	(25.3)	(18.5)
Dividends paid	(76.3)	(55.4)
Return of capital to shareholders (including associated costs)	(392.1)	(282.8)
Net amounts drawn down on borrowings facility	195.0	139.6
Fees in respect of borrowings facility	(2.5)	(1.8)
Interest paid	(2.1)	(1.5)
Net cash used in financing activities	(300.6)	(218.4)
Net decrease in cash and cash equivalents	(85.1)	(60.0)
Cash and cash equivalents at start of year	196.8	153.3
Foreign currency exchange gain / (loss) on cash and cash equivalents	5.6	(7.2)
Cash and cash equivalents at end of year	117.3	86.1

Company Statement of Financial Position
As at 31 December 2016

	Note	31 December 2016 €m	31 December 2015 €m
Assets			
Property, plant and equipment	5	**40.0**	38.5
Intangible assets	6	**0.7**	0.7
Goodwill	7	**18.9**	18.7
Financial assets	8	**5,620.9**	78.6
Trade and other receivables	10	**204.3**	-
Deferred tax assets	12	**0.2**	0.4
Total non-current assets		**5,885.0**	136.9
Current assets			
Trade and other receivables	10	**328.6**	564.9
Derivative financial assets	10	**-**	2.4
Cash and cash equivalents	11	**14.1**	20.7
Total current assets		**342.7**	588.0
Total assets		**6,227.7**	724.9
Equity			
Issued share capital and share premium	13	**620.5**	6.8
Capital redemption reserve fund		**1.8**	1.8
Capital conversion reserve fund		**0.3**	0.3
Treasury shares		**(5.4)**	(5.4)
Shares held by employee benefit trust		**(40.9)**	(63.1)
Share-based payment reserve		**42.3**	32.7
Retained earnings		**5,064.7**	277.6
Shareholders' funds – all equity interests		**5,683.3**	250.7
Liabilities			
Trade and other payables	15	**288.4**	276.5
Derivative financial liabilities	15	**3.2**	2.1
Borrowings	16	**0.2**	0.2
Total current liabilities		**291.8**	278.8
Trade and other payables	15	**3.1**	2.2
Borrowings	16	**249.5**	193.2
Total non-current liabilities		**252.6**	195.4
Total liabilities		**544.4**	474.2
Total equity and liabilities		**6,227.7**	724.9

Notes 1 to 25 on pages 198 to 219 form an integral part of these financial statements.

On behalf of the Board

Breon Corcoran
Chief Executive Officer
7 March 2017

Alex Gersh
Chief Financial Officer

Company Statement of Cash Flows
Year ended 31 December 2016

	Note	2016 €m	2015 €m
Cash flows from operating activities			
Profit for the year – all attributable to equity holders of the Company		**63.1**	323.9
Tax expense		**5.1**	3.5
Dividends from subsidiaries		**(73.8)**	(298.7)
Financial income		**(0.2)**	(0.1)
Financial expense		**3.6**	2.3
Depreciation and amortisation		**7.3**	6.5
Employee equity-settled share-based payments expense		**1.9**	3.4
Foreign currency exchange (gain) / loss		**(13.2)**	0.8
Loss on disposal of property, plant and equipment and intangible assets		**-**	0.2
Cash from operations before changes in working capital		**(6.2)**	41.8
Decrease in trade and other receivables		**47.5**	163.7
Increase / (decrease) in trade, other payables and provisions		**17.4**	(277.0)
Cash generated from / (used in) operations		**58.7**	(71.5)
Tax paid		**(6.7)**	(1.2)
Net cash from / (used in) from operating activities		**52.0**	(72.7)
Purchase of property, plant and equipment	5	**(8.6)**	(8.6)
Purchase of intangible assets	6	**(0.4)**	(0.4)
Purchase of businesses, net of cash acquired	9	**(0.2)**	(5.0)
Payment of contingent deferred consideration	9	**(0.5)**	(1.4)
Proceeds from disposal of property, plant and equipment and intangible assets		**-**	0.2
Dividends from subsidiaries		**73.8**	298.7
Interest received		**0.2**	0.1
Net cash from investing activities		**64.3**	283.6
Proceeds from the issue of new shares		**3.0**	2.7
Purchase of shares by employee benefit trust		**-**	(25.3)
Dividends paid	14	**(179.6)**	(76.3)
Return of capital to shareholders (including associated costs)	13	**-**	(392.1)
Net amounts drawn down on borrowings facility	16	**55.0**	195.0
Fees in respect of borrowings facility		**-**	(2.5)
Interest paid		**(3.4)**	(2.2)
Net cash used in financing activities		**(125.0)**	(300.7)
Net decrease in cash and cash equivalents		**(8.7)**	(89.8)
Cash and cash equivalents at start of year		**20.7**	107.9
Foreign currency exchange gain on cash and cash equivalents		**2.1**	2.6
Cash and cash equivalents at end of year	11	**14.1**	20.7

Notes 1 to 25 on pages 198 to 219 form an integral part of these financial statements.

Company Statement of Changes In Equity
Year ended 31 December 2016

	Attributable to equity holders of the Company (see Note 13)								
	Number of ordinary shares in issue millions	Issued share capital and share premium €m	Capital redemption reserve fund €m	Capital conversion reserve fund €m	Treasury shares €m	Shares held by employee benefit trust €m	Share-based payment reserve €m	Retained earnings €m	Total equity €m
Balance at 1 January 2016	*46.0*	6.8	1.8	0.3	(5.4)	(63.1)	32.7	277.6	250.7
Profit for the year	-	-	-	-	-	-	-	63.1	63.1
Shares issued (Note 13)	*0.4*	3.0	-	-	-	-	-	-	3.0
Shares issued as consideration for acquisition of Betfair Group plc	*39.6*	5,510.7	-	-	-	-	-	-	5,510.7
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	34.7	-	34.7
Equity-settled transactions – vestings	-	-	-	-	-	22.2	(23.7)	2.4	0.9
Transfer to retained earnings on exercise of share options (Note 13)	-	-	-	-	-	-	(1.4)	1.4	-
Tax on share-based payments	-	-	-	-	-	-	-	(0.2)	(0.2)
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	(179.6)	(179.6)
Share premium cancellation (Note 13)	-	(4,900.0)	-	-	-	-	-	4,900.0	-
Total contributions by and distributions to owners of the Company	*40.0*	613.7	-	-	-	22.2	9.6	4,724.0	5,369.5
Balance at 31 December 2016	*86.0*	620.5	1.8	0.3	(5.4)	(40.9)	42.3	5,064.7	5,683.3

Company Statement of Changes In Equity
Year ended 31 December 2015

	Attributable to equity holders of the Company (see Note 13)								
	Number of ordinary shares in issue millions	Issued share capital and share premium €m	Capital redemption reserve fund €m	Capital conversion reserve fund €m	Treasury shares €m	Shares held by employee benefit trust €m	Share-based payment reserve €m	Retained earnings €m	Total equity €m
Balance at 1 January 2015	*51.1*	50.0	0.9	0.3	(6.0)	(61.4)	35.9	380.5	400.2
Profit for the year	-	-	-	-	-	-	-	323.9	323.9
Shares issued (Note 13)	-	2.7	-	-	-	-	-	-	2.7
Own shares acquired by the employee benefit trust – net of B shares' receipt (Note 13)	-	-	-	-	-	(25.3)	-	-	(25.3)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	16.8	-	16.8
Equity-settled transactions – vestings	-	-	-	-	-	23.6	(19.2)	(3.4)	1.0
Transfer to retained earnings on exercise of share options (Note 13)	-	-	-	-	-	-	(0.8)	0.8	-
Return of capital to shareholders (including related costs) (Note 13)	-	-	-	-	-	-	-	(392.3)	(392.3)
Capital reduction (Note 13)	*(5.1)*	(1.0)	0.9	-	0.6	-	-	(0.5)	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	(76.3)	(76.3)
Share premium cancellation (Note 13)	-	(44.9)	-	-	-	-	-	44.9	-
Total contributions by and distributions to owners of the Company	*(5.1)*	(43.2)	0.9	-	0.6	(1.7)	(3.2)	(426.8)	(473.4)
Balance at 31 December 2015	*46.0*	6.8	1.8	0.3	(5.4)	(63.1)	32.7	277.6	250.7

Notes 1 to 25 on pages 198 to 219 form an integral part of these financial statements.

Notes to the Company Financial Statements

1. Basis of preparation and summary of significant accounting policies

The financial statements of the Company for the financial year ending 31 December 2016 have been prepared in euro, the Company's functional currency, rounded to the nearest million. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

As permitted by section 304 of the Companies Act 2014, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €63.1m (2015: €323.9m), which includes dividends receivable from subsidiary companies amounting to €73.8m (2015: €298.7m).

Revenue
The services provided by the Company comprise sports betting and business-to-business services as well as services provided to other group companies. Revenue is stated exclusive of value-added tax. The costs of customer promotions (including free bets) and bonuses are deducted from revenue.

The Company's activities, with the exception of business-to-business services and services to other group companies on which fees are earned, are classified as derivative financial instruments.

Revenue from betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the revenue line as this represents the Company's principal activity. Commission and other fee income earned is also recorded within revenue.

Revenue from business-to-business services and services to other group companies represents fees charged for the services provided in the period.

Financial assets
Interests in subsidiary undertakings are stated in the Company statement of financial position as financial fixed assets, at cost less, where necessary, provisions for impairment.

Included within financial assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within the income statement.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight-line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 years
Motor vehicles	5 years

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

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value, if not insignificant, is reassessed annually.

Goodwill

Acquisitions of subsidiaries are accounted for using the acquisition method. The value of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised under Irish Generally Accepted Accounting Practice ("GAAP") prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2014, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS, is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the fair values of the relevant net assets acquired is dealt with through retained earnings.

Costs relating to the acquisition of businesses that occurred since 1 January 2014 are expensed to the income statement when incurred.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Intangible assets

Intangible assets, principally comprising licences and computer software, are capitalised at cost and amortised over their estimated useful economic lives on a straight-line basis.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business and licences for electronic point of sale ("EPOS") system software.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Licences	5 years
Computer software	3 – 5 years

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Notes to the Company Financial Statements
(continued)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Borrowings
Borrowings are recorded at the fair value of the proceeds received, net of any directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Derivative financial instruments
The Company holds certain derivative financial instruments which are initially recognised at fair value.

Sports betting open positions
Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Company on initial recognition as financial liabilities at fair value through profit or loss.

Other non-derivative financial instruments
Other non-derivative financial instruments comprise cash and cash equivalents, restricted cash, deposits, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual right to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

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

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

Restricted cash represents cash held by the Company but which is ring fenced or used as security for specific arrangements (such as cash held on the balance sheet in designated client funds accounts or as collateral for a bank guarantee), and to which the Company has restricted access for a period of time. Restricted cash is classified as held to maturity and carried at amortised cost. Restricted cash balances are further classified as current or non-current depending on when the restriction first ends.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7, 'Statement of Cash Flows', these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Subsequent to initial recognition, cash and cash equivalents, restricted cash, deposits and trade and other payables are measured at amortised cost.

Leases
Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Employee benefits
Pensions
The Company operates a number of defined contribution schemes under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the obligation falls due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Share-based payments
The Company operates equity-settled long term and medium term incentive plans for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and / or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve in equity. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Company operates an equity-settled share save scheme ("SAYE") for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Company has operated equity-settled share option schemes for employees under which employees acquired options over Company shares. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Company operates certain cash-settled long term incentive plans for selected senior executives (other than Directors) and other key management under which they are conditionally awarded notional Company shares which vest upon the achievement of predetermined earnings targets and future service periods. The estimated costs of the awards are spread over the period during which the employees become unconditionally entitled to the payment. The beneficiaries are paid in cash based on the Company's share price on the date of vesting and the liability is re-measured at each reporting date using the closing share price on that day.

Notes to the Company Financial Statements
(continued)

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

Foreign currency
Transactions denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Tax
Tax in the income statement comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

In determining the current and deferred tax, the Company considers the impact of uncertain tax positions and whether additional taxes or interest may be due. Uncertainties reviewed by the Company include those regarding transfer pricing policies in place and interpretation of tax laws internationally have been measured using the best estimate of the likely outcome. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgements regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks and the Company believes that the accrual for tax liabilities at 31 December 2016 is adequate for all uncertain tax positions based on its assessment of the range of factors outlined above.

Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 33 to the consolidated financial statements.

2. Employee expenses and numbers

	2016 €m	2015 €m
Wages and salaries	**39.5**	38.5
Social security costs	**4.5**	3.9
Defined contribution pension and life assurance costs	**0.4**	0.6
Share-based payment costs (see below)	**1.9**	3.4
Other staff costs	**1.3**	1.6
	47.6	48.0

The average number of persons employed by the Company (including Executive Directors), all of whom were involved in the provision of betting services, during the year was	**1,378**	1,320

Details of the remuneration of Directors are set out in the Directors' Remuneration Report on pages 98 to 102.

Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2016 €m	2015 €m
The Paddy Power plc Sharesave Scheme	**0.2**	0.3
Paddy Power Long Term Incentive Plan ("LTIP")	**1.7**	3.1
	1.9	3.4

Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2016 was 81,008 (2015: 66,123). These options had exercise prices ranging from €19.87 to €75.21 (2015: €14.90 to €45.52).

For the year ended 31 December 2016:	Options outstanding at 1 January 2016	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2016
The Paddy Power plc Sharesave Scheme	**66,123**	**-**	**(2,513)**	**(10,296)**	**53,314**
Paddy Power Betfair plc Sharesave Scheme	**-**	**27,694**	**-**	**-**	**27,694**
Total	**66,123**	**27,694**	**(2,513)**	**(10,296)**	**81,008**

For the year ended 31 December 2015:	Options outstanding at 1 January 2015	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2015
The Paddy Power plc Sharesave Scheme	95,705	-	(6,074)	(23,508)	66,123

Notes to the Company Financial Statements
(continued)

2. Employee expenses and numbers (continued)

Summary of share awards outstanding under the Paddy Power Long Term Incentive Plan
The total number of share awards outstanding to Company employees at 31 December 2016 was 50,640 (2015: 193,703). The movements in share awards during the years ended 31 December 2016 and 2015 (excluding related dividends awarded as shares) were as follows:

For the year ended 31 December 2016:	**Share awards outstanding at 1 January 2016**	**Share awards granted during year**	**Share awards lapsed during year**	**Share awards vested during year**	**Share awards outstanding at 31 December 2016**
2004 LTIP scheme	**21,475**	**-**	**(15,174)**	**(6,301)**	**-**
2013 LTIP scheme	**172,228**	**-**	**(8,802)**	**(112,786)**	**50,640**
Total	**193,703**	**-**	**(23,976)**	**(119,087)**	**50,640**

For the year ended 31 December 2015:	Share awards outstanding at 1 January 2015	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2015
2004 LTIP scheme	164,109	-	(6,136)	(136,498)	21,475
2013 LTIP scheme	169,323	44,010	(41,105)	-	172,228
Total	333,432	44,010	(47,241)	(136,498)	193,703

3. Financial income and expense

	2016 €m	2015 €m
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost		
Interest income on short term bank deposits	**0.2**	0.1
Financial expense:		
On financial liabilities at amortised cost		
Interest on borrowings, bank guarantees and bank facilities, and other interest payable	**3.6**	2.3

4. Statutory information

	2016 €m	2015 €m
Auditor's remuneration	**0.6**	0.2

The auditor's remuneration of €0.6m (2015: €0.2m) relates to the audit of group and subsidiary financial statements. It comprises €0.1m (2015: €0.1m) for the audit of the Company. Further details on auditor's remuneration is disclosed in Note 7 to the consolidated financial statements.

Auditor remuneration to Company external auditor (KPMG LLP)
In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the auditor's remuneration figures presented below represent fees paid to KPMG LLP only and are exclusive of value added tax. Audit relates to the audit of the Company financial statements only. Audit fees borne by the Company in relation to the audit by KPMG LLP of the Group and subsidiary companies are classified as other assurance services. In 2015, the Company external auditor was KPMG Ireland.

4. Statutory information (continued)

	2016 €m	2015 €m
Audit	**0.1**	0.1
Other assurance services	**0.6**	0.6
Tax advisory services	**0.2**	-
Total	**0.9**	0.7

Other assurance services includes €0.4m (2015: €0.2m) in respect of fees incurred by the Company for the audit of the Group financial statements, €0.1m (2015: €Nil) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company, €0.1m (2015: €Nil) in respect of fees for other miscellaneous assurance work and €Nil (2015: €0.4m) in respect of fees relating to assurance services provided in relation to the Merger with Betfair Group plc.

5. Property, plant and equipment

	Land, buildings and leasehold improvements €m	Fixtures, fittings and equipment €m	Computer equipment €m	Motor vehicles €m	Total €m
Cost					
Balance at 1 January 2015	41.4	67.9	7.6	0.1	117.0
Additions (including business combinations)	1.9	4.6	1.7	-	8.2
Transfers	-	-	0.1	-	0.1
Disposals	(0.2)	(1.4)	(0.1)	(0.1)	(1.8)
Balance at 31 December 2015	43.1	71.1	9.3	-	123.5
Additions (including business combinations)	**0.4**	**6.7**	**1.5**	**-**	**8.6**
Disposals	**-**	**(1.0)**	**-**	**-**	**(1.0)**
Balance at 31 December 2016	**43.5**	**76.8**	**10.8**	**-**	**131.1**
Depreciation					
Balance at 1 January 2015	21.0	53.0	6.2	-	80.2
Charge for year	1.7	3.6	0.9	-	6.2
Disposals	(0.1)	(1.2)	(0.1)	-	(1.4)
Balance at 31 December 2015	22.6	55.4	7.0	-	85.0
Charge for year	**1.7**	**4.3**	**1.1**	**-**	**7.1**
Disposals	**-**	**(1.0)**	**-**	**-**	**(1.0)**
Balance at 31 December 2016	**24.3**	**58.7**	**8.1**	**-**	**91.1**
Net book value					
At 31 December 2015	20.5	15.7	2.3	-	38.5
At 31 December 2016	**19.2**	**18.1**	**2.7**	**-**	**40.0**

The net book value of land, buildings and leasehold improvements at 31 December 2016 includes €14.5m (2015: €15.6m) in respect of leasehold improvements.

The Directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

Notes to the Company Financial Statements
(continued)

6. Intangible assets

The movements during the year in respect of intangible assets, which comprise licences and computer software, were as follows:

	Licences €m	Computer software €m	Total €m
Cost			
Balance at 1 January 2015	1.5	3.8	5.3
Additions	-	0.4	0.4
Balance at 31 December 2015	1.5	4.2	5.7
Additions	**-**	**0.4**	**0.4**
Balance at 31 December 2016	**1.5**	**4.6**	**6.1**
Amortisation			
Balance at 1 January 2015	1.5	3.2	4.7
Amortisation for year	-	0.3	0.3
Balance at 31 December 2015	1.5	3.5	5.0
Amortisation for year	**-**	**0.4**	**0.4**
Balance at 31 December 2016	**1.5**	**3.9**	**5.4**
Net book value			
At 31 December 2015	-	0.7	0.7
At 31 December 2016	**-**	**0.7**	**0.7**

7. Goodwill

	€m
Balance at 1 January 2015	13.4
Arising on acquisitions during the year (Note 9)	5.3
Balance at 31 December 2015	**18.7**
Arising on acquisitions during the year (Note 9)	**0.2**
Balance at 31 December 2016	**18.9**

The goodwill balance as at 1 January 2016 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and subsequent acquisitions of licenced book making shops made in Ireland. Additional goodwill in 2016 arose on the acquisition of one licenced bookmaking shop in Ireland. The goodwill balance as at 31 December 2016 is attributable to the Irish Retail cash generating unit, being the lowest level of asset for which there are separately identifiable cash flows (see Note 12 to the consolidated financial statements).

The accumulated amortisation balance at 31 December 2016 is €4.6m (2015: €4.6m). Under IFRS goodwill is not amortised but is instead tested for impairment annually. The most recent test for impairment was performed at 31 December 2016 and is detailed in Note 12 to the consolidated financial statements.

8. Financial assets

	Unlisted investments in subsidiary companies €m	Capital contributions €m	Total €m
Balance at 1 January 2015	0.3	64.6	64.9
Share-based payments	-	13.7	13.7
Balance at 31 December 2015	0.3	78.3	78.6
Share-based payments	**-**	**31.6**	**31.6**
Investment in Betfair Group Limited	**5,510.7**	**-**	**5,510.7**
Balance at 31 December 2016	**5,511.0**	**109.9**	**5,620.9**

As described in Note 13 to the consolidated financial statements, on 2 February 2016, the Company completed an all-share merger with Betfair Group plc (the "Merger") resulting in Paddy Power plc shareholders owning 52% and Betfair Group plc shareholders owning 48% of Paddy Power Betfair plc (previously Paddy Power plc) (the "Company", together with its subsidiaries, the "Group"), on a fully diluted basis taking into account existing share options and award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015). Post-merger, the Company is the Ultimate Parent of Betfair Group Limited (previously Betfair Group plc).

In the opinion of the Directors, the value to the Company of the unlisted investments in and capital contributions to subsidiary companies at 31 December 2016 is not less than the carrying amount of €5,620.9m (2015: €78.6m). The Company's principal subsidiaries are listed in Note 32 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve relating to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

9. Business combinations

Year ended 31 December 2016

Shop property business acquisitions

In 2016, the Company, in the absence of available comparable sites for organic shop openings, acquired 1 licensed bookmaking shop in Ireland.

Goodwill arising on the acquisition amounted to €0.2m. Property, plant and equipment acquired amounted to €0.1m. The consideration was comprised of €0.2m cash consideration and €0.1m contingent deferred consideration.

The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Paddy Power Betfair group.

Information in respect of revenue, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2016 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. The contingent deferred consideration amount of €0.1m at 31 December 2016 represents management's best estimate of the fair value of the amounts that will be payable.

During 2016, the Company settled deferred consideration liabilities of €0.5m.

Notes to the Company Financial Statements
(continued)

9. Business combinations (continued)

Year ended 31 December 2015

Shop property business acquisitions

In 2015, the Company, in the absence of available comparable sites for organic shop openings, acquired 15 licensed bookmaking shops in Ireland.

Goodwill arising on the acquisitions amounted to €5.3m. Property, plant and equipment acquired amounted to €0.7m. The consideration was comprised of €5.0m cash consideration and €1.0m contingent deferred consideration.

The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2015 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. The contingent deferred consideration amount of €1.0m at 31 December 2015 represents management's best estimate of the fair value of the amounts that will be payable.

During 2015, the Company settled deferred consideration liabilities of €1.4m.

10. Trade and other receivables and derivative financial assets

Non-current assets

	31 December 2016 €m	31 December 2015 €m
Trade and other receivables		
Amounts owed by fellow Group companies	**204.3**	-

The Company has provided a long term loan to a subsidiary company.

Current assets

	31 December 2016 €m	31 December 2015 €m
Trade and other receivables		
Prepayments and accrued income	**5.4**	3.8
Amounts owed by fellow Group companies	**323.2**	561.1
	328.6	564.9

Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

	31 December 2016 €m	31 December 2015 €m
Derivative financial assets		
Foreign exchange forward contracts	**-**	2.4

11. Cash and cash equivalents

The effective interest rate on bank deposits at 31 December 2015 was 0.08%; these deposits had an average original maturity date of 10 days. The bank deposits also had an average maturity date of three days from 31 December 2015. There was no cash on deposit at 31 December 2016.

Cash and cash equivalents are analysed by currency as follows:

	31 December 2016 €m	31 December 2015 €m
GBP	**2.2**	1.1
EUR	**11.2**	17.5
AUD	**0.1**	0.2
USD	**0.2**	1.5
Other	**0.4**	0.4
	14.1	20.7

12. Deferred tax assets

Deferred tax is attributable to the following:

	31 December 2016 €m	31 December 2015 €m
Property, plant and equipment	**0.1**	0.1
Employee benefits	**0.1**	0.3
	0.2	0.4

Movement in temporary differences during the year

	2016 €m	2015 €m
Balance at 1 January	**0.4**	0.9
Recognised in income	**-**	(0.5)
Recognised directly in equity	**(0.2)**	-
Balance at 31 December	**0.2**	0.4

All of the above deferred tax balances are in respect of Irish corporation tax.

13. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2015: 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.

On 2 February 2016, the Company (previously Paddy Power plc) completed an all-share merger with Betfair Group plc (the "Merger"). The Merger resulted in the holders of Paddy Power plc shares owning 52% of the Company, and the holders of Betfair Group plc shares owning 48% of the Company, on a fully diluted basis taking into account existing share options and award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015).

Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares of €0.09 each ("ordinary shares") in the Company in exchange for each Betfair Group plc ordinary share of 0.095 pence each. The Company issued 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc giving rise to a share premium of €5.5bn.

Notes to the Company Financial Statements
(continued)

13. Share capital and reserves (continued)

During the year ended 31 December 2016, 318,523 ordinary shares (2015: 77,150) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of €3.0m (2015: €2.7m).

Following shareholder approval at an Extraordinary General Meeting on 21 December 2015 and court approval on 28 April 2016, the Company cancelled a portion of its share premium account transferring €4.9bn to the retained earnings account within reserves. In 2015, following shareholder approval at the Annual General Meeting on 14 May 2015 and court approval on 6 November 2015, the Company cancelled a portion of its share premium account and transferred €44.9m to the retained earnings account within reserves.

Also in 2015, the Company returned €391.5m to shareholders via a B share scheme, and completed a capital reorganisation which involved the consolidation of its ordinary share capital on a nine for ten basis. The transaction involved a number of steps. The existing ordinary shares in issue at the date of the capital reorganisation of 51,118,370 of €0.10 each were converted into 51,118,370 'intermediate' ordinary shares of €0.081 each and 51,118,370 B shares of €0.019 each. An amount of 2,184,000 B shares were issued to the company and certain of its subsidiaries as a result of treasury shares held. Such shares were not entitled to receive a dividend or redemption payment. The holders of the remaining B shares in issue of 48,934,370 were entitled to receive a payment of €8 per share by way of a once off dividend or a redemption payment. Subsequent to the dividend or redemption payment all B shares were cancelled during the year. The 'intermediate' ordinary shares were consolidated and sub-divided into 46,006,533 'new' ordinary shares of €0.09 each.

A total of 225,000 ordinary shares were held in treasury as of 31 December 2016 (31 December 2015: 225,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5.4m as of 31 December 2016 (31 December 2015: €5.4m).

At 31 December 2016, the Company held a further 478,392 (2015: 874,890) of its own shares, which were acquired at a total cost of €40.9m (2015: €63.1m), in respect of potential future awards relating to the Group's employee share plans (see Note 18 to the consolidated financial statements). The Company's distributable reserves at 31 December 2016 are further restricted by this cost amount. In the year ended 31 December 2016, 396,498 shares with an original cost of €22.2m were transferred from the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") to beneficiaries of the EBT consequent to the vesting thereof (2015: 410,499 shares with an original cost of €23.6m). During the year ended 31 December 2015, the EBT purchased 327,004 Paddy Power plc ordinary shares for a total consideration of €30.3m and received €5.0m from the B share scheme return of capital to shareholders. No such purchases were made in 2016.

The capital redemption reserve fund of €1.8m (2015: €1.8m) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled, and in 2016 the nominal value of shares in the Company cancelled as part of the return of capital to shareholders. The capital conversion reserve fund of €0.3m (2015: €0.3m) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2016, an amount of €1.4m (2015: €0.8m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of €0.2m of deferred tax relating to the Company's share-based payments was charged to retained earnings in 2016 (2015: €Nil) – see Note 12.

14. Dividends paid on ordinary shares

	2016 €m	2015 €m
Ordinary shares:		
- final dividend of €1.20 per share for the year ended 31 December 2015 (31 December 2014: €1.02)	**52.9**	49.9
- special dividend of €1.814 per share (31 December 2015: €Nil)	**80.0**	-
- Paddy Power plc closing dividend of €0.18 per share (31 December 2015: €Nil)	**7.9**	-
- Interim dividend of £0.40 (€0.48) per share (2015: €0.60 (£0.44))	**38.8**	26.4
Amounts recognised as distributions to equity holders in the year	**179.6**	76.3

The Directors have proposed a final dividend of 113.0 pence (134.0 cents) per share which will be paid on 24 May 2017 to shareholders on the Company's register of members at the close of business on the record date of 7 April 2017. This dividend, which amounts to approximately £95.0m (€115.0m), has not been included as a liability at 31 December 2016.

The pre-merger Paddy Power plc closing dividend as paid to Paddy Power plc shareholders for the period from 1 January 2016 to 1 February 2016 (inclusive).

15. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2016 €m	31 December 2015 €m
Trade and other payables		
Trade payables	**1.6**	2.2
PAYE and social welfare	**1.1**	1.4
Value-added tax	**0.4**	0.7
Betting duty	**3.1**	3.1
Corporation tax payable	**0.7**	1.6
Amounts owed to fellow Group companies	**267.3**	248.4
Contingent deferred consideration - business combinations (Note 22)	**0.2**	1.0
Accruals and other liabilities	**14.0**	18.1
	288.4	276.5

Derivative financial liabilities

Sports betting open positions (Note 22)	**3.2**	2.1

Non-current liabilities

	31 December 2016 €m	31 December 2015 €m
Trade and other payables		
Accruals and other liabilities	**3.1**	2.2

Notes to the Company Financial Statements
(continued)

16. Borrowings

Current liabilities

	31 December 2016 €m	31 December 2015 €m
Accrued interest on borrowings	**0.2**	0.2

Non-current liabilities

	31 December 2016 €m	31 December 2015 €m
Revolving credit facility	**250.0**	195.0
Less: expenses relating to revolving credit facility	**(0.5)**	(1.8)
	249.5	193.2

See Note 22 to the consolidated financial statements for further information on the terms of the borrowings.

17. Financial risk management

The Company's risk exposures, and what its objectives, policies and processes are for managing those risks, are set out in Notes 18 to 21, and Note 23 to the consolidated financial statements.

18. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2016 €m	31 December 2015 €m
Derivative financial assets	**-**	2.4
Cash and cash equivalents	**14.1**	20.7
	14.1	23.1

19. Liquidity risk

The following are the contractual maturities of financial liabilities as at 31 December:

	31 December 2016						
	Carrying amount €m	Contractual cash flows €m	6 months or less €m	6 to 12 months €m	1 to 2 years €m	2 to 3 years €m	3 years and over €m
Non-derivative financial liabilities							
Trade and other payables	**291.3**	**291.3**	**287.4**	**0.8**	**1.4**	**1.3**	**0.4**
Contingent deferred consideration	**0.2**	**0.2**	**0.1**	**0.1**	**-**	**-**	**-**
Borrowings	**250.2**	**263.5**	**1.9**	**2.0**	**3.9**	**4.0**	**251.7**
	541.7	**555.0**	**289.4**	**2.9**	**5.3**	**5.3**	**252.1**
Derivative financial liabilities							
Sports betting open positions	**3.2**	**3.2**	**3.2**	**-**	**-**	**-**	**-**
	544.9	**558.2**	**292.6**	**2.9**	**5.3**	**5.3**	**252.1**

19. Liquidity risk (continued)

	31 December 2015						
	Carrying amount €m	Contractual cash flows €m	6 months or less €m	6 to 12 months €m	1 to 2 years €m	2 to 3 years €m	3 years and over €m
Non-derivative financial liabilities							
Trade and other payables	277.7	277.7	275.0	0.5	0.9	0.9	0.4
Contingent deferred consideration	1.0	1.0	0.3	0.7	-	-	-
Borrowings	195.2	206.4	1.7	1.7	3.3	3.3	196.4
	473.9	485.1	277.0	2.9	4.2	4.2	196.8
Derivative financial liabilities							
Sports betting open positions	2.1	2.1	2.1	-	-	-	-
	476.0	487.2	279.1	2.9	4.2	4.2	196.8

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, and may vary depending on the future performance of the acquired businesses and the Group as a whole.

20. Currency risk

Currency risk exposure

As of 31 December 2016 and 2015, the Company's foreign currency risk exposure was as follows:

	31 December 2016				31 December 2015			
	GBP €m	**AUD €m**	**USD €m**	**Other €m**	GBP €m	AUD €m	USD €m	Other €m
Cash and cash equivalents	**2.2**	**0.1**	**0.2**	**0.3**	1.1	0.2	1.5	0.4
Trade payables	**0.3**	**-**	**0.1**	**-**	0.7	-	0.1	-
Gross statement of financial position exposure	**2.5**	**0.1**	**0.3**	**0.3**	1.8	0.2	1.6	0.4

At 31 December 2015, the Company had hedged GBP74.8m of expected 2016 GBP cash flows at an average EUR-GBP rate of 0.7199. A derivative financial asset of €2.4m in respect of foreign exchange forward contracts due to mature in 2016 had been recorded in the Company's statement of financial position (see Notes 10 and 22). No such contracts were outstanding at 31 December 2016.

The following are the significant exchange rates that applied during the year:

To 1 Euro:	**Average rate**		**31 December (mid-spot rate)**	
	2016	2015	**2016**	2015
GBP	**0.819**	0.726	**0.856**	0.734
AUD	**1.488**	1.478	**1.460**	1.490

Notes to the Company Financial Statements
(continued)

20. Currency risk (continued)

Sensitivity analysis
A ten per cent increase and decrease in the value of euro against the following currencies at 31 December 2016 and 2015 would have increased / (decreased) profit by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	10% increase €m	10% decrease €m
31 December 2016		
GBP	**(0.2)**	**0.2**
31 December 2015		
AUD	(0.1)	0.1

21. Interest rate risk

Profile
At 31 December 2016 and 31 December 2015 the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2016 €m	31 December 2015 €m
Variable rate instruments		
Financial assets – cash	**14.1**	20.7
Borrowings	**(250.0)**	(195.0)
	(235.9)	(174.3)

Cash flow sensitivity analysis for variable rate instruments
An increase and decrease of 50 basis points ("bps") in interest rates at 31 December 2016 and at 31 December 2015 would have (decreased) / increased profit for a full year by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	50 bps increase €m	50 bps decrease €m
31 December 2016		
Variable rate instruments	**(0.9)**	**0.9**
31 December 2015		
Variable rate instruments	(0.7)	0.7

22. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities in the statement of financial position:

	31 December 2016		31 December 2015	
	Carrying amount €m	Fair value €m	Carrying amount €m	Fair value €m
Carried at fair value				
Assets				
Derivative financial assets – forward contracts	-	-	2.4	2.4
Liabilities				
Derivative financial liabilities – sports betting open positions	**(3.2)**	**(3.2)**	(2.1)	(2.1)
Non-derivative financial liabilities – contingent deferred consideration	**(0.2)**	**(0.2)**	(1.0)	(1.0)
	(3.4)	**(3.4)**	(3.1)	(3.1)
Net	**(3.4)**	**(3.4)**	(0.7)	(0.7)
Carried at amortised cost				
Assets				
Cash and cash equivalents	**14.1**	**14.1**	20.7	20.7
Liabilities				
Trade and other payables	**(291.3)**	**(291.3)**	(277.7)	(277.7)
Borrowings	**(250.2)**	**(250.2)**	(195.2)	(195.2)
	(541.5)	**(541.5)**	(472.9)	(472.9)
Net	**(527.4)**	**(527.4)**	(452.2)	(452.2)
Total	**(530.8)**	**(530.8)**	(452.9)	(452.9)

Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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(continued)

22. Fair values (continued)

	31 December 2016			
	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**
Derivative financial liabilities	**-**	**-**	**(3.2)**	**(3.2)**
Non-derivative financial liabilities	**-**	**-**	**(0.2)**	**(0.2)**
	-	**-**	**(3.4)**	**(3.4)**

	31 December 2015			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Derivative financial assets	-	2.4	-	2.4
Derivative financial liabilities	-	-	(2.1)	(2.1)
Non-derivative financial liabilities	-	-	(1.0)	(1.0)
	-	-	(3.1)	(3.1)

Basis for determining fair values
The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Financial instruments carried at amortised cost
Cash and cash equivalents (Level 2)
The fair value of cash and cash equivalents is based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

Trade and other payables (Level 2)
The fair value of trade and other payables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Borrowings (Level 2)
The fair value of borrowings is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Financial instruments carried at fair value
Derivative financial instruments
Derivative financial instruments comprise foreign exchange forward contracts (Level 2) and sports betting open positions (Level 3).

The fair value of foreign exchange forward contracts is determined using quoted forward foreign currency exchange rates at the balance sheet date.

The fair value of open sports bets at the year-end has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions.

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate using a market interest rate. The fair value was estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios. The significant unobservable inputs are the performance of the acquired businesses.

22. Fair values (continued)

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value

The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2016 and 2015:

Sports betting open positions

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. There are no reasonably probable changes to assumptions and inputs that would lead to material changes in the fair value methodology although final value will be determined by future sporting results.

Contingent deferred consideration

The fair value of contingent deferred consideration is primarily dependent on the future performance of the acquired businesses against predetermined targets and on management's current expectations thereof. There are no reasonably probable changes to assumptions and inputs that would lead to a material change in the fair value of the total amount payable.

Movements in the year in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	Sports betting open positions €m	Contingent deferred consideration €m	Total €m
Balance at 1 January 2015	(2.1)	(1.7)	(3.8)
Arising on acquisition	-	(1.0)	(1.0)
Recognised in the income statement	(157.1)	0.3	(156.8)
Settlements	157.1	1.4	158.5
Balance at 31 December 2015	(2.1)	(1.0)	(3.1)
Arising on acquisition	**-**	**(0.1)**	**(0.1)**
Recognised in the income statement	**(154.4)**	**0.4**	**(154.0)**
Settlements	**153.3**	**0.5**	**153.8**
Balance at 31 December 2016	**(3.2)**	**(0.2)**	**(3.4)**

Sports betting open positions

The amounts recognised in the income statement represent the Company's net revenue in respect of sports betting positions and other derivatives that have been included in income in the year. The settlements in the year are the net amounts received and receivable from customers in respect of those sports betting positions. All gains and losses have been recognised in the income statement in 2016 and 2015.

Contingent deferred consideration

The total contingent deferred consideration amount of €0.2m (2015: €1.0m) is due within one year.

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23. Pension arrangements

The Company operates defined contribution pension schemes for certain employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €0.4m (2015: €0.5m) and the amount due to the schemes at 31 December 2016 amounted to €0.1m (2015: €0.1m).

24. Commitments and contingencies

(a) Guarantees
The Company has uncommitted working capital overdraft facilities of €7.0m (2015: €7.0m) with Allied Irish Banks p.l.c. These facilities are secured by cross-guarantees within the Group.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

As mentioned in Note 22 to the consolidated financial statements, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

(b) Capital commitments
Capital expenditure contracted for at the statement of financial position date but not yet incurred was as follows:

	31 December 2016 €m	31 December 2015 €m
Property, plant and equipment	**-**	0.2

(c) Operating lease commitments
The Company leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately six years left to run (if the Company was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2016 and 2015, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2016 €m	31 December 2015 €m
Within one year	**10.1**	10.3
Between two and five years	**28.1**	32.7
After five years	**26.4**	36.9
	64.6	79.9

24. Commitments and contingencies (continued)

The Group has a small number of shop properties that are sublet. Sublease payments of €0.1m (2015: €0.2m) are expected to be received during the year ended 31 December 2017.

During 2016, an amount of €10.8m was recognised in profit or loss in respect of operating leases (2015: €10.5m). Contingent rent expense in profit or loss amounted to a credit of €0.7m (2015: credit of €0.7m). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €0.1m in 2016 (2015: €0.1m).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Company does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Company has determined that the leases are operating leases.

(d) Section 357 guarantees

Pursuant to the provisions of Section 357 of the Companies Act 2014, the Company has guaranteed the liabilities of its wholly owned subsidiary undertakings in the Republic of Ireland for the financial year ended 31 December 2016 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of the Companies Act 2014.

25. Approval of Financial Statements

The Financial Statements of the Company for the year ended 31 December 2016 were approved for issue by the Board of Directors on 7 March 2017.


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Five Year Financial Summary

Financial information for the Group for the five years ended 31 December 2016 is set out below.

	Proforma 2016[1] £m	Proforma 2015[1] £m	**Statutory 2016[2] £m**	Statutory 2015[2] £m	Statutory 2014[3] £m	Statutory 2013[3] £m	Statutory 2012[3] £m
Revenue	**1,550.8**	1,318.1	**1,500.8**	794.3	710.7	632.9	530.1
EBITDA (before separately disclosed items)	**400.2**	295.7	**387.0**	170.9	170.7	150.2	136.4
EBITDA - Separately disclosed items – restructuring and merger related costs	**(137.4)**	(9.1)	**(123.1)**	(7.4)	-	-	-
EBITDA (after separately disclosed items)	**262.8**	286.6	**263.9**	163.5	170.7	150.2	136.4
Operating profit (before separately disclosed items)	**330.3**	228.6	**319.1**	132.5	132.0	116.7	110.3
Operating profit - Separately disclosed items – restructuring and merger related costs	**(318.0)**	(9.1)	**(303.7)**	(7.4)	-	-	-
Operating profit (after separately disclosed items)	**12.3**	219.5	**15.4**	125.1	132.0	116.7	110.3
Profit before tax	**8.6**	217.3	**11.9**	124.5	134.3	119.8	112.8
(Loss) / profit for the year	**(10.7)**	184.5	**(5.7)**	108.2	116.8	104.6	98.1

Note

1. Proforma numbers represent the results of the Group as if the Merger had occurred on 1 January 2015. A reconciliation between the proforma numbers and statutory numbers for 2015 and 2016 is provided on page 52 of the Annual Report.
2. Statutory numbers reported.
3. As reported in previous Annual Reports and translated into GBP using the below average exchange rates:

2014	1.2405
2013	1.1775
2012	1.2332

Shareholder Information

Paddy Power Betfair plc is a public limited company incorporated and domiciled in the Republic of Ireland. It has a primary listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange.

Corporate website

The Company's corporate website provides shareholders with a broad range of information including investor information such as the Annual Report and Accounts, current and historic share prices, AGM materials, events and governance information: *www.paddypowerbetfair.com*

Financial calendar

	2016
2016 Closing Dividend: Record date	1 February
2016 Closing Dividend: Payment date	2 March
2016 Interim Dividend: Record date	9 September
2016 Interim Dividend: Payment date	30 September
Financial year end	31 December
	2017
2016 Post-closing Trading Update	23 January
2016 Preliminary Results	7 March
2016 Final Dividend of 113p per share: Ex-dividend date	6 April
2016 Final Dividend: Record date	7 April
2017 Q1 Interim Management Statement announcement	May
2017 Annual General Meeting	17 May
2016 Final Dividend: Payment date	24 May
2017 Interim Results announcement	August
2017 Q3 Interim Management Statement announcement	November

Dividends

Dividend payments

Details of the Company's dividends for the financial years ended 31 December 2016 and 31 December 2015 can be found on page 113 and at *www.paddypowerbetfair.com/investor-relations*

Dividend withholding tax ("DWT")

As an Irish resident company, all dividends paid by the Company are subject to DWT, currently at the rate of 20% unless a shareholder is entitled to an exemption. Shareholders entitled to the exemption must have submitted a properly completed exemption form to the Company's Registrar by the relevant record date for the dividend. Non-Irish resident shareholders and certain Irish companies, trusts, pension schemes, investment undertakings, companies resident in any member state of the European Union and charities may be entitled to claim exemption from DWT. If you require any further assistance or information on the relevant form to be completed, please contact the Registrar. Forms are available on the Irish Tax & Customs Revenue website: http://www.revenue.ie/en/tax/dwt/forms/

Shareholders should note that DWT will be deducted from dividends where a properly completed form has not been received by the relevant record date for a dividend.

Dividend mandates

We encourage shareholders to have their dividends paid directly into their bank account to ensure efficiency of payment on the payment date and reduce the instances of lost or out-of-date unclaimed cheques. Please contact the Registrar to avail of this.

Out-of-date/unclaimed dividends

If you have out-of-date dividend cheques or unclaimed dividends, please contact the Registrar.

Electronic shareholder communications

We encourage you to be notified by email or letter when shareholder communications such as the Annual Report or Notice of Annual General Meeting are available to be viewed online on our website at *www.paddypowerbetfair.com.* This allows the Company to have a positive effect on the environment by significantly reducing the volume of paper used in the production of shareholder mailings, save substantial printing and postal costs in addition to speeding up the provision of information to you as a shareholder. You can elect to receive email notifications by contacting the Registrar.

Shareholder Information
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Amalgamation of accounts
Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name should contact the Registrar to request their accounts be amalgamated.

Shareportal
Shareholders may access their accounts online at *www.paddypowerbetfairshares.com*

This facility allows shareholders to check their shareholdings and dividend payments, change address, change dividend instructions, register email addresses, appoint proxies electronically and also download standard forms and documents to initiate other changes in details held by the Registrar.

Shareholder security
Please be aware that organisations, typically from overseas, sometimes make unsolicited contact with shareholders offering to buy their shares or to sell shares on their behalf at prices which can be significantly higher than the market price of the shares.

If you are in receipt of an unsolicited call from someone offering to buy your shares, you should:

- remain vigilant;
- take a note of the name of the person and organisation that has contacted you;
- not respond to high pressure tactics to provide bank details or arrange to transfer money if you are unsure of the bona fide nature of the caller;
- check if the company or individual is appropriately authorised to operate as an investment firm with your local regulatory authority (Central Bank of Ireland for shareholders resident in Ireland and the Financial Services Authority (FSA) for shareholders resident in the UK); and
- obtain independent advice from a qualified advisor or stockbroker.

Share dealing
If you wish to buy or sell shares in the Company you can do this by using the services of a stockbroker or high street bank.

You can also use Capita Share Dealing Services: on lo-call 1890 946 375 or if calling from the UK, 0871 664 0445 (calls cost 10p per minute plus network extras. Lines are open 8am - 4.30pm Mon - Fri) or visit www.capitadeal.com.

Please note the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt you should contact an independent financial adviser.

Contacts
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Tel: +353 1 905 1000
www.paddypowerbetfair.com

General
- To contact the Investor Relations team email: investor.relations@paddypowerbetfair.com
- To contact the Company Secretariat team email: cosec@paddypowerbetfair.com

Our brands
More information on each of our brands is available at:
Paddy Power: www.paddypower.com
Betfair: www.betfair.com
Sportsbet: www.sportsbet.com.au
TVG: www.tvg.com and us.betfair.com

Registrar
Shareholders with queries concerning their holdings, dividend information or administrative matters should contact the Company's Registrar:
Capita Asset Services, Shareholder solutions (Ireland)
2 Grand Canal Square, Dublin 2, D02 A342, Ireland
Tel: +353 1 553 0050
Fax: +353 1 224 0700
Email: enquiries@capita.ie

Other Information
Directors and Company Secretary
Biographies of our current Directors can be found on pages 64 and 65. The Company Secretary is Edward Traynor.

Brokers
Goldman Sachs International
Goodbody Stockbrokers

Legal advisers
Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2
Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS

External Auditor
KPMG LLP, 15 Canada Square, London, E14 5GL

Principal bankers
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Lloyds TSB Bank plc
National Australia Bank Limited
The Royal Bank of Scotland Group plc

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