6 March 2019

Paddy Power Betfair plc - 2018 Preliminary Results

Momentum in core markets; Early podium position secured in US online market

Paddy Power Betfair plc (the "Group") announces preliminary results for the year ended 31 December 2018.

	2018	2017	YoY %	Constant currency[3] YoY %
Revenue	£1,873m	£1,745m	+7%	+9%
Underlying[1] EBITDA[2] pre-US sports betting	£475m	£473m	Flat	+2%
Underlying[1] EBITDA[2]	£451m	£473m	-5%	-3%
Reported profit before tax	£219m	£247m	-11%	
Reported earnings per share	241.7p	257.9p	-6%	
Underlying[1] earnings per share	379.3p	398.0p	-5%	
Proposed full-year dividend per share	200p	200p	Flat	
Net (debt)/ cash at year end	£(162)m	£244m		

Financial highlights (in constant currency[3]):

- Revenue +9% to £1.9bn (+6% on a proforma[4] basis):
  - Online +5%
  - Australia +6%
  - USA +18% on a proforma basis[4]
- Underlying[1] EBITDA[2] of £475m pre-US sports betting investment of £24m:
  - Towards the upper end of previous guidance range (£465m to £480m)
  - +5% year-on-year on proforma[4] basis
- Reported earnings per share 6% lower primarily as a result of US investment
- £584m returned to shareholders via dividends & share buybacks during 2018
- Proposed full year dividend of 200p, equating to a pay-out ratio of 53% (2017: 50%)
- Net debt at 31 Dec 2018 of £162m, equivalent to 0.4 x 2018 EBITDA

Operational highlights:

- Good progress made to enhance competitive positioning in key existing markets:
  - Paddy Power brand back taking online market share in the UK
  - Sportsbet driving increased customer activity with deliberate investment in generosity
- Investing in new market growth opportunities, both organically and through M&A:
  - FanDuel acquired & early leadership position established in nascent US sports betting market
  - Significant technology development ongoing to accelerate Betfair's international growth

Strategic update and current trading:

- Podium position in Georgia attained through acquisition of Adjarabet on 1 Feb 2019
- Proposing to re-name the Group, Flutter Entertainment plc in May (subject to shareholder approval at our AGM), reflecting the increased diversity of our brands and operations
- 2019 has started in line with our expectations, with good momentum across our key divisions

Peter Jackson, Chief Executive, commented:

"I'm really pleased with the way that the Group performed in 2018 in what was a challenging year for the sector with regulatory and tax changes. Our collection of challenger brands are well positioned in their local markets. Paddy Power has regained its mojo, taking share following product improvements and some of our "classic" marketing. Betfair, our unique combination of product that appeals to customers around the world, will be improved by our ongoing investments in languages and localisation. In Australia recent tax changes favour the largest operators and we are determined to maintain our leadership position amongst the online bookies, using Sportsbet's leading customer proposition and generosity to continue to take market share.

The opening of the US online sports betting market has the potential to be the most significant development to occur within the sector since the advent of online betting. Rather than announcing our plans, we have moved quickly to give ourselves the best chance to win in that market. We are confident that FanDuel's nationally recognised sports brand, 8 million customers, our Group betting expertise, and our market access partnerships position us very well. Our success to date supports this view, with FanDuel achieving a 35% online market share in New Jersey in its first 5 months of operation, and Meadowlands becoming a marquee venue for sports betting.

The new financial year has started in line with our expectations. The acquisition of Adjarabet is further evidence that we are delivering against our strategy, and whilst there will inevitably be further regulatory challenges, we are excited about the growth opportunities ahead of us. With a growing portfolio of brands, we plan to rename the Group as Flutter Entertainment plc. There are no plans to use this historical name for consumers, and we will seek shareholders permission for the change at our forthcoming AGM."

Notes:

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

[2] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure.

[3] Constant currency ("cc") growth throughout the Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2017 at 2018 exchange rates (see Appendix 4).

[4] The FanDuel transaction completed on 10 July 2018 and therefore the reported results for 2018 only include the FanDuel fantasy sports business from that date and do not include the business within the comparative period. The 'Proforma' results include the FanDuel fantasy sports business as if it always had been part of the Group, incorporating in addition to the reported results, results from 1 January to 9 July within the 2018 results and trading for the full year within the comparative period (see Appendix 2)

Analyst briefing:

The Group will host a presentation for institutional investors and analysts this morning at 9:00am (GMT). The presentation will be webcast live on the Group's corporate website (www.paddypowerbetfair.com) and a conference call facility will also be available. To dial into the conference call, participants should dial 0800 783 0906 or 01296 480 100 from the UK, (01) 242 1074 from Ireland and +44 1296 480 100 from elsewhere. The passcode is 540 319 66.

A presentation replay facility will be available later today on our corporate website: https://www.paddypowerbetfair.com/investor-relations/results-centre.

Contacts:

David Jennings, Corporate Finance & Investor Relations	+ 353 87 951 3560 / + 353 1 905 0953
Ivan Kelly, Investor Relations	+353 87 7944 999 / + 353 1 905 1262
James Midmer, Corporate Communications	+ 44 20 8834 6843 / + 353 1 903 9106
Billy Murphy, Drury / Porter Novelli	+ 353 1 260 5000
James Murgatroyd, Finsbury	+ 44 20 7251 3801

Business Review

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

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

The attractive sector investment characteristics

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

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

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

Group is positioned for success

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

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

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

Four pillar strategy to achieve success

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

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

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

Pillar 1: Maximise profitable growth in core markets

Overview

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

- invest in our leading customer propositions (product, value & promotions)
- leverage our distinct assets (brands & world's leading exchange)
- take a leading position in terms of responsibility whilst capitalising on regulatory developments
- focus on operating efficiently and sustainably

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

Recent focus and progress

In the UK and Ireland where we operate Paddy Power and Betfair brands our key focus is on:

- Maintaining Paddy Power's good momentum
- Evolving Betfair's proposition to better leverage its unique exchange-sportsbook combination
- Taking advantage of imminent regulatory change in retail to further grow our market share

Paddy Power: In 2018 Paddy Power began to win back market share, following a number of years of UK market share losses. Online revenue in the UK and Ireland increased by 11% compared to 1% in 2017. This turnaround in performance once again cemented our long-held belief in the importance of offering customers a leading proposition. The improvement of our products coupled with enhanced generosity and better marketing execution meant the brand began to regain UK market share in 2018. The key area to benefit was gaming where the improvement in product was most material.

Not resting on our laurels, we are looking to sustain this momentum in 2019 by building on successful recent initiatives to scale customer acquisition, grow mass market penetration and increase our share of customers' wallets. Key focus areas are:

- a faster, simpler sports app driving improved customer satisfaction
- releasing key sports product features (which can be leveraged in marketing)
- continuing to drive increased gaming product cross-sell through product enhancements
- a return to the brand's roots, emphasising its distinct personality and social media presence (which is increasingly valuable in a restricted advertising environment)
- ongoing targeted value promotions that reward loyalty and improve customer retention

Betfair: Positioning Paddy Power as our recreational brand enables Betfair to focus on winning share of core bettors in the UK. While Betfair has benefitted from recent sportsbook and gaming product enhancements, the key opportunity remains improved leverage of the joint exchange and sportsbook proposition to offer customers an unparalleled sports-betting experience. Bringing Betfair's two products, value proposition and marketing strategy more closely together will take time but can significantly improve our positioning.

- It will allow us to leverage the relative strengths of the exchange and sportsbook to selectively invest in price and to maintain our leadership on price perception (top rated brand in UK)
- Customers that use both sports products generate substantially higher average revenue per user
- These dual-use customers tell us that they utilise the products for different reasons (top two reasons being for 'value' and the 'ability to lay bets' on the exchange and for 'promotions' and 'to place multiples' on the sportsbook)
- The ecosystem of exchange liquidity has been adversely affected in recent years by international market switch-offs due to regulatory changes. This has knock-on implications for UK exchange revenue growth. As such, successful execution of our international strategy will allow us to reverse this trend and enable Betfair to compete in additional global markets.

In Australia, where online market growth remains strong (c.10%-12% currently), we operate the market-leading brand in terms of spontaneous awareness, customer usage and product satisfaction. This has been driven by continued, substantial investment in our leading customer proposition which has delivered consistent market share gains (c26%[8] share of non-retail in 2018 versus c21%[8] and c17%[8] in 2014 and 2011, respectively).

Recently the market has experienced further consolidation ahead of the introduction of significant additional taxes. Sportsbet's scale, profitability and brand position gives us an ideal opportunity to win additional market share in a higher tax environment. In 2018, we significantly stepped-up the level of our promotional generosity (including early-payout '*Up*' promotions, money-back offers and targeted customer bonuses) and supported this with continued investment in marketing and product. This drove additional customer activity to Sportsbet from competitors.

Pillar 2: Grow Betfair in Rest of World

Overview

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

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

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

Recent focus and progress

Our key focus currently is on building out our platform capabilities with key enhancements including:

- Expanding the number of languages and currencies offered to customers
- Increasing the number of payment options available and our flexibility to adopt new methods
- Content localisation to ensure customers in any specific region are presented with relevant betting content (e.g. UK horse racing needs to be prominent for UK&I customers but not in most other markets)
- Sportsbook jurisdictional pricing enabling us to offer different odds in different markets. This means we offer 'best odds' on most relevant regional content without having to offer it to all markets. This capability is also key if we are to serve markets with different betting tax regimes.
- Investment in automation of digital marketing and customer operations to serve customers across a large range of markets at low incremental costs

This development work is ongoing and will be released on a phased basis during 2019. Once completed, it will enable us to increase investment in international marketing and promotions and to accelerate international growth in future years.

Pillar 3: Attain podium positions in fast-growing regulated markets

Overview

We believe that having substantial local scale and strong brand presence are advantageous to effectively compete in many online regulated markets. Accordingly, we are looking to identify additional markets (beyond our core markets) in which to target podium positions through a combination of organic and acquisitive growth.

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

Recent focus and progress

In February 2019, we acquired a controlling 51% stake in Adjarabet, the number one online operator in Georgia. Once we established that this was an attractive market in which we wanted to have meaningful presence, we concluded that the strength of local incumbents meant that achieving a podium position through organic investment was not viable. This regulated online market is estimated to have grown at a CAGR of 40% from 2016 to 2018 to c.£180m of gross revenue, with specific market dynamics including the strength of the incumbent local brands – the top 5 operators represent over 90% of market.

Adjarabet is the dominant online brand in Georgia with an estimated 40%[9] share of total online revenues and a spontaneous brand awareness that is significantly higher than competing brands. This brand presence is driven in part by the business' exclusive long-term marketing relationship with *Adjaranet*, the leading Georgian media website. We believe that this type of marketing asset builds a moat around the business, making it difficult for new entrants to challenge its leadership position. The business also has exposure to the nascent regulated Armenian online market, with approximately 10% market share[10].

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

Pillar 4: Pursue the US opportunity rigorously

Overview

The US Supreme Court's decision to repeal the Professional and Amateur Sports Protection Act (PASPA) in May 2018 has opened up a very significant long-term future growth opportunity that is likely to be transformative for the sector.

We believe that we have attained each of the key assets required to be successful in the US sports betting market:

- **Leading brand:** FanDuel is a well-established, national sports-focused brand
- **Market access:** we have secured market access in most of the key states that are likely to regulate in the coming years and are confident we will secure access in further states as required
- **Extensive customer base & distribution:** over 8 million registered customers across US; valuable fantasy sports customer acquisition funnel; TV channels reaching 45 million households
- **Unique cross-sell opportunity:** we have an extensive product suite with leading online and retail sports betting expertise; fantasy sports advantage, leading US racing product and online casino
- **Operational expertise:** Our multi-year, multi-state experience (we operate in 46 states with real-money wagering in 33), including managing the various different licensing and payment processing challenges gives us an advantage as we apply learnings to state-by-state regulation in sports betting

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

Recent focus and progress

Our fantasy sports, TVG racing and Betfair Casino businesses continue to grow. Continued investment in product enhancements and promotions is continuing to build a valuable customer base (active customers were up 14% in 2018) and driving good growth in revenue (up 13% in 2018).

The strength of our positioning has been very evident in our experience in New Jersey to date; across the first 5 months of operating online there, we have achieved a 35%[11] market share. Good execution is key. We have been focused on:

- offering a leading customer proposition: combining generous headline promotions and competitive pricing with a market-leading app which has materially more betting markets available
- leveraging fantasy sports: approximately half of customer activations in the first 5 months were from our fantasy customer base driven by brand strength supported by attractive cross-sell promotions. The cost per acquisition of acquiring these customers has been substantially lower than those acquired directly to the sportsbook
- disciplined marketing and promotional spend: encouraging customer acquisition economics (on both cross-sell and direct acquisition) and expected customer values (based on activity levels, retention rates and ongoing promotional spend) indicate good returns on investment
- casino cross-sell: we commenced cross-sell to Betfair Casino in mid-December and this has already contributed to accelerated casino growth

Operating responsibly

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

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

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

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

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

Capital structure

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

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

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

Outlook

US financial guidance

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

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

Key guidance to consider:

- *Fantasy, TVG & Casino businesses contribution**:*** businesses have good momentum into 2019 driven by investment in promotions and product. We will continue to invest to grow the customer base and generate positive contributions
- *Overall sportsbook contribution:* quantum of investment losses will depend on the level of market growth in New Jersey; FanDuel's performance in New Jersey; and the timing of regulation/launch in additional states. Contribution from newly launched online states will remain negative while the proportion of newly acquired customers remains high (due to high levels of promotional and marketing spend in acquiring customers)
- *New Jersey sportsbook contribution:* £9m negative contribution in 2018, reflecting the first four months of online operations. Strong market growth and our own strong acquisition momentum means we intend to continue to invest heavily in customer acquisition, with prospective expected returns significantly outweighing acquisition cost. As such we would expect that our contribution in New Jersey will remain negative throughout 2019. **Our current expectation is that the New Jersey sportsbook will generate a positive contribution 18 to 30 months post-launch**
- *Other states sportsbook contribution:* factors influencing timeframe to achieve positive contribution include the potential market size, tax rates, competitive environment (including number of skins permitted), market-access costs and availability of casino cross-sell
- *Other operating costs:* we will continue to invest in our resources to ensure they are capable of serving our existing businesses and our expanding sports betting operations. We currently expect our total operating costs (excluding marketing) in the US to increase from £106m to between £145m and £155m in 2019, reflecting both the annualisation of investments made during 2018 and additional 2019 investment.

Current trading and Group guidance

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

Proposed corporate name change

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

Operating and Financial Review

Group[1]

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

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

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

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

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

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

Online

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

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

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

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

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

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

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

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

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

Australia[6]

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

The Australia division operates the online betting brand Sportsbet.

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

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

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

US[6]

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

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

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

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

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

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

Retail

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

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

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

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

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

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

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

Regulatory update

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

EBITDA).

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

UK

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

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

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

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

Australia

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

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

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

Ireland

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

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

Other regulated markets

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

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

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

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

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

Other tax matters

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

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

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

Separately disclosed items

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

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

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

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

Cash flow and financial position

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

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

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

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

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

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

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

Dividend

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

[1] The “underlying” measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as “separately disclosed items” (see note 4 and page 37 to the financial statements)

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

[3] Constant currency (“cc”) growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2017 at 2018 exchange rates (see Appendix 4)

[4] The FanDuel transaction completed on 10 July 2018 and therefore the reported results for 2018 only include the FanDuel fantasy sports business from that date and do not include the business within the comparative period. The ‘Proforma’ results include the FanDuel fantasy sports business as if it always had been part of the Group, incorporating in addition to the reported results, results from 1 January to 9 July within the 2018 results and trading for the full year within the comparative period (see Appendix 2)

[5] Net debt at 31 December 2018 is comprised of gross cash excluding customer balances of £123.7m and gross borrowings of £285.4m. The comparative balance shown as at 31 December 2017 is comprised of gross cash excluding customer balances of £307m and borrowings of £62m (see Appendix 3)

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

[7] Like-for-like growth rates are in constant currency[3] and are calculated by only including in the 2018 results, financial results from shops open prior to 2017 plus the financial results from shops opened during 2017 only from the anniversary of their opening date.

[8] Based on competitor public filings and internal management estimates

[9] Based on market customer deposit data
[10] Internal management estimates

[11] Based on New Jersey Division of Gaming Enforcement industry reports

Appendix 1: Divisional Key Performance Indicators

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

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

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

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

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

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

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

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

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

[1]Underlying EBITDA includes the following line items in the statutory cash flow: Profit for the year, separately disclosed items, tax expense before separately disclosed items, financial income, financial expense, and depreciation and amortisation before separately disclosed items.

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

[3] Working capital includes (increase) / decrease in trade and other receivables, (decrease) / increase in trade, other payables and provisions, employee equity-settled share based payments expense before separately disclosed items, and foreign currency exchange (gain) /loss.

[4] Cash flow from separately disclosed items includes proceeds from the disposal of investment & restructuring and strategic initiative costs paid.

[5] Interest and other borrowing costs includes interest paid, interest received and fees in respect of borrowings facility.

[6] Net proceeds from issue of new shares includes proceeds from issue of new shares and purchase of shares by employee benefit trust.

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

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

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

CONDENSED CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2018

	Note	**Before separately disclosed items 2018 £m**	**Separately disclosed items (Note 4) 2018 £m**	**Total 2018 £m**	Before separately disclosed items 2017 £m	Separately disclosed items (Note 4) 2017 £m	Total 2017 £m
Continuing operations							
Revenue	3	**1,873.4**	**-**	**1,873.4**	1,745.4	-	1,745.4
Cost of sales		**(469.9)**	**-**	**(469.9)**	(405.4)	-	(405.4)
Gross profit		**1,403.5**	**-**	**1,403.5**	1,340.0	-	1,340.0
Operating costs excluding depreciation, amortisation and impairment		**(952.5)**	**(28.0)**	**(980.5)**	(866.8)	(7.4)	(874.2)
EBITDA [1]		**451.0**	**(28.0)**	**423.0**	473.2	(7.4)	465.8
Depreciation and amortisation		**(90.5)**	**(100.7)**	**(191.2)**	(81.3)	(134.5)	(215.8)
Impairment		**-**	**(27.2)**	**(27.2)**	-	-	-
Operating profit		**360.5**	**(155.9)**	**204.6**	391.9	(141.9)	250.0
Financial income		**3.9**	**17.7**	**21.6**	1.7	-	1.7
Financial expense		**(7.5)**	**-**	**(7.5)**	(5.1)	-	(5.1)
Profit before tax		**356.9**	**(138.2)**	**218.7**	388.5	(141.9)	246.6
Tax (expense) / credit	5	**(53.1)**	**15.1**	**(38.0)**	(52.5)	23.6	(28.9)
Profit / (loss) for the year		**303.8**	**(123.1)**	**180.7**	336.0	(118.3)	217.7
Attributable to:							
Equity holders of the Company		**316.1**	**(114.7)**	**201.4**	336.0	(118.3)	217.7
Non-controlling interest		**(12.3)**	**(8.4)**	**(20.7)**	-	-	-
		303.8	**(123.1)**	**180.7**	336.0	(118.3)	217.7
Earnings per share							
Basic	6			**£2.417**			£2.579
Diluted	6			**£2.404**			£2.554

1 EBITDA is defined as profit for the year before depreciation, amortisation and impairment, financial income, financial expense and tax expense / credit. It is considered by the Directors to be a key measure of the Group's financial performance.

Notes 1 to 18 on pages 30 to 54 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		**180.7**	217.7
Other comprehensive income / (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities		**26.1**	(43.3)
Net change in fair value of investments		**-**	13.7
Other comprehensive income / (loss)		**26.1**	(29.6)
Total comprehensive income for the year		**206.8**	188.1
Attributable to:			
Equity holders of the Company		**219.3**	188.1
Non-controlling interest		**(12.5)**	-
		206.8	188.1

Notes 1 to 18 on pages 30 to 54 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	**31 December 2018 £m**	31 December 2017 £m
Assets			
Property, plant and equipment		**130.4**	136.3
Intangible assets		**578.1**	445.2
Goodwill	7	**4,075.3**	3,885.2
Deferred tax assets		**10.7**	11.7
Investments	9	**2.4**	15.1
Other receivables	9	**8.9**	4.2
Total non-current assets		**4,805.8**	4,497.7
Trade and other receivables	9	**81.8**	48.8
Financial assets – restricted cash	10	**167.2**	75.4
Cash and cash equivalents	10	**123.7**	306.6
Total current assets		**372.7**	430.8
Total assets		**5,178.5**	4,928.5
Equity			
Issued share capital and share premium		**424.8**	423.0
Treasury shares	11	**(40.7)**	(40.7)
Shares held by employee benefit trust	11	**(8.6)**	(15.6)
Other reserves		**92.4**	114.5
Retained earnings		**3,530.1**	3,914.2
Equity attributable to owners of the parent		**3,998.0**	4,395.4
Non-controlling interest		**213.3**	-
Total equity		**4,211.3**	4,395.4
Liabilities			
Trade and other payables	13	**532.8**	334.7
Derivative financial liabilities	13	**20.1**	7.8
Provisions		**4.3**	3.2
Current tax payable		**20.8**	38.0
Borrowings	14	**0.4**	-
Total current liabilities		**578.4**	383.7
Trade and other payables	13	**26.2**	34.5
Derivative financial liabilities	13	**0.9**	2.3
Provisions		**1.3**	1.2
Deferred tax liabilities		**77.4**	49.2
Borrowings	14	**283.0**	62.2
Total non-current liabilities		**388.8**	149.4
Total liabilities		**967.2**	533.1
Total equity and liabilities		**5,178.5**	4,928.5

Notes 1 to 18 on pages 30 to 54 form an integral part of these condensed consolidated financial statements.

On behalf of the Board

Peter Jackson
Chief Executive Officer

Jonathan Hill
Chief Financial Officer

5 March 2019

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Profit for the year		**180.7**	217.7
Separately disclosed items	4	**123.1**	118.3
Tax expense before separately disclosed items		**53.1**	52.5
Financial income		**(3.9)**	(1.7)
Financial expense		**7.5**	5.1
Depreciation and amortisation before separately disclosed items		**90.8**	81.3
Employee equity-settled share-based payments expense before separately disclosed items		**18.9**	26.0
Foreign currency exchange (gain) / loss		**(2.0)**	0.9
(Profit) / loss on disposal of property, plant and equipment and intangible assets		**(0.3)**	0.1
Cash from operations before changes in working capital		**467.9**	500.2
(Increase)/ decrease in trade and other receivables		**(30.2)**	7.3
(Decrease) / increase in trade, other payables and provisions		**(24.5)**	20.7
Cash generated from operations		**413.2**	528.2
Tax paid		**(59.9)**	(44.8)
Net cash from operating activities before restructuring and strategic initiatives costs paid		**353.3**	483.4
Restructuring and strategic initiative costs paid		**(22.9)**	(11.8)
Net cash from operating activities		**330.4**	471.6
Purchase of property, plant and equipment		**(31.6)**	(39.2)
Purchase of intangible assets		**(38.5)**	(25.6)
Proceeds from disposal of investment	9	**21.9**	-
Cash acquired from acquisition of FanDuel	8	**20.4**	-
Purchase of businesses	8	**(12.8)**	(14.9)
Capitalised internal development expenditure		**(30.3)**	(20.0)
Payment of contingent deferred consideration	8	**(6.1)**	(3.5)
Proceeds from disposal of property, plant and equipment and intangible assets		**1.0**	-
Interest received		**1.7**	1.7
Net cash used in investing activities		**(74.3)**	(101.5)
Proceeds from the issue of new shares		**2.3**	5.8
Proceeds from the issue of shares to Non-controlling interest		**7.5**	-
Purchase of shares by employee benefit trust	11	**-**	(2.5)
Dividends paid	12	**(169.0)**	(149.4)
Net amounts drawn down / (repaid) on borrowings facility	14	**223.1**	(157.6)
Repayment of FanDuel debt and debt like items	8	**(79.9)**	-
Interest paid	14	**(3.1)**	(1.8)
Fees in respect of borrowing facility	14	**(2.4)**	-
Purchase of own shares including direct purchase costs	11	**(415.0)**	-
Net cash used in financing activities		**(436.5)**	(305.5)
Net (decrease) / increase in cash and cash equivalents		**(180.4)**	64.6
Cash and cash equivalents at start of year		**306.6**	249.9
Foreign currency exchange loss on cash and cash equivalents		**(2.5)**	(7.9)
Cash and cash equivalents at end of year	10	**123.7**	306.6

Notes 1 to 18 on pages 30 to 54 form an integral part of these condensed consolidated financial statements.

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

	Attributable to equity holders of the Company (see Note 11)										
	Number of ordinary shares in issue millions	**Issued share capital and share premium £m**	**Foreign exchange translation reserve £m**	**Other reserves £m**	**Treasury shares £m**	**Shares held by employee benefit trust £m**	**Share-based payment reserve £m**	**Retained earnings £m**	**Total equity £m**	**Non-controlling interest £m**	**Total equity £m**
Balance at 1 January 2018	***86.5***	**423.0**	**(13.8)**	**15.4**	**(40.7)**	**(15.6)**	**112.9**	**3,914.2**	**4,395.4**	**-**	**4,395.4**
Adoption of IFRS 9	-	-	-	**(13.7)**	-	-	-	**13.7**	-	-	-
Opening balance as restated	***86.5***	**423.0**	**(13.8)**	**1.7**	**(40.7)**	**(15.6)**	**112.9**	**3,927.9**	**4,395.4**	**-**	**4,395.4**
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	**201.4**	**201.4**	**(20.7)**	**180.7**
Foreign exchange translation	-	-	**17.9**	-	-	-	-	-	**17.9**	**8.2**	**26.1**
Total comprehensive income / (loss) for the year	-	-	**17.9**	-	-	-	-	**201.4**	**219.3**	**(12.5)**	**206.8**
Transactions with owners of the Company, recognised directly in equity											
Shares issued (Note 11)	***0.5***	**2.3**	-	-	-	-	-	-	**2.3**	-	**2.3**
Shares issued in Non-controlling interest								**22.6**	**22.6**	**16.8**	**39.4**
Business combinations – FanDuel (Note 8)	-	-	-	-	-	-	-	**8.9**	**8.9**	**209.0**	**217.9**
Own shares acquired by the Group (Note 11)	***(5.6)***	**(0.5)**	-	**0.5**	-	-	-	**(501.8)**	**(501.8)**	-	**(501.8)**
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	**20.4**	-	**20.4**	-	**20.4**
Equity-settled transactions – vestings	-	-	-	-	-	**7.0**	**(6.7)**	**0.3**	**0.6**	-	**0.6**
Tax on share-based payments	-	-	-	-	-	-	-	**(0.7)**	**(0.7)**	-	**(0.7)**
Transfer to retained earnings on exercise of share options (Note 11)	-	-	-	-	-	-	**(40.5)**	**40.5**	-	-	-
Dividends to shareholders (Note 12)	-	-	-	-	-	-	-	**(169.0)**	**(169.0)**	-	**(169.0)**
Total contributions by and distributions to owners of the Company	***(5.1)***	**1.8**	-	**0.5**	-	**7.0**	**(26.8)**	**(599.2)**	**(616.7)**	**225.8**	**(390.9)**
Balance at 31 December 2018	***81.4***	**424.8**	**4.1**	**2.2**	**(40.7)**	**(8.6)**	**86.1**	**3,530.1**	**3,998.0**	**213.3**	**4,211.3**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to equity holders of the Company (see Note 11)								
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	*86.0*	417.2	29.5	1.7	(40.7)	(30.9)	141.8	3,798.0	4,316.6
Total comprehensive income / (loss) for the year									
Profit for the year	-	-	-	-	-	-	-	217.7	217.7
Foreign exchange translation	-	-	(43.3)	-	-	-	-	-	(43.3)
Net change in fair value of investments	-	-	-	13.7	-	-	-	-	13.7
Total comprehensive income / (loss) for the year	-	-	(43.3)	13.7	-	-	-	217.7	188.1
Transactions with owners of the Company, recognised directly in equity									
Shares issued (Note 11)	*0.5*	5.8	-	-	-	-	-	-	5.8
Own shares acquired by employee benefit trust (Note 11)	-	-	-	-	-	(2.5)	-	-	(2.5)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	26.0	-	26.0
Equity-settled transactions – vestings	-	-	-	-	-	17.8	(16.0)	1.3	3.1
Tax on share-based payments	-	-	-	-	-	-	-	0.3	0.3
Transfer to retained earnings on exercise of share options (Note 11)	-	-	-	-	-	-	(46.3)	46.3	-
Dividends to shareholders (Note 12)	-	-	-	-	-	-	-	(149.4)	(149.4)
Replacement share options – expense recorded in income statement (Note 4)	-	-	-	-	-	-	7.4	-	7.4
Total contributions by and distributions to owners of the Company	*0.5*	5.8	-	-	-	15.3	(28.9)	(101.5)	(109.3)
Balance at 31 December 2017	*86.5*	423.0	(13.8)	15.4	(40.7)	(15.6)	112.9	3,914.2	4,395.4

Notes 1 to 18 on pages 30 to 54 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Paddy Power Betfair plc (the "Company") and its subsidiaries (together referred to as the "Group") is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions; (i) Online, which in 2018 included the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market leader in the fast-growing Australian online betting market; (iii) Retail, which operates over 620 Paddy Power betting shops across the UK and Ireland; and (iv) US, which comprises FanDuel, a market leading operator in daily fantasy sports and online and retail sportsbetting, TVG, America's leading horseracing TV and betting network, the Betfair New Jersey online casino and the Betfair New Jersey horseracing betting exchange.

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange.

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") together with an unqualified audit report thereon under Section 391 of the Companies Act 2014, will be annexed to the annual return and filed with the Registrar of Companies.

The consolidated financial statements of the Group for the year ended 31 December 2018 comprise the financial statements of the Company and its subsidiary undertakings and were approved for issue by the Board of Directors on 5 March 2019.

2. Basis of preparation and summary of significant accounting policies

The condensed consolidated financial statements are prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Republic of Ireland's Financial Regulator. The condensed consolidated financial statements are prepared on the historical cost basis except for betting transactions and foreign exchange forward contracts (which are recorded as derivative financial instruments), investments, contingent deferred consideration and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of share-based payments). The consolidated financial statements are presented in pounds sterling and are rounded to the nearest million.

Further to IAS Regulation (EC1606/2002, 'Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU"). The consolidated financial statements have been prepared on the basis of IFRS adopted by the EU and effective for accounting periods ending on or after 1 January 2018.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year, except as highlighted below in 'Recent accounting pronouncements'.

Recent accounting pronouncements
The IASB have issued the following standards, policies, interpretations and amendments which were effective for the Group for the first time in the year ended 31 December 2018:

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRS 2014–2016 Cycle – Amendments to IFRS 1 First Time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

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

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

The Group has also adopted IFRS 9 *Financial Instruments and* IFRS 15 *Revenue from Contract with Customers* from 1 January 2018.

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 retains and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through Profit or Loss ('P&L'). The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the date of initial application to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 *Financial Instruments: Recognition and Measurement*. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

Adoption of this standard did not impact the Group other than how the Group presents movements in investments in equity instruments. Under IAS 39, these instruments are categorised as available-for-sale and the movement in fair value is booked to OCI. Per IFRS 9, such instruments are required to be measured at fair value through profit or loss unless the irrevocable option at initial application to present changes in fair value in OCI is chosen. This designation is made on an instrument by instrument basis. As at 1 January 2018, the previously recognised fair value movement on equity instruments was reclassified to retained earnings.

The impact of IFRS 9 on the classification and measurement of the consolidated statement of financial position as at 31 December 2017 is disclosed in Note 18 to the condensed consolidated financial statements.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Group's primary revenues of sports betting and gaming are not within the scope of IFRS 15. This is due to these revenues being treated as derivatives under IFRS 9 *Financial Instruments* and therefore not within the scope of IFRS 15. Adoption of this standard in respect of the Group's other revenue streams within the scope of IFRS 15 did not impact how the Group recognised revenue.

Adopted IFRS not yet applied
The following IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective date 1 January 2019) (Adopted by EU)
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (effective date 1 January 2019)
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures (effective date 1 January 2019)
- Annual improvements to IFRS Standards 2015-2017 Cycle (effective date 1 January 2019)
- Amendments to IAS 19: Plan amendment, Curtailment or Settlement (effective date 1 January 2019)
- Amendments to references to the Conceptual Framework in IFRS Standards (effective date 1 January 2020)
- IFRS 17 *Insurance Contracts* (effective date 1 January 2021)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture (effective date to be confirmed)

The following Adopted IFRS has been issued but has not been applied in these financial statements.

- IFRS 16 *Leases* (effective date 1 January 2019)

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. IFRS 16 introduces a single on-balance sheet lease accounting model for leases. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard replaces IAS 17 *Leases* and

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

related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019.

The impact of this standard on the financial statements will be significant given the operating lease commitments of £182m outlined in Note 15 to the condensed consolidated financial statements and is set out in more detail below.

Income statement
The nature of the expense relating to leases will change as IFRS 16 replaces the straight line operating expense with a depreciation charge for right-of-use assets and interest expense on these liabilities. EBITDA will increase as the Group currently recognises operating lease expenses in operating costs. The Group's lease expense for 2018 was £39m. Depreciation and Amortisation costs and Finance expense as currently reported in the Consolidated Income Statement will increase as under the new standard, the right-of-use asset will be capitalised and depreciated over the term of the lease with an associated finance expense applied annually to the lease liability. We do not expect the implementation of IFRS 16 to have a material impact on operating profit or profit before tax.

Statement of financial position
The recognition of the lease liability and the 'right-of-use' asset will result in a grossing up of the statement of financial position by approximately £165m.

The Group has completed an assessment of the potential impact on its consolidated financial statements and will adopt the modified retrospective approach and will also use the exemptions available in respect of low value items and short term leases as appropriate.

Basis of consolidation
The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings based on accounts made up to the end of the financial year. A subsidiary is an entity controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

Critical accounting estimates and judgements
The preparation of financial statements in conformity with 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.

3. Operating segments

The Group's reportable segments are businesses that are managed separately, due to a combination of factors including method of service delivery, geographical location and the different services provided.

Reportable business segment information
The Group has determined that its operating segments are its reportable segments. The Group's reportable segments are as follows:

- Online
- Australia
- Retail
- US

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

The Online segment derives its revenues primarily from sports betting (sportsbook and the exchange sports betting product) and / or gaming (games, casino, bingo and poker) services in all business-to-customer ("B2C") geographies that the Group operates in except the US and Australia, and business-to-business ("B2B") services globally. Online services are delivered primarily through the internet with a small proportion delivered through the public telephony system.

The Australia segment earns its revenues from sports betting services provided to Australian customers using primarily the internet with a small proportion using the public telephony system.

The Retail segment derives its revenues from sports betting and / or gaming machine services delivered through licenced bookmaking shop estates in the UK and Ireland.

The US segment earns its revenues from sports betting, daily fantasy sports and gaming services provided to US customers using primarily the internet with a proportion of US sports betting services also provided through a handful of retail outlets.

Corporate administrative costs (Board, Finance, Legal, Internal Audit, HR, Property and other central functions) cannot be readily allocated to individual operating segments and are not used by the CODM for making operating and resource allocation decisions. These are shown in the reconciliation of reportable segments to Group totals.

The accounting policies in respect of operating segments reporting are the same as those described in the basis of preparation and summary of significant accounting policies set out in Note 2.

The Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the Online, Australia, Retail and US segments.

Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

3. Operating segments (continued)

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

	Online £m	**Australia £m**	**Retail £m**	**US £m**	**Corporate £m**	**Total £m**
Revenue from external customers	**947.6**	**402.9**	**331.5**	**191.4**	**-**	**1,873.4**
Cost of sales	**(231.0)**	**(121.2)**	**(73.1)**	**(44.6)**	**-**	**(469.9)**
Gross profit	**716.6**	**281.7**	**258.4**	**146.8**	**-**	**1,403.5**
Operating costs excluding depreciation, amortisation and impairment	**(400.5)**	**(144.7)**	**(186.8)**	**(161.3)**	**(59.2)**	**(952.5)**
EBITDA [1]	**316.1**	**137.0**	**71.6**	**(14.5)**	**(59.2)**	**451.0**
Depreciation and amortisation	**(41.6)**	**(17.6)**	**(20.8)**	**(10.5)**	**-**	**(90.5)**
Reportable segment profit / (loss) before separately disclosed items	**274.5**	**119.4**	**50.8**	**(25.0)**	**(59.2)**	**360.5**
Amortisation of acquisition related intangible assets (Note 4)	**(79.9)**	**-**	**-**	**(20.8)**	**-**	**(100.7)**
Impairment of goodwill and intangible assets (Note 4)	**-**	**-**	**-**	**(27.2)**	**-**	**(27.2)**
Reportable segment profit / (loss) after amortisation of acquisition related intangible assets and impairment of goodwill and intangible assets	**194.6**	**119.4**	**50.8**	**(73.0)**	**(59.2)**	**232.6**
Restructuring and strategic initiatives [2] (Note 4)						**(28.0)**
Operating profit						**204.6**

Reportable business segment information for the year ended 31 December 2017:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	898.4	403.7	334.0	109.3	-	1,745.4
Cost of sales	(198.7)	(111.3)	(70.6)	(24.8)	-	(405.4)
Gross profit	699.7	292.4	263.4	84.5	-	1,340.0
Operating costs excluding depreciation and amortisation	(393.5)	(152.9)	(181.7)	(80.9)	(57.8)	(866.8)
EBITDA [1]	306.2	139.5	81.7	3.6	(57.8)	473.2
Depreciation and amortisation	(38.6)	(14.7)	(19.0)	(9.0)	-	(81.3)
Reportable segment profit / (loss) before separately disclosed items	267.6	124.8	62.7	(5.4)	(57.8)	391.9
Amortisation of acquisition related intangible assets (Note 4)	(129.1)	-	-	(5.4)	-	(134.5)
Reportable segment profit / (loss) after amortisation of acquisition related intangible assets	138.5	124.8	62.7	(10.8)	(57.8)	257.4
Replacement share options [2] (Note 4)						(7.4)
Operating profit						250.0

1 EBITDA is defined as profit for the year before depreciation, amortisation and impairment, financial income, financial expense and tax expense / credit. It is considered by the Directors to be a key measure of the Group's financial performance.

2 The Group does not allocate restructuring and strategic initiatives and replacement share options to reportable segments.

3. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	2018	2017
	£m	£m
Revenue		
Total revenue from reportable segments, being total Group revenue	**1,873.4**	1,745.4
Profit and loss		
Operating profit	**204.6**	250.0
Unallocated amounts:		
Financial income	**21.6**	1.7
Financial expense	**(7.5)**	(5.1)
Profit before tax	**218.7**	246.6

Disaggregation of revenue under IFRS 15

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

	Online	**Australia**	**Retail**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Sports revenue[1]	**677.8**	**402.9**	**221.7**	**171.7**	**1,474.1**
Gaming revenue	**269.8**	**-**	**109.8**	**19.7**	**399.3**
Total Group revenue	**947.6**	**402.9**	**331.5**	**191.4**	**1,873.4**

Group revenue disaggregated by product line for the year ended 31 December 2017:

	Online	Australia	Retail	US	Total
	£m	£m	£m	£m	£m
Sports revenue[1]	660.0	403.7	227.7	93.7	1,385.1
Gaming revenue	238.4	-	106.3	15.6	360.3
Total Group revenue	898.4	403.7	334.0	109.3	1,745.4

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

Geographical segment information

The Group considers that its primary geographic segments are 'UK', 'Ireland', 'Australia', 'US' and 'Rest of World'. The UK geographic segment consists of the UK Retail bookmaking business, online and telephone sports betting from customers in the UK, and online gaming from customers in the UK. The Ireland geographic segment consists of the Irish Retail bookmaking business, online and telephone sports betting from customers in Ireland, and online gaming from customers in Ireland. The Australia geographic segment consists of online and telephone sports betting from Australian customers. The US geographic segment is comprised of online and retail sports betting and online gaming from US customers. The Rest of World geographic segment is comprised of online sports betting, online gaming and B2B services provided to customers in geographies other than the UK, Ireland, Australia and the US. Revenues from customers outside the UK, Ireland, Australia and the US are not considered sufficiently significant to warrant separate reporting.

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

	Online	**Australia**	**Retail**	**US**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
UK	**672.8**	**-**	**195.4**	**-**	**868.2**
Ireland	**103.2**	**-**	**136.1**	**-**	**239.3**
Australia	**-**	**402.9**	**-**	**-**	**402.9**
US	**-**	**-**	**-**	**191.4**	**191.4**
Rest of World	**171.6**	**-**	**-**	**-**	**171.6**
Total Group revenue	**947.6**	**402.9**	**331.5**	**191.4**	**1,873.4**

3. Operating segments (continued)

Group revenues disaggregated by geographical segment for the year ended 31 December 2017:

	Online £m	Australia £m	Retail £m	US £m	Total £m
UK	639.1	-	193.5	-	832.6
Ireland	98.0	-	140.5	-	238.5
Australia	-	403.7	-	-	403.7
US	-	-	-	109.3	109.3
Rest of World	161.3	-	-	-	161.3
Total Group revenue	898.4	403.7	334.0	109.3	1,745.4

Revenues are attributed to geographical location on the basis of the customer's location.

Non-current assets (excluding deferred tax asset balances) by geographical segment are as follows:

	31 December 2018 £m	31 December 2017 £m
UK	**3,761.6**	3,850.3
Ireland	**104.8**	113.8
Australia	**89.9**	91.5
US	**823.3**	413.6
Rest of World	**15.5**	16.8
Total	**4,795.1**	4,486.0

4. Separately disclosed items

	2018	2017
	£m	£m
Amortisation of acquisition related intangible assets	**(100.7)**	(134.5)
Replacement share options	**-**	(7.4)
Impairment of goodwill and intangible assets	**(27.2)**	-
Gain on contingent consideration	**10.7**	-
Restructuring and strategic initiatives	**(28.0)**	-
Profit on disposal of investment	**7.0**	-
Operating profit impact of separately disclosed items	**(138.2)**	(141.9)
Tax credit on separately disclosed items	**15.1**	23.6
Total separately disclosed items	**(123.1)**	(118.3)

Amortisation of acquisition related intangible assets
Non-cash amortisation of £100.7m has been incurred in the period (2017: £134.5m) as a result of intangible assets separately identified under IFRS 3 as a result of the Merger with Betfair in 2016 and the acquisition of FanDuel Limited in 2018.

Replacement share options
Under the terms of the Merger, outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans would not vest on completion but would be replaced by share option awards over an equivalent number of ordinary shares in the Company, calculated by reference to the exchange ratio of 0.4254. Whilst the awards will vest in line with their previous terms, the replacement of the options, under IFRS 3, requires them to be accounted for at fair value on acquisition. No such costs were incurred in 2018 (2017: £7.4m).

Impairment of goodwill and intangible assets
Non-cash impairments amounting to £27.2m in relation to primarily goodwill and intangible assets associated with our DRAFT business were incurred in the year (see Note 7). There were no such impairments in 2017.

Gain on contingent consideration
The movement in the value of contingent consideration in the period relates to the contingent consideration that the Group has deemed is no longer payable arising in respect of the DRAFT acquisition.

Restructuring and strategic initiatives
This relates to incremental, one-off costs arising during the year from the combination of Betfair US with FanDuel (see Note 8) and costs incurred as a result of significant restructuring and strategic changes made following the appointment of a new CEO. No such costs were incurred in 2017.

Profit on disposal of investment
In February 2018, the Group disposed of its remaining 31.4% non-controlling interest in LMAX Limited for cash consideration amounting to £21.9m to the existing majority LMAX shareholders generating a profit of £7.0m.

Restructuring and strategic initiatives and replacement share options are included in the consolidated income statement within operating costs excluding depreciation, amortisation and impairment. Amortisation of acquisition related intangible assets is included within depreciation and amortisation and impairment of goodwill and intangible assets is included within impairment. The profit on disposal of investment and gain on contingent consideration are included within financial income.

5. Tax expense

	2018 £m	2017 £m
Recognised in profit or loss:		
Current tax charge	**53.7**	65.8
Prior year over provision	**(4.0)**	(19.2)
Total current tax	**49.7**	46.6
Deferred tax credit	**(12.5)**	(19.5)
Prior year under provision	**0.8**	1.8
Decrease in net deferred tax liability	**(11.7)**	(17.7)
Total tax expense in income statement	**38.0**	28.9

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

	2018 £m	2017 £m
Profit before tax	**218.7**	246.6
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	**27.4**	30.8
Depreciation on non-qualifying property, plant and equipment	**1.3**	1.7
Effect of different statutory tax rates in overseas jurisdictions	**4.7**	11.4
Non-deductible expenses	**7.0**	6.1
Effect of changes in statutory tax rates	**(0.7)**	(3.1)
Movement on deferred tax balances not recognised	**1.5**	(0.6)
Over provision in prior year	**(3.2)**	(17.4)
Total tax expense	**38.0**	28.9

Total tax expense for 2018 includes a credit for separately disclosed items amounting to £15.1m (2017: £23.6m) (see Note 4).

Tax rates

The Group's consolidated effective tax rate on profits including separately disclosed items for 2018 is 17.4% (2017: 11.7%). The separately disclosed items impacting the consolidated tax rate include the unwind of deferred tax liabilities recognised in respect of merger related intangibles and the acquisition of a majority stake in FanDuel as well as costs associated with that acquisition. The tax effect of separately disclosed items in the current year amounted to a tax credit of £15.1m.

The Group's underlying effective tax rate of 14.9% (2017: 13.5%) is materially impacted by the geographic mix of profits and reflects a combination of higher and lower headline rates of tax in the various jurisdictions in which the Group operates when compared with the Irish standard rate of corporation tax of 12.5%.

The Group's underlying effective tax rate is also materially impacted by the movement on deferred tax balances which remain unrecognised due to the doubt over the future recoverability of those assets, as well as the effect of expenses which are not deductible for tax purposes.

No significant changes are expected to statutory tax rates other than those announced and enacted at 31 December 2018; principally the reduction in the headline rate of UK corporation tax to 17% in April 2020.

The effect of the reduction in the UK headline rate of corporation tax on recognised deferred tax balances in the UK is reflected in the above tax reconciliation.

The future effective tax rate of the Group is principally affected by the ongoing geographic mix of profits in accordance with the OECD guidelines in relation to Base Erosion and Profit Shifting

6. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares has been adjusted for amounts held as Treasury Shares and amounts held by the Group's Employee Benefit Trust ("EBT").

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

The calculation of basic and diluted EPS is as follows:

	2018	2017
Numerator in respect of basic and diluted earnings per share (£m):		
Profit attributable to equity holders of the Company	**201.4**	217.7
Numerator in respect of adjusted earnings per share (£m):		
Profit attributable to equity holders of the Company	**201.4**	217.7
Separately disclosed items	**114.7**	118.3
Profit for adjusted earnings per share calculation	**316.1**	336.0
Weighted average number of ordinary shares in issue during the year (in 000's)	**83,340**	84,418
Basic earnings per share	**£2.417**	£2.579
Adjusted basic earnings per share	**£3.793**	£3.980
Adjustments to derive denominator in respect of diluted earnings per share (in 000's):		
Weighted average number of ordinary shares in issue during the year	**83,340**	84,418
Dilutive effect of share options and awards on issue	**457**	833
Adjusted weighted average number of ordinary shares in issue during the year	**83,797**	85,251
Diluted earnings per share	**£2.404**	£2.554
Adjusted diluted earnings per share	**£3.772**	£3.941

The average market value of the Company's shares of £74.63 (2017: £81.61) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

The number of options excluded from the diluted weighted average number of ordinary shares calculation due to their effect being anti-dilutive is 447,540 (2017: 390,454).

7. Goodwill

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

	Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2017	3,432.3	45.2	377.0	17.9	18.7	3,891.1
Arising on acquisitions during the year (Note 8)	-	-	27.3	0.4	0.2	27.9
Foreign currency translation adjustment	0.3	(0.6)	(34.8)	0.4	0.9	(33.8)
Balance at 31 December 2017	3,432.6	44.6	369.5	18.7	19.8	3,885.2
Impairment	**-**	**-**	**(26.5)**	**-**	**-**	**(26.5)**
Arising on acquisitions during the year (Note 8)	**-**	**-**	**191.3**	**0.2**	**0.9**	**192.4**
Foreign currency translation adjustment	**0.1**	**(2.1)**	**26.2**	**-**	**-**	**24.2**
Balance at 31 December 2018	**3,432.7**	**42.5**	**560.5**	**18.9**	**20.7**	**4,075.3**

The Online segment goodwill amount arose from the acquisition of CT Networks Limited ("Cayetano"), a games developer based in the Isle of Man and Bulgaria, in 2011, and the acquisition of the Betfair online business (excluding operations in the US) acquired as part of the all-share merger with Betfair Group plc in 2016.

The Australia segment goodwill amount arose from the acquisition of an initial 51% interest in Sportsbet Pty Limited ("Sportsbet") and the subsequent acquisition of International All Sports Limited ("IAS") by Sportsbet, both in 2009.

The US segment goodwill amount arose from the acquisition of the US business acquired as part of the all-share merger with Betfair Group plc in 2016 and the acquisition of FanDuel Limited a market leading operator in the daily fantasy sports market in the United States, in 2018 (see Note 8). Due to the decision to combine the Group's US assets with FanDuel (see Note 8) and the impact of this decision on the Group's existing US daily fantasy sports business, the Group reviewed the carrying value of this business and determined, that an impairment charge of £26.5m was required in 2018.

Goodwill in UK Retail arose from the acquisition of two London bookmaking businesses in 2004, the acquisition of a retail bookmaking company in Northern Ireland in 2008 and the acquisition of a number of retail bookmaking shop properties since 2010 including some in 2018 (see Note 8).

Goodwill in Irish Retail arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and the acquisition of a number of retail bookmaking shop properties since 2007 including some in 2018 (see Note 8).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets
In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2018. Based on the reviews, with the exception of the impairment of USD35.3m (£26.5m) in 2018 of the US daily fantasy sports business acquired in 2017 and the IAS brand impairment of AUD6.9m initially provided for in 2011, no impairment has arisen.

8. Business combinations

Year ended 31 December 2018

Acquisition of FanDuel Limited

On 10 July 2018, the Group completed the combination of its US business with FanDuel Limited, to create a new company called FanDuel Group Inc. Under the terms of the combination, the Group contributed its existing US business and assets along with $145m (£109.3m) of cash to FanDuel Group Inc. and also paid $15.5m (£11.7m) to a small number of FanDuel Limited shareholders for their shareholding, while FanDuel Limited contributed its entire business to FanDuel Group Inc. The cash contribution was used in part to pay down existing FanDuel Limited debt and will also be used to fund the working capital of FanDuel Group Inc. The combination resulted in the holders of Paddy Power Betfair plc shares owning 61% of FanDuel Group Inc., and the holders of FanDuel Limited shares owning 39% of FanDuel Group Inc. Call and put options exist to acquire the shares of FanDuel Limited shareholders at prevailing market valuations after three and five years. The Group has the discretion as to whether these options are settled by the issuance of Paddy Power Betfair plc shares or via cash.

The consideration was £211.9m based on the value of the Group's existing US business contributed to FanDuel Group Inc., cash consideration paid and the fair value of the cash contribution payable by the Group to FanDuel Group.

FanDuel has over 40% market share of the US daily fantasy sports market, with 7m registered customers across 40 states. In 2017, it had revenue of $124m and 1.3m active customers. Headquartered in New York, the business has built-up a leading US sports brand with approximately $400m cumulative marketing spend to date supported by innovative proprietary technology. The transaction strengthens the Group's opportunity to target the prospective US sports betting market through the addition of a strong brand, large existing customer base and talented team.

Since the date of acquisition to 31 December 2018, the FanDuel daily fantasy sports business has contributed £57.3m of revenue.

If the FanDuel acquisition had occurred on 1 January 2018, then their contribution to revenue would have been £101.5m for the year ended 31 December 2018.

FanDuel's profit cannot be readily defined due to the integration of the businesses post the acquisition. The proforma profit for the combined US Group is disclosed on page 14 of the preliminary statement. Acquisition related costs of £7.9m were incurred in respect of this transaction and are disclosed within restructuring costs and strategic initiatives in Note 4 of the condensed consolidated financial statements.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

8. Business combinations (continued)

Included within the intangible assets were £171.2m of separately identifiable intangibles comprising brands, customer relations and technology acquired as part of the acquisition, with the additional effect of a deferred tax liability of £35.9m thereon. These intangible assets are being amortised over their useful economic lives of up to ten years. Receivables acquired amounted to £3.6m. The book value equated to the fair value as all amounts are expected to be received.

The main factors leading to the recognition of goodwill (none of which is deductible for tax purposes) is growth by combining business activities, a strong workforce, leveraging existing products and synergy savings of the merged operations. The goodwill has been allocated to the existing US CGU and it has been deemed that a separate CGU is not appropriate.

	Provisional fair values as at 10 July 2018 £m
Assets	
Property, plant and equipment	3.4
Intangible assets	178.1
Total non-current assets	181.5
Trade and other receivables	5.0
Financial assets – restricted cash	45.6
Cash and cash equivalents acquired	20.4
Total current assets	71.0
Total assets	252.5
Liabilities	
Trade and other payables	54.1
Debt and debt like items acquired	79.9
Customer balances	44.3
Total current liabilities	178.3
Trade and other payables	-
Deferred tax liabilities	35.9
Total non-current liabilities	35.9
Total liabilities	214.2
Net assets acquired	**38.3**
Goodwill	191.3
Non-controlling interest measured at the fair value of net assets identified	(17.7)
Consideration	**211.9**

The consideration is analysed as:	
Betfair US shares transferred to Non-controlling interest	157.5
Consideration paid in cash	11.7
Fair value of cash contribution allocated to Non-controlling interest	42.7
Consideration	**211.9**

8. Business combinations (continued)

Shop property business acquisitions
In 2018, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

Details of the net assets acquired and the goodwill arising on these acquisitions under IFRS are as follows:

	Provisional fair values 31 December 2018 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.1
Goodwill arising on acquisition – UK Retail and Irish Retail	1.1
Consideration	1.2
The consideration is analysed as:	
Cash consideration	1.1
Contingent deferred consideration	0.1
Consideration	1.2

The principal factors contributing to the UK Retail and Irish Retail goodwill balances are the well-established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 2018 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets for the 12 months following the date of acquisition.

Year ended 31 December 2017

Acquisition of DRAFT
In May 2017, the Group acquired DRAFT, an early stage operator in the daily fantasy sports market in the United States. The acquisition provided the Group with exposure to a fast-growing market and complemented our other businesses in the United States. The initial cash consideration paid on completion was $19m (£14.3m) with further cash payments between $3m (£2.6m) and $29m (£22.7m) payable over the next four years.

The total fair value of further cash consideration at the acquisition date is estimated to be £13m (after discounting at 8%, consistent with other US operations), with the final amount due dependent on future performance over the next four years.

Details of the fair values of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows:

	As at 10 May 2017 £m
Net liabilities acquired	(0.3)
Goodwill arising on acquisition - US	27.3
Consideration	27.0
The consideration is analysed as:	
Cash consideration	14.3
Deferred and contingent consideration	12.7
Consideration	27.0

8. Business combinations (continued)

The principal factors contributing to the goodwill relate to the differentiated product, the strong management team and the marketing and technology expertise that can be provided by the rest of the Group. The goodwill has been allocated to the existing US CGU and it has been deemed that a separate CGU is not appropriate. It has been determined that no other separately identifiable acquired intangible assets exist due to the start-up nature of the business. Information in respect of revenue, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2017 has not been presented on the basis of immateriality.

Shop property business acquisitions
In 2017, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

Details of the net assets acquired and the goodwill arising on these acquisitions under IFRS are as follows:

	Fair values 31 December 2017 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.3
Goodwill arising on acquisition – Irish Retail and UK Retail	0.6
Consideration	0.9
The consideration is analysed as:	
Cash consideration	0.6
Contingent deferred consideration	0.3
Consideration	0.9

The principal factors contributing to the UK Retail and Irish Retail goodwill balances are the well-established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 2017 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets for the 12 months following the date of acquisition.

Net cash outflow / (inflow) from purchase of businesses

	31 December 2018 £m	31 December 2017 £m
Cash consideration – acquisitions in the year	**12.8**	14.9
Cash acquired – acquisitions in the year	**(20.4)**	-
Repayment of FanDuel debt and debt like items	**79.9**	-
Cash consideration – acquisitions in previous years	**6.1**	3.5
Total	**78.4**	18.4
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses	**12.8**	14.9
Cash acquired from acquisition of FanDuel	**(20.4)**	-
Repayment of FanDuel debt and debt like items	**79.9**	-
Payment of contingent deferred consideration	**6.1**	3.5
Total	**78.4**	18.4

During 2018, the Group settled deferred consideration liabilities of £3.4m (2017: £3.5m) in relation to Betfair's historical acquisition of HRTV, a horseracing television network based in the US, £2.6m relating to Paddy Power Betfair's acquisition of DRAFT in 2017 and £0.1m relating to prior year retail acquisitions.

9. Investments and trade and other receivables

Non-current assets

	31 December 2018 £m	31 December 2017 £m
Investments	**2.4**	15.1

At 31 December 2018, the Group had a non-controlling interest in Featurespace of 2.38% with a fair value of £2.3m (31 December 2017: £0.1m). A fair value gain of £2.2m has been recognised within financial income in 2018. In 2019, the Group disposed of its remaining 2.38% non-controlling interest in Featurespace for cash consideration amounting to £2.3m.

At 31 December 2017, the Group had a non-controlling interest in LMAX Limited of 31.4% with a fair value of £14.9m. In February 2018, the Group disposed of its remaining 31.4% non-controlling interest in LMAX Limited for cash consideration amounting to £21.9m to the existing majority LMAX shareholders. The difference of £7.0m between the cash consideration and the fair value of the asset at the date of disposal was recognised in the consolidated income statement in 2018.

	31 December 2018 £m	31 December 2017 £m
Other receivables		
Prepayments	**8.9**	4.2

Current assets

	31 December 2018 £m	31 December 2017 £m
Trade and other receivables		
Trade receivables – credit betting customers	**1.7**	0.3
Trade receivables – other sports betting counterparties	**3.4**	4.5
Trade receivables	**5.1**	4.8
Other receivables	**6.9**	3.1
Value-added tax and goods and services tax	**2.1**	5.4
Prepayments	**67.7**	35.5
Total	**81.8**	48.8

Trade and other receivables are non-interest bearing.

10. Financial assets and cash and cash equivalents

	31 December 2018 £m	31 December 2017 £m
Current		
Financial assets – restricted cash	**167.2**	75.4
Cash and cash equivalents	**123.7**	306.6
Total	**290.9**	382.0

Financial assets
Included in financial assets – restricted cash at 31 December 2018 are bank deposits which were either (1) restricted at that date, as they represented customer funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities. These customer funds that are not held in trust are matched by liabilities of equal value.

The effective interest rate on bank deposits at 31 December 2018 was 2.28% (2017: 0.38%); these deposits have an average original maturity date of 1 day (2017: 1 day). The bank deposits also have an average maturity date of 1 day from 31 December 2018 (2017: 1 day). The Directors believe that all short term bank deposits can be withdrawn without significant penalty.

Financial assets – restricted cash and cash and cash equivalents are analysed by currency as follows:

	31 December 2018 £m	31 December 2017 £m
GBP	**21.8**	173.5
EUR	**61.0**	64.4
AUD	**67.0**	103.9
USD	**134.3**	32.2
Other	**6.8**	8.0
Total	**290.9**	382.0

As at 31 December 2018, £368.4m (31 December 2017: £341.8m) was held in trust in The Sporting Exchange (Clients) Limited on behalf of the Group's customers and is equal to the amounts deposited into customer accounts. Neither cash and cash equivalents or restricted cash include these balances on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group.

11. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2017: 150,000,000 ordinary shares of €0.09 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

The movement in the number of issued ordinary shares during the year was as follows:

During the year ended 31 December 2018, 474,236 ordinary shares (2017: 560,732) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £2.3m (2017: £5.8m).

The £200m share buyback programme announced on 29 May 2018 was completed in August 2018. On completion of this programme, the Group commenced a second buyback programme of £300m which was ongoing at 31 December 2018. Overall in 2018 the Group's brokers repurchased 5,635,089 ordinary shares of €0.09 each. The total cost of the shares repurchased comprised £414.7m for the shares themselves and a further £1.3m for other transaction related costs. Cash payments of £413.7m had been made in respect of the repurchases with the outstanding £1.0m settlement made at the beginning of January 2019. This £1.0m together with the remaining value of the buyback programme (including associated fees) of £85.8m was recorded as a liability at 31 December 2018. The shares bought back are being cancelled and the nominal value of these shares is transferred to undenominated capital. The nominal value of the shares cancelled at 31 December 2018 was £0.5m. As described further in Note 17, the £300m share buyback programme was completed in February 2019.

A total of 1,965,600 ordinary shares were held in treasury as of 31 December 2018 (31 December 2017: 1,965,600). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to £40.7m as of 31 December 2018 (31 December 2017: £40.7m). The cost of treasury shares held by the Company at 31 December 2018 was £4.2m (2017: £4.2m), with a further £36.5m of shares being held by the Company's subsidiaries (2017: £36.5m).

At 31 December 2018, the Paddy Power Betfair plc Employee Benefit Trust ("EBT") held 99,741 (2017: 200,973) of the Company's own shares, which were acquired at a total cost of £8.6m (2017: £15.6m), in respect of potential future awards relating to the Group's employee share plans. The Company's distributable reserves at 31 December 2018 are restricted by this cost amount. In the year ended 31 December 2017, the EBT purchased 29,342 Paddy Power Betfair plc ordinary shares for a total consideration of £2.5m. No shares were purchased in 2018. In 2018, 101,232 shares with an original cost of £7.0m (2017: 306,761 shares with an original cost of £17.8m) were transferred from the EBT to the beneficiaries of the EBT.

The foreign exchange translation reserve at 31 December 2018 had a credit balance of £4.1m (2017: debit balance of £13.8m), and arose from the retranslation of the Group's net investment in Euro, AUD and USD functional currency entities. The movement in the foreign exchange translation reserve for the year ending 31 December 2018 reflects the strengthening of USD against GBP in the year.

Other reserves comprise undenominated capital and a fair value reserve. The movement in other reserves of £13.2m in 2018 relates mainly to the disposal of an investment which had previously been revalued, and the subsequent transfer of the revaluation from the fair value reserve to retained earnings. Undenominated capital at 31 December 2018 of £1.1m (2017: £1.6m) relates to the nominal value of shares in the Company acquired by the Company of £0.9m (2017: £1.4m) and subsequently cancelled and an amount of £0.2m (2017: £0.2m) which arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to Euro.

In 2018, an amount of £40.5m (2017: £46.3m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of £3.6m of deferred tax relating to the Group's share-based payments was charged to retained earnings in 2018 (2017: £2.1m). An amount of £2.9m of current tax relating to the Group's share-based payments was credited to retained earnings in 2017 (2017: £2.4m).

12. Dividends paid on ordinary shares

	2018 **£m**	2017 £m
Ordinary shares:		
- final dividend of £1.35 per share for the year ended 31 December 2017 (31 December 2016: £1.13)	**114.0**	94.7
- Interim dividend of £0.67 per share for the year ended 31 December 2018 (31 December 2017: £0.65)	**55.0**	54.7
Amounts recognised as distributions to equity holders in the year	**169.0**	149.4

The Directors have proposed a final dividend of 133 pence per share which will be paid on 21 May 2019 to shareholders on the Company's register of members at the close of business on the record date of 12 April 2019. This dividend, which amounts to approximately £104m, has not been included as a liability at 31 December 2018.

13. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2018 £m	31 December 2017 £m
Trade and other payables		
Trade payables	**21.3**	3.1
Customer balances	**155.3**	68.6
PAYE and social security	**5.2**	5.7
Value-added tax and goods and services tax	**0.9**	-
Betting duty, data rights, and product and racefield fees	**39.5**	41.3
Employee benefits	**43.5**	47.7
Liability to purchase own shares	**86.8**	-
Contingent deferred consideration – business combinations	**4.8**	3.8
Accruals and other liabilities	**175.5**	164.5
Total	**532.8**	334.7
Derivative financial liabilities		
Sports betting open positions	**20.1**	7.8

Non-current liabilities

	31 December 2018 £m	31 December 2017 £m
Trade and other payables		
Employee benefits	**0.6**	0.3
Contingent deferred consideration – business combinations	**17.0**	30.0
Accruals and other liabilities	**8.6**	4.2
Total	**26.2**	34.5
Derivative financial liabilities		
Sports betting open positions	**0.9**	2.3

The liability to purchase own shares relates to an obligation arising under a buyback agreement for the purchase of the Company's own shares (see Note 11).

Sports betting open positions
Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

The carrying amount of the liabilities is not significantly different from the amount that the Group is expected to pay out at maturity of the financial instruments. Sports bets are non-interest bearing. There is no interest rate or credit risk associated with open sports bets.

Contingent deferred consideration – business combinations
Included within non-current liabilities is contingent and deferred consideration of £17.0m due to Betfair's historical acquisition of HRTV, a horseracing television network based in the United States. The amount payable at 31 December 2018 in respect of this acquisition amounted to £21.5m, with £17.0m due after one year from the reporting date.

14. Borrowings

Current liabilities

	31 December 2018	31 December 2017
	£m	£m
Accrued interest on borrowings	**0.4**	-

Non-current liabilities

	31 December 2018	31 December 2017
	£m	£m
Revolving credit facility	**285.0**	62.2
Less: expenses relating to revolving credit facility	**(2.0)**	-
	283.0	62.2

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300 million provided by a syndicate of banks which expired in May 2020. In 2018, the RCF was amended to an amount of £450 million and was extended to expire in April 2023. At 31 December 2018, £285.0m of this facility was drawn down (2017: €70m (£62.2m)). During 2018, the Group drew down £345.0m (2017: £Nil) and repaid £121.9m (2017: €180.0m (£157.6m)) under this facility.

Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at LIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings. Upfront participation and arrangement fees plus associated costs incurred in arranging the RCF have been capitalised and offset against the loan in the consolidated statement of financial position and are being amortised to the income statement over the expected life of the facility.

It is the Directors' opinion that due to the Group's bank borrowings being subject to floating interest rates and the proven cash generation capability of the Group, there is no significant difference between the book value and fair value of the Group's borrowings. Under the terms of the RCF, the Group is required to comply with the following financial covenants on a semi-annual basis.

- **Net Leverage Ratio:** Consolidated net borrowings shall not be more than 3.0 times underlying consolidated EBITDA.
- **Interest Cover Ratio:** Underlying consolidated EBITDA shall not be less than 4.0 times net finance charges.

During the year ended 31 December 2018, all covenants have been complied with.

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

	Borrowings
	£m
Balance at 1 January 2018	**62.2**
Changes from financing cash flows	
Amounts drawn on borrowings facility	**345.0**
Amounts repaid on borrowing facility	**(121.9)**
Fees in respect of borrowing facility	**(2.4)**
Interest paid	**(3.1)**
Total	**217.6**
Other changes	
Interest on borrowings	**3.3**
Unwinding of capitalised expenses relating to revolving credit facility	**0.4**
Foreign exchange movements	**(0.1)**
Total other changes	**3.6**
Balance at 31 December 2018	**283.4**

15. Commitments and contingencies

(a) Guarantees
The Group has uncommitted working capital overdraft facilities of £10.5m (2017: £10.5m) with Allied Irish Banks p.l.c. These facilities are secured by a Letter of Guarantee from Paddy Power Betfair plc.

The Group has bank guarantees: (1) in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies; and (2) in respect of certain third party rental and other property commitments, merchant facilities and third party letter of credit facilities. The maximum amount of the guarantees at 31 December 2018 was £15.7m (2017: £19.3m). No claims had been made against the guarantees as of 31 December 2018 (2017: £Nil). The guarantees are secured by counter indemnities from Paddy Power Betfair plc and certain of its subsidiary companies. The value of cash deposits over which the guaranteeing banks hold security was £0.9m at 31 December 2018 (2017: £0.9m).

The Australian corporate sports bookmaking licences issued to Sportsbet require those companies to hold sufficient cash funds to cover monies owed to customers. At 31 December 2018, the total value of relevant customer balances attributable to the Australia business segment was £45.5m (AUD82.5m) (2017: £40.0m (AUD69.1m)) and the combined cash and cash equivalent balances held by Sportsbet at that date totalled £65.6m (AUD119m) (2017: £107.6m (AUD186.1m)). In addition, the Group holds cash amounts totalling £121.7m (2017: £35.4m) in respect of customer funds that are not held on trust in The Sporting Exchange (Clients) Limited in accordance with local regulations. This includes the requirements of various states in the United States which requires fantasy contest operators to either segregate customer funds or else maintain a reserve in the form of cash and cash equivalents. Customer funds that are not held on trust are matched by liabilities of an equal value.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

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

*(b) Contingent liabilitie*s
The Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements. The Board monitors legal and regulatory developments and their potential impact on the business, however given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted. See Note 17 for further detail in respect of legacy German and Greek tax assessments.

15. Commitments and contingencies (continued)

(c) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred was as follows:

	31 December 2018	31 December 2017
	£m	£m
Property, plant and equipment	**11.3**	0.3
Intangible assets	**9.8**	0.6
Total	**21.1**	0.9

(d) Operating leases
The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately five years left to run (if the Group was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2018 and 2017, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2018	31 December 2017
	£m	£m
Within one year	**41.8**	36.7
Between two and five years	**106.0**	105.7
After five years	**34.3**	43.2
Total	**182.1**	185.6

The Group has a small number of properties that are sublet. Sublease payments of £2.2m (2017: £1.4m) are expected to be received during the year ended 31 December 2019.

During 2018, an expense of £39.1m was recognised in profit or loss in respect of operating leases (2017: £35.2m). Contingent rent expense in 2018 on profit or loss amounted to a cost of £0.1m. Sublease income (netted against operating lease expense on the basis of immateriality) amounted to £1.8m in 2018 (2017: £1.4m).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Group has determined that the leases are operating leases.

16. Related parties

There were no transactions with related parties during the years ended 31 December 2018 and 2017 that materially impacted the financial position or performance of the Group.

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

17. Events after the reporting date

Dividend
In respect of the current year, the Directors propose that a final dividend of 133.0 pence per share will be paid to shareholders on 21 May 2019. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register of members on 12 April 2019. The total estimated dividend to be paid amounts to £104m.

Acquisition of Adjarabet
On 1 February 2019, the Group announced the acquisition of an initial 51% controlling stake in Adjarabet, the market leader in online betting and gaming in the regulated Georgian market. The Group, through agreed option agreements, expects to acquire the remaining 49% after three years.

In 2018, Adjarabet generated revenues (unaudited) of 215m Georgian Lari (GEL) (£64m) and EBITDA (unaudited) of GEL68m (£20m). The initial cash consideration being paid by the Group for the 51% stake is £101m. A mechanism has also been agreed, consisting of call and put options, which enables the Group to acquire the remaining 49% after three years at a valuation equivalent to 7 times 2021 EBITDA. The call/put option consideration can be settled, at the Group's election, in cash or shares. The acquisition-date fair value accounting exercise had not been completed as at 5 March 2019.

Legacy German & Greek tax assessments
On 13 February 2019, the Group provided an update on two separate disputed legacy tax assessments. The first relates to the Betfair Exchange in Germany, which operated there until November 2012, and the second relates to the paddypower.com business in Greece.

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

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

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

Share buyback
On 20 August 2018, the Group commenced a £300m share buyback programme which was ongoing at 31 December 2018. Between 31 December 2018 and 6 February 2019, shares valued at £85m were repurchased and this share buyback programme is now complete.

18. Changes in accounting policies

Following the adoption of IFRS 9 *Financial Instruments* as outlined in Note 2, the impact of the changes on the condensed consolidated statement of financial position as of 31 December 2017 is as follows:

	31 December 2017 As reported under previous accounting policies £m	31 December 2017 As reported under new accounting policies £m
Investments at fair value through profit or loss	0.1	15.1
Available-for-sale financial assets	15.0	-

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 retains and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through Profit and Loss ('P&L'). The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the date of initial application to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 *Financial Instruments: Recognition and Measurement*. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

Adoption of this standard did not impact the Group other than how the Group presents movements in investments in equity instruments. Under IAS 39, these instruments are categorised as available-for-sale and the movement in fair value is booked to OCI. Per IFRS 9, such instruments are required to be measured at fair value through profit or loss unless the irrevocable option at initial application to present changes in fair value in OCI is chosen. This designation is made on an instrument by instrument basis.