7 March 2018

Paddy Power Betfair plc - 2017 Preliminary Results

Paddy Power Betfair plc (the "Group") announces preliminary results for the year ended 31 December 2017.

	Underlying[4] proforma[2] results			*Statutory results*	
	2017	**2016**	**Change**	**2017**	**2016**
	£m	**£m**	**%[1]**	**£m**	**£m**
Revenue	1,745	1,551	+13%	1,745	1,501
EBITDA[3]	473	400	+18%	466	264
Operating profit	392	330	+19%	250	15
Earnings/(loss) per share	398.0p	330.9p	+20%	257.9p	(7.2)p
Dividends per share[5]	200p	165p	+21%		

- **Financial highlights[1]:**
  - Revenue up 13% to £1,745m, driven by 16% growth in sports revenue
  - Underlying EBITDA[3,4] up 18% to £473m, higher than our previous guidance range (£450m to £465m) due to favourable Q4 sports results
  - Final dividend of 135p per share, resulting in total dividends for the year up 21% to 200p per share
  - Continued strong cash generation, with underlying free cash flow up 57% to £395m
- **Strategic and operational highlights:**
  - European platform integration successfully completed in January 2018 and resources now focused on developing customer facing products
  - Additional c.£20m investment in marketing and customer proposition planned in 2018 to boost the Paddy Power brand in the UK and the Betfair brand in international markets
  - Leading customer propositions and continued strong performance in Australia, Retail and the US means we are well positioned ahead of regulatory changes
  - Targeting leverage of between 1x and 2x net debt to EBITDA in the medium term to improve efficiency of the Group's capital structure

Peter Jackson, Chief Executive, commented:

"I joined Paddy Power Betfair because of its great brands, fantastic people and exciting prospects. It is an exceptional business with market leading positions in key online and retail markets; differentiated products; and leading capabilities in technology, risk & trading and digital marketing.

The business saw continued good growth in 2017, with operating profits increasing by 19%. Our Australian and Retail operations performed particularly well, growing profits by over 40%.

Following the successful completion of our European technology integration, Paddy Power customers are now enjoying the fastest sports book app in the market. Our considerable development resources will now be focused on bringing more new products to customers, some of which will be delivered ahead of the World Cup.

We saw the benefits of investing in our customer propositions in 2017, with Sportsbet launching a number of product features that give extra value to customers and Betfair moving to a clear market leadership position in its football pricing. Now the Paddy Power brand is operating with an improved product, we will increase marketing spend to align with its mass market positioning and step up the retention-focused investment that we started in 2017. At the same time, we also plan to increase our investment in international markets.

Our scale, leading customer propositions and strong balance sheet mean we are well positioned ahead of the regulatory and fiscal changes expected in the UK, Australia and the USA. Our strengths in operating efficiently and responsibly will enable us to build a business that can sustainably generate shareholder returns over the long term."

Notes:

[1] Growth rates are shown on a proforma[2] basis.

[2] The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date. The reported statutory comparative period results for year ended 31 December 2016 reflect this accounting treatment in accordance with generally accepted accounting principles (GAAP) and only include Betfair results since the merger completion on 2 February 2016. This announcement includes comparative period results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for year to 31 December 2016. The directors consider that comparing the reported 2017 results against the proforma comparative period is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the year-on-year results are discussed versus the proforma comparatives. A reconciliation between the statutory and the non-GAAP proforma underlying comparative financials is included in Appendix 2 (page 16)

[3] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 16).

[4] The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see note 4 and page 29 to the financial statements and Appendix 2 on page 16)

[5] The comparative period proforma[2] dividend includes closing dividends paid on merger relating to January 2016 equating to 12 pence per share, the interim dividend paid in September 2016 of 40 pence per share and the final dividend of 113 pence per share paid in May 2017

Analyst briefing:

The Group will host a presentation for institutional investors and analysts this morning at 10:00am (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 678 1161 or 01296 311 600 from the UK, (01) 242 1074 from Ireland and +44 1296 311 600 from elsewhere. The passcode is 847 589 70.

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

Contacts:

Paul Rushton, Investor Relations	+ 44 20 8834 6139 / + 353 1 903 9105
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 has substantial scale; leading capabilities in technology, digital marketing and sports operations; and a portfolio of distinctive sports-led brands. This provides it with important competitive advantages and means it is well placed to generate sustainable profits over the long-term.

To capitalise on this opportunity, we are making some changes to how the Group operates, including a new organisational structure. The business will now be managed by three regional CEOs, reporting directly to the Group CEO, with responsibility for Europe, which includes the Paddy Power and Betfair brands outside of the USA; Australia, operating under the Sportsbet brand; and Betfair US, which includes the Group's four businesses in the USA.

Within this structure, there is clear ownership for each of the Group's brands. This simplifies decision making, particularly in relation to the Paddy Power and Betfair brands, and facilitates an increased focus on each brand's identity and customer proposition.

These business units are supported by central functions, including a Group leadership role focussed on responsible gambling.

The key focus areas for each of the regional business units are described below.

Europe

Product: key driver of differentiation

We believe that product differentiation is a key driver of market share growth. Customer research consistently demonstrates that product is a major component of customers' choice of operator and is especially important in driving share of wallet when customers use multiple brands. In particular, 'ease of use' and 'speed' are cited as the top two drivers of customer satisfaction for sportsbook app users.

The completion of the integration of our European platforms in January 2018 means we are well positioned to deliver product excellence. The platform has been built to be scalable, flexible and responsive. We also have substantial technology resources, with approximately 1,000 in-house product development specialists, which, combined with the platform advantages, provides confidence we can return to a position of product leadership that both our brands enjoyed historically.

Furthermore, with key components built on proprietary systems, our ability to differentiate is enhanced, particularly when combined with our strong sports betting expertise across risk and trading and our unique betting exchange.

In the near term, however, our product development focus is on addressing gaps against competitors' products that have emerged as we have been focused on platform integration over the last two years.

Product gaps for Paddy Power customers have partly been addressed by the platform integration with the app load time now 50% faster, and a much improved cash out product driving significantly increased usage of cash out by customers. In gaming, customers are now using an enhanced Games app and Paddy Power versions of the Betfair Casino apps.

Our substantial product development resources are now deployed on addressing the remaining gaps in our products over the coming quarters. This includes further ease of use improvements, new casino apps, initiatives to support international growth and regulatory enhancements. It also involves accelerating development of new sports product features. In Sportsbet, which operates on a separate technology platform and therefore was unaffected by the European integration, we have released a number of new product features that have proven very popular with customers and have driven faster growth. We are using this experience, together with competitors' recent product launches, to inform the prioritisation of the European product features pipeline.

Investment in marketing and retention

Notwithstanding the limited product development over the last couple of years, the performance of the Betfair brand has been good, with sports revenues up 11% in 2017 (sportsbook +29% and exchange +1%). Conversely, Paddy Power has lost market share, with sports revenues up 3% in 2017.

To address this, in addition to the acceleration of new product delivery and the organisational design changes that will benefit both brands, we have identified opportunities to increase investment in the Paddy Power brand through above-the-line marketing and the customer value proposition.

The brand has the credentials and distinctiveness to address the recreational market in the UK and Ireland. Its brand personality is a key differentiator and enables it to stand out in a crowded marketplace, with customers seeing the brand as the clear leader on attributes such as 'entertaining', 'fun', 'mischievous' and 'sharp-witted'. Historically, this made Paddy Power's marketing very efficient.

Above-the-line marketing spend in the UK sports betting market has, however, increased by an estimated 19% per annum in the last few years and this has led to Paddy Power having a lower share of voice. We estimate that this has declined from c.15% in 2014 to c.12% in 2017.

To better target the recreational market we intend to reverse this trend by increasing the level of marketing investment in Paddy Power. This will be partly funded by rebalancing the mix of spend between the Paddy Power and Betfair brands, with the latter targeting the core betting market segment through its leading price proposition and distinct exchange proposition.

In addition, the value provided to customers will be increased through enhanced generosity, including an expansion of the "*Paddy's Rewards*" loyalty scheme, along with continued use of high profile headline promotions. This follows similar investment in Sportsbet in 2017 which successfully delivered strong increases in customer activity.

Betfair serves customers in a large number of international markets, predominantly due to the exchange's unique proposition, but it remains sub-scale in most geographies outside of the UK and Ireland. We have identified a number of markets with characteristics that may have the potential to deliver greater scale and we will assess this opportunity with additional exploratory marketing investment in 2018.

In line with our objective of delivering sustainable profitable growth, we will continue to ensure that the Group overall is not exposed to any material concentration of revenues within particular unregulated markets.

The actions described above mean we will be investing an additional c.£20m across marketing and retention activities in the Online business in 2018.

Gaming

In gaming, both brands have underperformed against the market (2017 Betfair revenue +4%, Paddy Power revenue -8%). This underperformance has been both on cross-sell revenues from sports and on revenue from direct gaming customers, where our sports-led brands remain underpenetrated. While the completion of the platform integration has facilitated some product enhancements in recent months, including a new Games app for Paddy Power customers and an improved live casino product offering on both brands, our gaming product still requires additional investment to address gaps versus competitors including improving in-app customer journeys and our promotional capabilities.

In this context, we are yet to see a return to revenue growth and we continue to examine how best to position our gaming brand propositions to compete more effectively.

Retail: continue to invest in leading proposition ahead of regulatory change

Paddy Power retail has consistently outperformed its competitors, delivering sustained revenue and profit growth (CAGR[9] 2013-2017: revenue 12%, EBITDA 18%). This success has been driven by our market-leading customer proposition.

We are continuing to invest in extending this leadership position ahead of regulatory change. In 2018 key areas of investment include the addition of a third in-house TV channel in April, expanding the '*Paddy's Rewards*' loyalty scheme and the roll out of a new shop till system which will enable additional multichannel initiatives.

Our shops are more profitable and outperform on sports betting enabling them to better withstand reduced machine stakes limits and we don't envisage closing any shops following regulatory changes. All our shops are in high footfall, highly competed locations, positioning us to benefit from competitor shop closures. Our proven track record of acquiring shops and achieving significant uplifts in their revenues (55% uplift on average for shops acquired from 2014-2016) also means we will continue to target selective new shop openings and acquisitions which can further enhance our estate.

Australia

In Australia, where online market growth remains strong, we operate the market-leading brand in terms of spontaneous awareness, customer usage and product satisfaction. This position is driven by continued, substantial investment in its leading customer proposition and has delivered strong revenue and profit growth (CAGR[9] 2013-2017: revenue 29%, EBITDA 39%).

2018 is likely to see the widespread introduction of point of consumption taxes. Sportsbet is in a good position to withstand increased taxes and benefit from any market consolidation. Currently, point of consumption taxes are payable in South Australia (c.7% of Sportsbet's revenues), have been announced in Western Australia (c.11% of Sportsbet's revenues) and we expect the remaining states to announce their intentions in the coming months.

In 2017 we invested an additional £35m in customer promotions with key investment including the loyalty encouraging '*Power Play*' daily promotion, our headline *"24-up"* & "*12-up*" AFL/NRL promotions, and the innovative '*The Fold*' product feature which offers our racing customers a unique bet insurance.

In 2018 we will continue to invest in our leading proposition, increasingly looking to personalise our promotional generosity to ensure Sportsbet continues to be recognised as rewarding loyalty with value.

USA

Paddy Power Betfair is currently one of the largest regulated online wagering operators in the USA, with customers across 46 states and over US$140m of annual revenues. We have two established, profitable businesses: TVG, the leading horseracing TV and wagering network with an extensive distribution reach (TV channels available in 45 million homes), and the Betfair online casino in New Jersey.

In addition we are investing in two start-up businesses: the daily fantasy sports operator, DRAFT and the Betfair Exchange in New Jersey. Start-up losses in these businesses are expected to be maintained at 2017 levels (c.£15m) as we await news flow on potential regulatory change.

While our existing businesses are attractive in their own right, they also position the Group well if positive regulatory change results in the market opening for sports betting. In light of this, we are considering the appropriate way that we would participate in the market.

Targeted capital structure

The Group's strong balance sheet, with net cash of £244m at 31 December 2017, provides flexibility and is valuable when assessing strategic options. Furthermore, the Group has a highly cash generative operating model and delivered underlying free cash flow of £395m in 2017.

Having considered the Group's strong cash flow generation and general capital market conditions, the Board believes the Group can increase the efficiency of its capital structure, while investing in the business and maintaining strategic flexibility, by adopting a target medium term leverage range of between 1x and 2x net debt to EBITDA. We will consider the appropriate path towards this leverage target and will provide an update to shareholders over the coming quarters.

Responsible gambling

Promoting safe, responsible gambling across our customer base is central to the sustainability of our business. To this end, all our sites have a range of tools which enable customers to manage their play, and we routinely engage with customers who show signs of harm. In 2017, we continued to invest in further improving the monitoring and detection controls we have in place for online customers and we also made a number of significant enhancements to our responsible gambling offering. We launched six new international Responsible Gambling microsites with self-help tools, information and live chat and we now incorporate responsible gambling messaging throughout the customer journey for new customers. In 2017 we also trialled an electronic self-exclusion process for our UK betting shops and we are now in the process of rolling this out across our estate.

We are involved with a number of industry bodies seeking to raise capability in this area, including the Senet Group, an independent body set up to promote responsible gambling standards, and GAMSTOP, the online multi-operator self-exclusion scheme, which will launch later this year. We played an active part in the first industry-wide Responsible Gambling Weeks in the UK and we have recently spearheaded a similar initiative in Ireland.

In the UK, our largest market, we commit over 0.1% of our gross gaming revenue to the research, education and treatment of problem gambling through a variety of organisations, including Gamble Aware and the Young Gamblers Education Trust (YGAM). In Ireland, we continue to work with Dunlewey Addiction Services to provide funding for counsellors and residential treatment. In Australia, we collaborated with other operators to establish Responsible Wagering Australia, working with the Australian Government to introduce a national consumer protection framework. In Spain, we helped set up Juego Es Responsible, a Senet style responsible gambling body.

We are supportive of thoughtful regulatory intervention to help track player behaviour, to introduce better processes to avoid harm, and to restrict advertising to the young and the vulnerable, across all the markets we operate in.

Current trading and outlook

The new financial year has started as 2017 ended, with sporting results favouring bookmakers. This sustained period of bookmaker friendly results has, however, significantly affected customer activity, including reduced re-cycling of customer winnings.

We are focused on building a business that can sustainably generate profits over the long-term. The Group's strong balance sheet allows us to make substantial investment in the customer proposition and marketing, whilst maintaining flexibility for strategic investments and delivering increasing returns for shareholders.

Operating and Financial Review

Note this Operating and Financial Review presents the comparative period and corresponding year-on-year growth rates on a "Proforma" (non-GAAP) basis. As the merger of Paddy Power and Betfair completed on 2 February 2016 the reported statutory comparative period results only include Betfair results post 2 February 2016. The "Proforma" basis is prepared as if Paddy Power and Betfair had always been merged, and combines the full 12 month results of Paddy Power and Betfair for the year ended 31 December 2016. The directors consider that comparing the reported 2017 results against the proforma comparative period is the most appropriate information for understanding and analysing the performance of the Group. A reconciliation between the statutory comparatives and the non-GAAP proforma, underlying comparative financials is included on page 16.

Group[1]

		Proforma[2]		
	2017 £m	**2016 £m**	**Change %**	**Constant Currency[7] Change %**
Sports revenue	1,385	1,198	+16%	+12%
Gaming revenue	360	353	+2%	+2%
Total revenue	**1,745**	**1,551**	**+13%**	**+10%**
Cost of sales	(405)	(357)	+14%	+10%
Gross profit	**1,340**	**1,194**	**+12%**	**+10%**
Sales and marketing	(346)	(293)	+18%	+14%
Product and technology	(137)	(148)	-7%	-11%
Operations	(326)	(296)	+10%	+6%
Central costs	(58)	(58)	Flat	-2%
Total operating costs	(867)	(794)	+9%	+5%
Underlying EBITDA[3,4]	**473**	**400**	**+18%**	**+19%**
Underlying EBITDA margin %	*27.1%*	*25.8%*	*+1.3%*	*+2.2%*
Depreciation and amortisation	(81)	(70)	+16%	+11%
Underlying[4] operating profit	**392**	**330**	**+19%**	**+21%**
Separately disclosed items	(142)	(318)	n/a	n/a
Operating profit	**250**	**12**	**n/a**	**n/a**
Underlying[4] earnings per share	**398.0p**	**330.9p**	**+20%**	
Dividends per share[5]	**200p**	**165p**	**+21%**	
Net cash at year end[8]	**£244m**	**£36m**		

Group revenue increased 13% to £1,745m, with sports revenues up 16% and gaming revenues up 2%. Revenue growth included a £39m benefit from the translation of non-UK revenues due to the weakness of sterling in the first half of the year relative to 2016. On a constant currency ("cc") basis, revenue growth was 10%.

Within sports, sportsbook revenue growth of 20% (cc +16%) benefitted from more favourable sports results in 2017, in particular for fourth quarter football. In 2017 the gross benefit to revenue, before any impact on customer re-cycling of winnings or from variable costs, of the actual sports results versus our normal expectations was approximately £40m (in 2016 sports results were marginally adverse to expectations).

Revenue from regulated markets represented 95% of total revenues.

Revenue growth combined with operating leverage led to an 18% increase in underlying EBITDA to £473m (2016: £400m), representing an EBITDA margin of 27%. Underlying operating profit increased by 19% to £392m (2016: £330m). Underlying EBITDA, excluding a £3m adverse impact from foreign exchange translation, increased by 19%.

Total operating costs increased by 9%, or 5% on a constant currency basis. Within this, sales and marketing spend, on a constant currency basis, was up 14% and other operating costs, which benefitted from the annualisation of merger synergies and continued operating efficiencies, were flat year-on-year in constant currency.

After separately disclosed items, which in 2017 consisted entirely of non-cash merger related items, the Group recorded an operating profit of £250m (2016: £12m).

Online[1]

		Proforma[2]	
	2017 £m	**2016 £m**	**Change %**
Sportsbook stakes	**5,633**	**5,266**	**+7%**
Sportsbook net revenue %	*7.0%*	*6.6%*	*+0.4%*
Sports revenue	660	609	+8%
Gaming revenue	238	245	-2%
Total revenue	**898**	**853**	**+5%**
Cost of sales	(199)	(193)	+3%
Gross profit	**700**	**661**	**+6%**
Sales and marketing	(223)	(195)	+14%
Product and technology	(98)	(111)	-11%
Operations	(72)	(65)	+10%
Total operating costs	(394)	(371)	+6%
Underlying EBITDA[3,4]	**306**	**289**	**+6%**
Depreciation and amortisation	(39)	(34)	+14%
Underlying[4] operating profit	**268**	**255**	**+5%**

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

Revenue increased by 5% to £898m. Sports revenue increased by 8% to £660m, comprised of a 14% increase in sportsbook revenues and 1% growth in exchange and B2B revenues.

The sportsbook net revenue percentage in 2017 benefitted from the more favourable sports results partially offset by increased investment in pricing and promotions. The increased investment of approximately £20m, primarily related to improved odds for Betfair customers, but also included enhanced value to Paddy Power customer's through our headline "*2 up – You Win*" offer. The investment in Betfair pricing included a reduction in football overrounds to market leading levels and has resonated with target customers, with 45% of football bettors associating Betfair as 'offering very attractive odds' in Q4 2017 versus 35% in Q4 2016 and 25% in Q4 2015.

In gaming, as we previously highlighted, our sports-led brands are underperforming versus the market with revenues in 2017 down 2% to £238m.

A key focus for the online business across 2017 was the integration of the Paddy Power technology platform onto the Betfair platform, with the substantial development work required limiting the release of new products in 2017. The migration of Paddy Power customers to the new platform was completed in January 2018. In December 2017, in Italy we also completed the brand migration of Paddy Power customers to Betfair, in line with our strategy to target that market with a single brand.

Underlying EBITDA increased by 6% to £306m or by 9% excluding the £9m adverse impact from foreign exchange translation. Cost of sales growth was adversely impacted by the extension of the UK Horserace Betting Levy to online from April 2017 (annualised net incremental impact of approximately £10m) and changes to the treatment of free bets for online gaming point of consumption tax (annualised impact of approximately £6m from Q4 2017), but benefited from revenue mix changes and merger-related purchasing synergies. Total operating costs increased by 6%, or 3% in constant currency, reflecting continued marketing investment, the annualisation of merger synergies and continued underlying operating efficiencies.

Australia[6]

	2017 £m	2016 £m	Change % £	Change % A$
Sportsbook stakes	**3,708**	**2,911**	**+27%**	**+19%**
Sportsbook net revenue %	*10.9%*	*10.7%*	*+0.2%*	*+0.2%*
Revenue	**404**	**312**	**+30%**	**+21%**
Cost of sales	(111)	(80)	+38%	+30%
Gross profit	**292**	**231**	**+27%**	**+18%**
Sales and marketing	(82)	(72)	+13%	+5%
Product and technology	(24)	(24)	+2%	-6%
Operations	(47)	(41)	+14%	+5%
Total operating costs	(153)	(137)	+11%	+3%
Underlying EBITDA[3,4]	**139**	**94**	**+49%**	**+42%**
Depreciation and amortisation	(15)	(10)	+52%	+42%
Underlying[4] operating profit	**125**	**84**	**+49%**	**+42%**

The Australia division operates the market-leading online betting brand Sportsbet.

Revenue increased by 21% to £404 million. This growth was notwithstanding a reduced contribution from in-play betting, which represented 3% of revenues in 2017 versus 6% in the prior year when our 'Bet Live' product was available to customers for the first nine months of the year.

Growth was driven by continued investment in promotions, product and marketing to maintain Sportsbet's market leading customer proposition. Key elements of an increased year-on-year investment in promotions, of approximately £35m, included '*Power Play*' (launched in October 2016) and our *'24-up*' and '*12-up*' promotions which contributed to strong customer activity on AFL football and NRL rugby. It also included the innovative new product feature '*The Fold*', launched at the end of September 2017. This feature offers a unique form of bet insurance that allows customers to cancel a bet mid-race and a get a full stake refund, further differentiating our product across the key spring racing season.

Other important product releases in 2017 included a new android app, significant upgrades to our racing form content and *'Same Game Multi'*, which facilitates single match accumulator betting on AFL and NRL.

Marketing campaigns continue to focus on highlighting these key products and promotions while deepening the distinctive position of Sportsbet's brand personality. In 2017 we also expanded our range of marketing assets with the addition of NRL free-to-air coverage sponsorship and a *Racing.com* partnership.

Underlying EBITDA increased by 42% to £139m. Total operating costs increased by 3%, reflecting continued operating efficiencies. Cost of sales increased by 30%, reflecting both the impact of the introduction of 15% South Australian point of consumption tax (payable from 1 July 2017 on approximately 7% of Sportsbet's revenues) and continued inflation in product fees (which represented 15% of revenue in 2017 versus 14% in 2016).

Retail

	2017 £m	2016 £m	Change %
Sportsbook stakes	**1,835**	**1,713**	**+7%**
Sportsbook net revenue %	*12.4%*	*11.6%*	*+0.8%*
Sports revenue	228	198	+15%
Machine gaming revenue	106	97	+10%
Total revenue	**334**	**295**	**+13%**
Cost of sales	(71)	(63)	+12%
Gross profit	**263**	**233**	**+13%**
Sales and marketing	(7)	(7)	-5%
Product and technology	(6)	(6)	+2%
Operations	(169)	(158)	+7%
Total operating costs	(182)	(170)	+7%
Underlying EBITDA[3,4]	**82**	**62**	**+31%**
Depreciation and amortisation	(19)	(18)	+7%
Underlying[4] operating profit	**63**	**45**	**+41%**
Shops at year end	626	613	+2%

The Retail division operates 626 Paddy Power betting shops across the UK and Ireland. The business continues to take market share, leading to revenue growth of 13% to £334m (cc +10%). This, along with careful cost control, drove a 41% increase in underlying operating profit to £63m (cc +39%).

Revenues from UK shops increased by 11% and Irish shop revenues were up 8% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like[11] revenues increased by 8% and operating costs increased by 2%. The like-for-like[11] revenue growth was comprised of a 9% increase in sportsbook revenues, driven by 1% stakes growth and improved sports results, and machine gaming growth of 7%, primarily driven by growth from B3 slots content.

Our high quality retail estate has been built around providing a fun, social environment focused around live sport and we are continually investing in further improving the leading experience offered customers. In 2017 this investment included the launching of Paddy Power TV channels, enabling us to control and showcase our leading content, and the release of our '*Onside'* app which focuses on enriching the retail betting experience with digital features. The app, which has had over 180,000 unique users, includes features such as '*Track My Bet',* cash out, live streaming and free-to-play games.

During the year we were able to enhance the quality and coverage of our estate with the opening of 11 new shops in the UK and three in Ireland. We also closed one shop in Ireland.

US[1,6]

	2017 £m	2016 £m	*Proforma*[2] Change % £	Change % US$
Sports revenue	94	79	+19%	+13%
Gaming revenue	16	12	+34%	+29%
Total revenue	**109**	**91**	**+21%**	**+15%**
Cost of sales	(25)	(21)	+18%	+13%
Gross profit	**85**	**70**	**+22%**	**+16%**
Sales and marketing	(34)	(18)	+87%	+78%
Product and technology	(9)	(8)	+22%	+18%
Operations	(37)	(31)	+20%	+15%
Total operating costs	(81)	(57)	+42%	+36%
Underlying EBITDA[3,4]	**4**	**12**	**-71%**	**-73%**
Depreciation and amortisation	(9)	(9)	+4%	-1%
Underlying[4] operating (loss)/profit	**(5)**	**4**	**n/a**	**n/a**

The US division combines TVG, America's leading horseracing TV and wagering network that operates in over 30 states; Betfair Casino, an online casino in New Jersey; the Betfair Exchange in New Jersey; and as of May 2017, DRAFT, an early-stage operator in daily fantasy sports.

Revenue increased by 15% to £109m, comprised of 13% growth in sports revenue and 29% growth in gaming revenues at the Betfair Casino. Revenue growth at TVG was driven by continued investment in product and marketing, including the introduction of money-back specials to the US horseracing market and our unique free-to-play TVG Super 8 Contest.

The division contributed £4m of EBITDA in 2017 (2016: £12m) with profit growth at TVG and the Betfair Casino offset by start-up losses incurred in DRAFT and the Betfair Exchange.

Regulatory update

UK

The Government's Review of Gaming Machines and Social Responsibility Measures is ongoing. This is reviewing the maximum stakes and prizes for, and the number and location of, gaming machines across all licensed premises (including licensed betting offices) and social responsibility measures to protect players from gambling-related harm, including reviewing restrictions around gambling advertising. We submitted our views to the Government as part of their consultation process.

Australia

In September 2017, the Western Australian state Government announced its intention to introduce a point of consumption wagering tax from 1 January 2019 at a rate of 15% of wagering revenue. Approximately 11% of Sportsbet's revenues are from Western Australian customers and at 2017 revenue levels the annualised cost of this tax would be approximately A$12m.

The state governments in New South Wales, Queensland and Victoria have all announced an intention to introduce point of consumption taxes in their states. They have not yet confirmed any details on when they intend to introduce the tax or on the rate of the tax. Sportsbet, along with industry body Responsible Wagering Australia, is actively engaged in consultation with government in those states.

From February 2018, the prohibition on credit betting enacted by the Interactive Gambling Amendment Bill came into effect. As we expected, this is not having a material impact on our Australian division.

From March 2018, gambling advertising during live sports programs on television, radio and online platforms has been prohibited from five minutes before the commencement of play, until five minutes after the conclusion of play, between 5:00am and 8:30pm.

Under the National Consumer Protection Framework for online wagering, other consumer protection measures are targeted for introduction throughout the second half of 2018 and early 2019, including reduced times for customer verification, a ban on sign-up offers and a national self-exclusion register.

Ireland

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.

Separately disclosed items

	2017 **£m**	*Proforma*[2] **2016** **£m**
Merger deal expenses	-	(50)
Merger integration expenses	-	(66)
Non-cash merger related items:		
Intangible asset amortisation	(135)	(174)
Fair value adjustment for replacement share-based payment awards	(7)	(22)
Impairment of assets	-	(6)
Total separately disclosed items	(142)	(318)

All the separately disclosed items relate specifically to the merger[2] and therefore are excluded from underlying profits. In 2017 all the items are non-cash charges, comprising the amortisation of intangible assets recognised on accounting for the merger (£135m) and a fair value adjustment on the replacement of legacy Betfair share-based payment awards for equivalent awards in the Group on completion (£7m), which is accounted for over the remaining vesting period of the awards.

Taxation

The Group’s underlying effective tax rate in 2017 was 13.5% (proforma[2] 2016: 15.5%).

Capital expenditure

The Group had £89m of capital expenditure in 2017 (2016: £85m[10]). Approximately 19% of the expenditure related to our retail business with the remainder primarily related to technology projects and product development.

Cash flow and financial position

	2017 £m	*Proforma*[2] 2016 £m
Underlying EBITDA[3,4]	473	400
Capex[10]	(89)	(85)
Working capital and tax	10	(63)
Underlying free cash flow	**395**	**252**
Cash flow from separately disclosed items	(12)	(104)
Free cash flow	**383**	**148**
Dividends paid	(149)	(179)
DRAFT acquisition	(14)	-
Interest	(0)	(2)
Net proceeds from issue of new shares	3	2
Net increase/(decrease) in cash	**222**	**(31)**
Net cash at start of year	**36**	**84**
Movement to restricted cash	-	(8)
Foreign currency exchange translation	(14)	(9)
Net cash at year end[8]	**244**	**36**

The Group's profits convert strongly into cash flow, with underlying free cash flow of £395m representing 118% of underlying profit after tax in 2017.

As at 31 December 2017, the Group had net cash of £244m, excluding customer balances.

On 1 February 2018 the Group completed the disposal of its remaining stake in LMAX Exchange Group for £22m. This 31.4% stake was previously held as an available-for-sale financial asset (the Group had no involvement strategically or operationally) and accordingly no contribution from the business was included in the Group's income statement.

Dividend

The Board has proposed a final divided of 135p per share, taking the full year dividend for 2017 to 200p per share or £169m, which represents 50% of underlying profits after tax. The ex-dividend date will be 12 April 2018, the record date will be 13 April 2018 and payment will be on 29 May 2018.

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[1] Growth rates are shown on a proforma[2] basis.

[2] The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date. The reported statutory comparative period results for the year ended 31 December 2016 reflect this accounting treatment in accordance with generally accepted accounting principles (GAAP) and only include Betfair results since the merger completion on 2 February 2016. This announcement includes comparative period results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for the year ended 31 December 2016. The directors consider that comparing the reported 2017 results against the proforma comparative period is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the year-on-year results are discussed versus the proforma comparatives. A reconciliation between the statutory and the non-GAAP proforma, underlying comparative financials is included in Appendix 2 (page 16)

[3] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 16).

[4] The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see note 4 and page 29 to the financial statements and Appendix 2 on page 16)

[5] The comparative period proforma[2] dividend includes closing dividends paid on merger relating to January 2016 equating to 12 pence per share, the interim dividend paid in September 2016 of 40 pence per share and the final dividend of 113 pence per share paid in May 2017

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

[7] Constant currency ("cc") growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2016 at 2017 exchange rates (see Appendix 4)

[8] Net cash at 31 December 2017 is comprised of gross cash excluding customer balances of £307m and borrowings of £62m. The comparative balance shown as at 31 December 2016 is comprised of gross cash excluding customer balances of £250m and borrowings of £214m (see Appendix 3)

[9] Compound average growth rate ('CAGR') is calculated comparing revenue and EBITDA[3] as reported in 2017 versus 2013 revenue and EBITDA with non-sterling denominated component restated at 2017 exchange rates

[10] Capital expenditure for the 2016 comparative is on a proforma[2] basis and excludes the intangible assets which were recognised under the accounting for the Merger

[11] Like-for-like growth rates are in constant currency[7] and are calculated by only including in the 2017 results, financial results from shops open prior to 2016 plus the financial results from shops opened during 2016 only from the anniversary of their opening date

Appendix 1: Divisional Key Performance Indicators

2016 is proforma

£m	Online			Australia				Retail			US				Group			
	2017	**2016**	**% Change**	**2017**	**2016**	**% Change**	**A$ % Change**	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**	**US$ % Change**	**2017**	**2016**	**% Change**	**CC[1]% Change**
Sportsbook stakes	5,633	5,266	+7%	3,708	2,911	+27%	+19%	1,835	1,713	+7%					11,176	9,890	+13%	+9%
Sportsbook net revenue %	*7.0%*	*6.6%*	*+0.4%*	*10.9%*	*10.7%*	*+0.2%*	*+0.2%*	*12.4%*	*11.6%*	*+0.8%*					*9.2%*	*8.7%*	*+0.5%*	*+0.5%*
Sports revenue	660	609	+8%	404	312	+30%	+21%	228	198	+15%	94	79	+19%	+13%	1,385	1,198	+16%	+12%
Gaming revenue	238	245	-2%	-	-	-	-	106	97	+10%	16	12	+34%	+29%	360	353	+2%	+2%
Total revenue	**898**	**853**	**+5%**	**404**	**312**	**+30%**	**+21%**	**334**	**295**	**+13%**	**109**	**91**	**+21%**	**+15%**	**1,745**	**1,551**	**+13%**	**+10%**
Regulated markets	818	782	+5%	404	312	+30%	+21%	334	295	+13%	109	91	+21%	+15%	1,665	1,480	+13%	+10%
Unregulated markets	81	71	+13%	-	-	-	-	-	-	-	-	-	-	-	81	71	+13%	+8%
Total revenue	**898**	**853**	**+5%**	**404**	**312**	**+30%**	**+21%**	**334**	**295**	**+13%**	**109**	**91**	**+21%**	**+15%**	**1,745**	**1,551**	**+13%**	**+10%**
Cost of sales	(199)	(193)	+3%	(111)	(80)	+38%	+30%	(71)	(63)	+12%	(25)	(21)	+18%	+13%	(405)	(357)	+14%	+10%
Gross Profit	**700**	**661**	**+6%**	**292**	**231**	**+27%**	**+18%**	**263**	**233**	**+13%**	**85**	**70**	**+22%**	**+16%**	**1,340**	**1,194**	**+12%**	**+10%**
Sales & marketing	(223)	(195)	+14%	(82)	(72)	+13%	+5%	(7)	(7)	-5%	(34)	(18)	+87%	+78%	(346)	(293)	+18%	+14%
Product & technology	(98)	(111)	-11%	(24)	(24)	+2%	-6%	(6)	(6)	+2%	(9)	(8)	+22%	+18%	(137)	(148)	-7%	-11%
Operations	(72)	(65)	+10%	(47)	(41)	+14%	+5%	(169)	(158)	+7%	(37)	(31)	+20%	+15%	(326)	(296)	+10%	+6%
Unallocated central costs															(58)	(58)	Flat	-2%
Operating costs	**(394)**	**(371)**	**+6%**	**(153)**	**(137)**	**+11%**	**+3%**	**(182)**	**(170)**	**+7%**	**(81)**	**(57)**	**+42%**	**+36%**	**(867)**	**(794)**	**+9%**	**+5%**
Underlying EBITDA	**306**	**289**	**+6%**	**139**	**94**	**+49%**	**+42%**	**82**	**62**	**+31%**	**4**	**12**	**-71%**	**-73%**	**473**	**400**	**+18%**	**+19%**
Depreciation & amortisation	(39)	(34)	+14%	(15)	(10)	+52%	+42%	(19)	(18)	+7%	(9)	(9)	+4%	-1%	(81)	(70)	+16%	+11%
Underlying operating profit/(loss)	**268**	**255**	**+5%**	**125**	**84**	**+49%**	**+42%**	**63**	**45**	**+41%**	**(5)**	**4**	**n/a**	**n/a**	**392**	**330**	**+19%**	**+21%**
Separately disclosed items															(142)	(318)	n/a	n/a
Operating profit															**250**	**12**	**n/a**	**n/a**

[1] Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2016 at 2017 exchange rates (see Appendix 4)

Notes:

- Sportsbook stakes includes amounts staked via SSBTs and excludes the exchange, gaming, US advance deposit wagering, US daily fantasy and business-to-business activities.
- Sportsbook net revenue % represents sportsbook revenue expressed as a percentage of sportsbook stakes. Sportsbook revenue is sportsbook stakes less sportsbook customer winnings and the costs for customer promotions and bonuses pertaining to sportsbook.
- Sports revenue includes revenue from sportsbook, exchange, US daily fantasy and advance deposit wagering and revenue from business-to-business activities.
- 'Online' segment includes UK/Ireland telephone business.
- Regulated markets currently include UK, Australia, Ireland, US, Italy, Bulgaria, Denmark, Gibraltar, Malta, Romania, Spain and business-to-business activities

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 Proforma comparative results to Statutory comparative results

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

£m	2016 Comparatives		
	Proforma results	**Betfair results pre-merger completion**	**Statutory results**
Revenue	**1,551**	**50**	**1,501**
Cost of sales	(357)	(11)	(347)
Gross Profit	**1,194**	**39**	**1,154**
Operating costs	(794)	(26)	(767)
Underlying EBITDA	**400**	**13**	**387**
Depreciation & amortisation	(70)	(2)	(68)
Underlying operating profit	**330**	**11**	**319**
Net interest expense	(4)	-	(4)
Underlying profit before tax	**327**	**11**	**316**
Underlying taxation	(51)	(2)	(49)
Underlying profit for the year	**276**	**9**	**267**
Underlying basic earnings per share (pence)[1]	330.9	n/a	n/a
Underlying operating profit	**330**	**11**	**319**
Separately disclosed items	(318)	(14)	(304)
Operating profit/(loss)	**12**	**(3)**	**15**
Net interest expense	(4)	-	(4)
Profit/(loss) before tax	**8**	**(3)**	**12**
Taxation	(19)	(2)	(18)
Loss for the year	**(11)**	**(5)**	**(6)**
Basic loss per share (pence)[1]	(12.8)	n/a	(7.2)
Revenue by operating segment			
Online	853	44	809
Australia	312	-	312
Retail	295	-	295
US	91	6	85
Gross Profit by operating segment			
Online	661	35	626
Australia	231	-	231
Retail	233	-	233
US	70	5	55

[1] In the Proforma comparative results, in 2016 the weighted average number of shares is taken for the period from merger completion, 2 February 2016, to the end of the period, 31 December 2016 (83.4 million shares).

EBITDA 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.

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

£m	**Presented cash flow**		**Adjustment to comparative to exclude Betfair pre-merger completion cash flow**	**Adjustment to include borrowings & movements to restricted cash**		**Reported cash flow**	
	2017	**2016 Proforma**	**2016**	**2017**	**2016**	**2017**	**2016**
Underlying EBITDA [1]	473	400	(13)	-	-	473	387
Capex[2]	(89)	(85)	1	-	-	(89)	(84)
Working capital & tax [3]	10	(63)	141	-	(8)	10	70
Underlying free cash flow	**395**	**252**	**129**	**-**	**(8)**	**395**	**373**
Cash flow from separately disclosed items	(12)	(104)	-	-	-	(12)	(104)
Free cash flow	**383**	**148**	**129**	**-**	**(8)**	**383**	**269**
Dividends paid	(149)	(179)	14	-	-	(149)	(165)
DRAFT acquisition	(14)	-	-	-	-	(14)	-
Interest[4]	(0)	(2)	-	-	-	(0)	(2)
Net proceeds from issue of new shares[5]	3	2	-	-	-	3	2
Net amounts (repaid)/drawn down on borrowings	-	-	-	(158)	44	(158)	44
Net increase / (decrease) in cash	**222**	**(31)**	**143**	**(158)**	**36**	**65**	**148**
Net cash at start of the year	**36**	**84**	**(141)**	**214**	**143**	**250**	**86**
Movement to restricted cash	-	(8)	-	-	8	-	-
Foreign currency exchange translation	(14)	(9)	(2)	6	27	(8)	16
Net cash at year end	**244**	**36**	**-**	**62**	**214**	**307**	**250**

[1]Underlying EBITDA includes the following line items in the statutory cash flow: Profit / (loss) 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 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 DRAFT acquisition shown separately in presented cash flow), capitalised internal development expenditure and payment of contingent deferred consideration.

[3] Working capital & tax includes decrease / (increase) in trade and other receivables, increase / (decrease) in trade, other payables and provisions, tax paid, cash acquired from merger with Betfair, employee equity-settled share based payments expense before separately disclosed items, and foreign currency exchange (loss) / gain. Note the 2016 adjustment to exclude Betfair pre-merger completion cash flow includes £147.5m of Betfair cash acquired on completion.

[4] Interest includes interest paid and interest received.

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

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

Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2016 at 2017 exchange rates as per the table below.

£m		Proforma				
	2017	2016	% Change	2016 FX impact	2016 CC	CC% Change
Sports net revenue	1,385	1,198	+16%	40	1,238	+12%
Gaming net revenue	360	353	+2%	(1)	352	+2%
Total net revenue	**1,745**	**1,551**	**+13%**	**39**	**1,590**	**+10%**
Regulated markets	1,665	1,480	+13%	35	1,515	+10%
Unregulated markets	81	71	+13%	4	75	+8%
Total net revenue	**1,745**	**1,551**	**+13%**	**39**	**1,590**	**+10%**
Cost of sales	(405)	(357)	+14%	(11)	(368)	+10%
Gross Profit	**1,340**	**1,194**	**+12%**	**28**	**1,222**	**+10%**
Sales & marketing	(346)	(293)	+18%	(11)	(304)	+14%
Product & technology	(137)	(148)	-7%	(7)	(154)	-11%
Operations	(326)	(296)	+10%	(13)	(308)	+6%
Unallocated central costs	(58)	(58)	Flat	(1)	(59)	-2%
Operating costs	**(867)**	**(794)**	**+9%**	**(32)**	**(826)**	**+5%**
Underlying EBITDA	**473**	**400**	**+18%**	**(3)**	**397**	**+19%**
Depreciation & amortisation	(81)	(70)	+16%	(4)	(73)	+11%
Underlying operating profit	**392**	**330**	**+19%**	**(7)**	**323**	**+21%**
Revenue by division						
Online	898	853	+5%	7	860	+5%
Australia	404	312	+30%	20	332	+21%
Retail	334	295	+13%	8	303	+10%
US	109	91	+21%	4	95	+15%
Underlying EBITDA by division						
Online	306	289	+6%	(9)	280	+9%
Australia	139	94	+49%	4	98	+42%
Retail	82	62	+31%	2	64	+28%
US	4	12	-71%	2	14	-73%
Unallocated central costs	(58)	(58)	Flat	(1)	(59)	-2%

CONDENSED CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2017

	Note	**Before separately disclosed items 2017 £m**	**Separately disclosed items (Note 4) 2017 £m**	**Total 2017 £m**	Before separately disclosed items 2016 £m	Separately disclosed items (Note 4) 2016 £m	Total 2016 £m
Continuing operations							
Revenue	3	**1,745.4**	**-**	**1,745.4**	1,500.8	-	1,500.8
Cost of sales		**(405.4)**	**-**	**(405.4)**	(346.5)	-	(346.5)
Gross profit		**1,340.0**	**-**	**1,340.0**	1,154.3	-	1,154.3
Operating costs excluding depreciation and amortisation		**(866.8)**	**(7.4)**	**(874.2)**	(767.3)	(123.1)	(890.4)
EBITDA [1]		**473.2**	**(7.4)**	**465.8**	387.0	(123.1)	263.9
Depreciation and amortisation		**(81.3)**	**(134.5)**	**(215.8)**	(67.9)	(180.6)	(248.5)
Operating profit / (loss)		**391.9**	**(141.9)**	**250.0**	319.1	(303.7)	15.4
Financial income		**1.7**	**-**	**1.7**	1.5	-	1.5
Financial expense		**(5.1)**	**-**	**(5.1)**	(5.0)	-	(5.0)
Profit / (loss) before tax		**388.5**	**(141.9)**	**246.6**	315.6	(303.7)	11.9
Tax (expense) / credit	5	**(52.5)**	**23.6**	**(28.9)**	(49.0)	31.4	(17.6)
Profit / (loss) for the year – all attributable to equity holders of the Company		**336.0**	**(118.3)**	**217.7**	266.6	(272.3)	(5.7)
Earnings / (loss) per share							
Basic	6			**£2.579**			(£0.072)
Diluted [2]	6			**£2.554**			(£0.072)

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

2 Where any potential ordinary shares would have the effect of decreasing a loss per share, they have not been treated as dilutive.

Notes 1 to 17 on pages 25 to 43 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year ended 31 December 2017

	Note	**2017** **£m**	2016 £m
Profit / (loss) for the year – all attributable to equity holders of the Company		**217.7**	(5.7)
Other comprehensive income / (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges		**-**	7.6
Fair value of foreign exchange cash flow hedges transferred to income statement		**-**	(9.3)
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated entities		**(43.3)**	49.7
Net change in fair value of available-for-sale financial assets		**13.7**	-
Deferred tax on fair value of cash flow hedges		**-**	0.2
Other comprehensive (loss) / income		**(29.6)**	48.2
Total comprehensive income for the year – all attributable to equity holders of the Company		**188.1**	42.5

Notes 1 to 17 on pages 25 to 43 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	**31 December 2017 £m**	31 December 2016 £m
Assets			
Property, plant and equipment		**136.3**	134.0
Intangible assets		**445.2**	581.2
Goodwill	7	**3,885.2**	3,891.1
Deferred tax assets		**11.7**	8.6
Investments		**0.1**	0.1
Available-for-sale financial assets	9	**15.0**	1.3
Trade and other receivables	9	**4.2**	5.8
Total non-current assets		**4,497.7**	4,622.1
Trade and other receivables	9	**48.8**	55.2
Financial assets – restricted cash	10	**75.4**	64.8
Cash and cash equivalents	10	**306.6**	249.9
Total current assets		**430.8**	369.9
Total assets		**4,928.5**	4,992.0
Equity			
Issued share capital and share premium		**423.0**	417.2
Treasury shares	11	**(40.7)**	(40.7)
Shares held by employee benefit trust	11	**(15.6)**	(30.9)
Other reserves		**114.5**	173.0
Retained earnings		**3,914.2**	3,798.0
Total equity attributable to equity holders of the Company		**4,395.4**	4,316.6
Liabilities			
Trade and other payables	13	**334.7**	320.6
Derivative financial liabilities	13	**7.8**	8.6
Provisions		**3.2**	4.6
Current tax payable		**38.0**	38.8
Borrowings	14	**-**	0.2
Total current liabilities		**383.7**	372.8
Trade and other payables	13	**34.5**	26.9
Derivative financial liabilities	13	**2.3**	-
Provisions		**1.2**	1.1
Deferred tax liabilities		**49.2**	61.0
Borrowings	14	**62.2**	213.6
Total non-current liabilities		**149.4**	302.6
Total liabilities		**533.1**	675.4
Total equity and liabilities		**4,928.5**	4,992.0

Notes 1 to 17 on pages 25 to 43 form an integral part of these condensed consolidated financial statements.

On behalf of the Board

Peter Jackson
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2018

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Note	**2017 £m**	2016 £m
Cash flows from operating activities			
Profit / (loss) for the year – all attributable to equity holders of the Company		**217.7**	(5.7)
Separately disclosed items	4	**118.3**	272.3
Tax expense before separately disclosed items		**52.5**	49.0
Financial income		**(1.7)**	(1.5)
Financial expense		**5.1**	5.0
Depreciation and amortisation before separately disclosed items		**81.3**	67.9
Employee equity-settled share-based payments expense before separately disclosed items		**26.0**	20.8
Foreign currency exchange loss / (gain)		**0.9**	(2.5)
Loss on disposal of property, plant and equipment and intangible assets		**0.1**	0.3
Cash from operations before changes in working capital		**500.2**	405.6
Decrease / (increase) in trade and other receivables		**7.3**	(3.5)
Increase / (decrease) in trade, other payables and provisions		**20.7**	(50.4)
Cash generated from operations		**528.2**	351.7
Tax paid		**(44.8)**	(43.1)
Net cash from operating activities before merger fees and integration and restructuring costs		**483.4**	308.6
Merger fees and integration and restructuring costs paid		**(11.8)**	(104.4)
Net cash from operating activities		**471.6**	204.2
Purchase of property, plant and equipment		**(39.2)**	(40.8)
Purchase of intangible assets		**(25.6)**	(32.3)
Purchase of businesses, net of cash acquired	8	**(14.9)**	(0.2)
Cash acquired from merger with Betfair Group plc	8	**-**	147.5
Capitalised internal development expenditure		**(20.0)**	(7.0)
Payment of contingent deferred consideration	8	**(3.5)**	(3.8)
Proceeds from disposal of property, plant and equipment and intangible assets		**-**	0.2
Interest received		**1.7**	1.3
Net cash (used in) / from investing activities		**(101.5)**	64.9
Proceeds from the issue of new shares	11	**5.8**	2.5
Purchase of shares by employee benefit trust	11	**(2.5)**	-
Dividends paid	12	**(149.4)**	(142.3)
Net amounts (repaid) / drawn down on borrowings facility	14	**(157.6)**	44.1
Interest paid		**(1.8)**	(2.9)
Betfair Group plc closing dividend	12	**-**	(22.6)
Net cash used in financing activities		**(305.5)**	(121.2)
Net increase in cash and cash equivalents		**64.6**	147.9
Cash and cash equivalents at start of year		**249.9**	86.1
Foreign currency exchange (loss) / gain on cash and cash equivalents		**(7.9)**	15.9
Cash and cash equivalents at end of year	10	**306.6**	249.9

Notes 1 to 17 on pages 25 to 43 form an integral part of these condensed consolidated financial statements.

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 available-for-sale financial assets	-	-	-	13.7	-	-	-	-	13.7
Total comprehensive (loss) / income for the year	-	-	(43.3)	13.7	-	-	-	217.7	188.1
Transactions with owners of the Company, recognised directly in equity									
Shares issued (Note 11)	*0.5*	5.8	-	-	-	-	-	-	5.8
Own shares acquired by employee benefit trust	-	-	-	-	-	(2.5)	-	-	(2.5)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	26.0	-	26.0
Equity-settled transactions – vestings	-	-	-	-	-	17.8	(16.0)	1.3	3.1
Tax on share-based payments	-	-	-	-	-	-	-	0.3	0.3
Transfer to retained earnings on exercise of share options (Note 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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	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	Cash flow hedge reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016	*46.0*	8.7	(20.2)	1.5	1.7	(40.7)	(49.2)	25.5	123.6	50.9
Total comprehensive income / (loss) for the year										
Loss for the year	-	-	-	-	-	-	-	-	(5.7)	(5.7)
Foreign exchange translation	-	-	49.7	-	-	-	-	-	-	49.7
Net change in fair value of cash flow hedge reserve	-	-	-	(1.7)	-	-	-	-	-	(1.7)
Deferred tax on cash flow hedges	-	-	-	0.2	-	-	-	-	-	0.2
Total comprehensive income / (loss) for the year	-	-	49.7	(1.5)	-	-	-	-	(5.7)	42.5
Transactions with owners of the Company, recognised directly in equity										
Shares issued (Note 11)	*0.4*	2.5	-	-	-	-	-	-	-	2.5
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	28.4	-	28.4
Equity-settled transactions – vestings	-	-	-	-	-	-	18.3	(19.8)	2.0	0.5
Tax on share-based payments	-	-	-	-	-	-	-	-	(1.5)	(1.5)
Transfer to retained earnings on exercise of share options (Note 11)	-	-	-	-	-	-	-	(25.6)	25.6	-
Shares issued as consideration for acquisition of Betfair Group plc (Note 8)	*39.6*	4,202.3	-	-	-	-	-	-	-	4,202.3
Capital reduction – share premium cancellation (Note 11)	-	(3,796.3)	-	-	-	-	-	-	3,796.3	-
Dividends to shareholders (Note 12)	-	-	-	-	-	-	-	-	(142.3)	(142.3)
Issue of replacement share options (Note 8)	-	-	-	-	-	-	-	111.4	-	111.4
Replacement share options – expense recorded in income statement (Note 4)	-	-	-	-	-	-	-	21.9	-	21.9
Total contributions by and distributions to owners of the Company	*40.0*	408.5	-	-	-	-	18.3	116.3	3,680.1	4,223.2
Balance at 31 December 2016	*86.0*	417.2	29.5	-	1.7	(40.7)	(30.9)	141.8	3,798.0	4,316.6

Notes 1 to 17 on pages 25 to 43 form an integral part of these consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

During the year ended 31 December 2016, the Company completed an all-share merger with Betfair Group plc (the "Merger") – see Note 8 for further information on the Merger. The results of Betfair Group plc prior to completion of the Merger are not included in these condensed consolidated financial statements.

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

The 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 2017, 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 2017 comprise the financial statements of the Company and its subsidiary undertakings and were approved for issue by the Board of Directors on 7 March 2018.

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), available-for-sale financial assets, 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 condensed consolidated financial statements are presented in pounds sterling and are rounded to the nearest million.

The accounting policies applied in the preparation of these condensed 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 2017:

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to IFRSs 2014–2016 Cycle – Amendments to IFRS 12

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

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.

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

Critical accounting estimates and judgements
The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Operating segments

The Group's reportable segments are divisions 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. In 2016, the previously reported Irish Retail and UK Retail operating segments were no longer deemed to be operating segments and were included in the Retail segment.

The US segment earns its revenues from sports betting and gaming services provided to US customers via the internet.

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

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

The Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the Online, US and Retail segments. The Australian segment manages its own treasury function under Group Treasury oversight.

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

3. Operating segments (continued)

Reportable business segment information for the year ended 31 December 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 merger related intangible assets (Note 4)	**(129.1)**	**-**	**-**	**(5.4)**	**-**	**(134.5)**
Reportable segment profit / (loss) after amortisation of merger 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**

Reportable business segment information for the year ended 31 December 2016:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	809.4	311.5	295.3	84.6	-	1,500.8
Cost of sales	(183.4)	(80.5)	(62.8)	(19.8)	-	(346.5)
Gross profit	626.0	231.0	232.5	64.8	-	1,154.3
Operating costs excluding depreciation and amortisation	(352.1)	(137.4)	(170.2)	(53.4)	(54.2)	(767.3)
EBITDA [1]	273.9	93.6	62.3	11.4	(54.2)	387.0
Depreciation and amortisation	(32.6)	(9.6)	(17.7)	(8.0)	-	(67.9)
Reportable segment profit / (loss) before separately disclosed items	241.3	84.0	44.6	3.4	(54.2)	319.1
Amortisation of merger related intangible assets (Note 4)	(167.4)	-	-	(6.7)	-	(174.1)
Reportable segment profit / (loss) after amortisation of merger related intangible assets	73.9	84.0	44.6	(3.3)	(54.2)	145.0
Merger fees and associated costs [2] (Note 4)						(35.5)
Integration and restructuring costs [2] (Note 4)						(65.7)
Replacement share options [2] (Note 4)						(21.9)
Impairment of property, plant and equipment and intangible assets [2] (Note 4)						(6.5)
Operating profit						15.4

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

2 The Group does not allocate merger fees and associated costs, integration and restructuring costs, replacement share options and impairment of property, plant and equipment and intangible assets to reportable segments.

3. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	2017	2016
	£m	£m
Revenue		
Total revenue from reportable segments, being total Group revenue	**1,745.4**	1,500.8
Profit and loss		
Operating profit	**250.0**	15.4
Unallocated amounts:		
Financial income – non-Australia [1]	**0.4**	0.6
Financial income – Australia	**1.3**	0.9
Financial expense – non-Australia [1]	**(5.0)**	(4.9)
Financial expense – Australia	**(0.1)**	(0.1)
Profit before tax	**246.6**	11.9

1 Non-Australia above comprises the Online, Retail, and US operating segments. Financial expense relating to these segments is primarily in respect of interest on borrowings, guarantee and facility fees payable, other interest amounts payable, and the unwinding of discounts on provisions and other non-current liabilities.

Geographical segment information

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

Group revenues by geographical segment are as follows:

	2017	2016
	£m	£m
UK and Ireland	**1,071.1**	978.3
Australia	**403.7**	311.5
US	**109.3**	84.6
Rest of World	**161.3**	126.4
Total	**1,745.4**	1,500.8

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 2017	31 December 2016
	£m	£m
UK and Ireland	**3,964.1**	4,137.3
Australia	**91.5**	94.1
US	**413.6**	365.0
Rest of World	**16.8**	17.1
Total	**4.486.0**	4,613.5

4. Separately disclosed items

	2017	2016
	£m	£m
Merger fees and associated costs	**-**	(35.5)
Integration and restructuring costs	**-**	(65.7)
Amortisation of merger related intangible assets	**(134.5)**	(174.1)
Replacement share options	**(7.4)**	(21.9)
Impairment of property, plant and equipment and intangible assets	**-**	(6.5)
Loss from separately disclosed items on operating profit	**(141.9)**	(303.7)
Tax credit on separately disclosed items	**23.6**	31.4
Total separately disclosed items	**(118.3)**	(272.3)

Merger fees and associated costs
Merger fees and associated costs in 2016 relate to costs incurred in the period directly as a result of the Merger. This includes stamp duty of £20.7m and professional fees of £14.8m which were subject to completion of the Merger. This does not include any professional fees incurred by Betfair Group plc and its subsidiaries prior to the Merger. No such fees were incurred in 2017.

Integration and restructuring costs
Integration and restructuring costs in 2016 relate to incremental, one-off costs incurred post-Merger as a result of integration and restructuring related activities. No such costs were incurred in 2017.

Amortisation of merger related intangible assets
In 2017, non-cash amortisation of £134.5m (2016: €174.1m) has been incurred primarily as a result of intangible assets separately identified under IFRS 3 as a result of the Merger.

Replacement share options
Under the terms of the Merger, outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans would not vest on completion but would be replaced by share option awards over an equivalent number of ordinary shares in the Company, calculated by reference to the exchange ratio of 0.4254. Whilst the awards will vest in line with their previous terms, the replacement of the options, under IFRS 3, requires them to be accounted for at fair value on acquisition. As a result, non-cash accounting charges of £7.4m (2016: £21.9m) were incurred in the year. This amount represents the incremental cost only associated with the difference between fair value at the date of acquisition and the original fair value of the Betfair options, and relates to future services only at the date of the acquisition.

Impairment of property, plant and equipment and intangible assets
In 2016, non-cash impairments amounting to £6.5m in relation to certain property, plant and equipment and intangible assets were incurred in light of integration related activities post-Merger. There were no such impairments in 2017.

Merger fees and associated costs, integration and restructuring costs and replacement share options are included in the condensed consolidated income statement within operating costs excluding depreciation and amortisation. Amortisation of merger related intangible assets and impairment of property, plant and equipment and intangible assets are included in the condensed consolidated income statement within depreciation and amortisation.

5. Tax expense

	2017 £m	2016 £m
Recognised in profit or loss:		
Current tax charge	**65.8**	44.0
Prior year over provision	**(19.2)**	(1.9)
Total current tax	**46.6**	42.1
Deferred tax credit	**(19.5)**	(25.3)
Prior year under provision	**1.8**	0.8
Decrease in net deferred tax liability	**(17.7)**	(24.5)
Total tax expense in income statement	**28.9**	17.6

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:

	2017 £m	2016 £m
Profit before tax	**246.6**	11.9
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	**30.8**	1.5
Depreciation on non-qualifying property, plant and equipment	**1.7**	1.4
Effect of different statutory tax rates in overseas jurisdictions	**11.4**	7.6
Non-deductible expenses	**6.1**	10.2
Effect of changes in statutory tax rates	**(3.1)**	(1.7)
Movement on deferred tax balances not recognised	**(0.6)**	(0.3)
Over provision in prior year	**(17.4)**	(1.1)
Total tax expense	**28.9**	17.6

Total tax expense for 2017 includes a credit for separately disclosed items amounting to £23.6m (2016: £31.4m) (see Note 4).

Tax rates

The Group's consolidated effective tax rate on profits including separately disclosed items for 2017 is 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. The tax effect of separately disclosed items in the current year amounted to a tax credit of £23.6m.

The Group's underlying effective tax rate of 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 for the year is also materially impacted by overseas prior year adjustments to current and deferred tax. These adjustments primarily relate to additional losses being available to shelter taxable profits of the Group, the tax effects of the settlement of open enquiries with tax authorities and ordinary differences arising in the final submitted tax computations.

No significant changes are expected to statutory tax rates other than those announced and enacted at 31 December 2017; principally the reduction in the headline rate of UK corporation tax to 19% in April 2017 and further to 17% in April 2020 and the reduction in the headline rate of US corporation tax to 21% from 1 January 2018.

5. Tax expense (continued)

The effect of the reduction in the UK and US headline rates of corporation tax on recognised deferred tax balances in the UK and US is reflected in the above tax reconciliation. The US rate change impact is primarily a separately disclosed item impacting deferred tax recognised on merger related intangibles. Overall the directors have considered the other US tax reform changes in the US and the only impact for the Group is around the change in tax rate. None of the other impacts are considered significant to the business.

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:

	2017	2016
Numerator in respect of basic and diluted earnings per share (£m):		
Profit / (loss) attributable to equity holders of the Company	**217.7**	(5.7)
Numerator in respect of adjusted earnings per share (£m):		
Profit / (loss) attributable to equity holders of the Company	**217.7**	(5.7)
Separately disclosed items (See Note 4)	**118.3**	272.3
Profit for adjusted earnings per share calculation	**336.0**	266.6
Weighted average number of ordinary shares in issue during the year (in 000's)	**84,418**	79,986
Basic earnings / (loss) per share	**£2.579**	(£0.072)
Adjusted basic earnings per share	**£3.980**	£3.333
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	**84,418**	79,986
Dilutive effect of share options and awards on issue	**833**	-
Adjusted weighted average number of ordinary shares in issue during the year	**85,251**	79,986
Diluted earnings / (loss) per share	**£2.554**	(£0.072)
Adjusted diluted earnings per share	**£3.941**	£3.333

The average market value of the Company's shares of £81.61 (2016: £90.40) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

Where any potential ordinary shares would have the effect of decreasing a loss per share, they have not been treated as dilutive.

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 2016	9.8	38.0	-	16.2	15.9	79.9
Arising on acquisitions during the year (Note 8)	3,420.9	-	324.5	0.1	0.1	3,745.6
Foreign currency translation adjustment	1.6	7.2	52.5	1.6	2.7	65.6
Balance at 31 December 2016	3,432.3	45.2	377.0	17.9	18.7	3,891.1
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**

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 (see Note 8).

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

The US segment goodwill amount arose from the acquisition of the US business acquired as part of the all-share merger with Betfair Group plc in 2016, and the acquisition of DRAFT, an early stage operator in the daily fantasy sports market in the United States, in 2017 (see Note 8).

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 (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 (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 2017. Based on the reviews as described above, with the exception of the IAS brand impairment of AUD6.9m initially provided for in 2011, no impairment has arisen.

8. Business combinations

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 provides the Group with exposure to a fast-growing market and complements our other businesses in the United States. The initial cash consideration paid on completion was $19m with further cash consideration between $3m and $29m 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 provisional fair values of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows:

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

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

Shop property business acquisitions

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

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

	Provisional 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**

8. Business combinations (continued)

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.

Year ended 31 December 2016

Acquisition of Betfair Group plc

On 2 February 2016, Paddy Power plc completed an all-share merger with Betfair Group plc (the "Merger") resulting in Paddy Power plc shareholders owning 52% and Betfair Group plc shareholders owning 48% of Paddy Power Betfair plc (previously Paddy Power plc) (the "Company", together with its subsidiaries, the "Group"), on a fully diluted basis taking into account existing share options and award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015). Post-merger, the Company is the Ultimate Parent of Betfair Group Limited (previously Betfair Group plc).

Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares with nominal value of EUR 0.09 each in the Company ("ordinary shares") in exchange for one ordinary share of 0.095 pence each held in Betfair Group plc ("Exchange Ratio"). Accordingly, the Company issued a total of 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc, in addition to replacement share option awards in lieu of outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans. The consideration was £4.3bn based on the value of the Company's shares issued to Betfair Group plc's shareholders and the fair value of the replacement share options. No cash consideration was transferred.

Betfair was an innovative online betting and gaming operator which pioneered the betting exchange in 2000, changing the landscape of the sports betting industry. The main drivers for the Merger include increased scale driving growth and creating greater returns on product and marketing investment; highly complementary products and geographies; distinct brands with strong online capabilities; and a stronger combined group with market-leading talent, technology and operations.

In a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. IFRS 3 provides guidance as to how to identify the acquirer in a business combination. Careful consideration by the Board was given to this guidance when concluding on the accounting for the Merger and subsequent recognition of Betfair Group plc as an acquisition by Paddy Power plc.

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

8. Business combinations (continued)

	As at 2 February 2016 £m
Assets	
Property, plant and equipment	18.8
Intangible assets	680.5
Available-for-sale financial asset and Investments	1.4
Total non-current assets	700.7
Trade and other receivables	22.9
Financial assets – restricted cash	17.1
Cash and cash equivalents	147.5
Total current assets	187.5
Total assets	888.2
Liabilities	
Trade and other payables	184.9
Provisions	4.3
Current tax payable	33.2
Total current liabilities	222.4
Trade and other payables	20.9
Deferred tax liabilities	76.6
Total non-current liabilities	97.5
Total liabilities	319.9
Net assets acquired	**568.3**
Goodwill	**3,745.4**
Consideration	**4,313.7**
The consideration is analysed as:	
Issue of 39,590,574 Paddy Power Betfair plc ordinary shares	4,202.3
Issue of replacement share options	111.4
Consideration	**4,313.7**

Included within the intangible assets were £627.6m of separately identifiable intangibles comprising brands, customer relations, technology and licences acquired as part of the acquisition, with the additional effect of a deferred tax liability of £95.0m thereon. These intangible assets are being amortised over their useful economic lives of up to eight years.

The main factors leading to the recognition of goodwill (none of which is deductible for tax purposes) is growth by combining business activities, a strong workforce, leveraging existing products and synergy cost savings of the merged operations.

Receivables acquired amounted to £22.9m. The book value equated to the fair value as all amounts are expected to be received. The Group also acquired £250.1m of cash and cash equivalents held on trust in The Sporting Exchange (Clients) Limited, on behalf of the customers of Betfair Group plc and its subsidiaries (the “Betfair Group”), and is equal to amounts deposited into customer accounts. These balances are not consolidated and reported in the consolidated statement of financial position for the Group.

8. Business combinations (continued)

The Betfair Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements. Given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted. No contingent liabilities have been booked on acquisition. Merger and acquisition costs in respect of this acquisition can be found in Note 4.

Shop property business acquisitions
In 2016, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

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

	Fair values 31 December 2016 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.1
Goodwill arising on acquisition – UK Retail and Irish Retail	0.2
Consideration	0.3
The consideration is analysed as:	
Cash consideration	0.2
Contingent deferred consideration	0.1
Consideration	0.3

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

Information in respect of revenue, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 2016 has not been presented on the basis of immateriality.

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

Net cash outflow / (inflow) from purchase of businesses

	31 December 2017 £m	**31 December 2016 £m**
Cash consideration – acquisitions in the year	**14.9**	**0.2**
Cash acquired – acquisitions in the year	**-**	**(147.5)**
Cash consideration – acquisitions in previous years	**3.5**	**3.8**
Total	**18.4**	**(143.5)**
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	**14.9**	**0.2**
Cash acquired from merger with Betfair Group plc	**-**	**(147.5)**
Payment of contingent deferred consideration	**3.5**	**3.8**
Total	**18.4**	**(143.5)**

During 2017, the Group settled deferred consideration liabilities of £3.5m (2016: £3.4m) in relation to Betfair's historical acquisition of HRTV, a horseracing television network based in the US. During 2016, the Group settled deferred consideration liabilities of £0.4m in relation to prior years' Retail acquisitions.

9. Available-for-sale financial assets and trade and other receivables

Non-current assets

	31 December 2017 £m	**31 December 2016 £m**
Available-for-sale financial assets	**15.0**	**1.3**

Available-for-sale financial assets
At 31 December 2017, the Group had a non-controlling interest in LMAX Limited of 31.4% with a fair value of £14.9m (31 December 2016: £1.2m). The Group does not have any significant influence over the operations and decision making of LMAX Limited and does not have any representation on the Board.

In addition, at 31 December 2017, the Group had a non-controlling interest in Featurespace of 6.4% with a fair value of £0.1m (31 December 2016: £0.1m).

During the year, the fair value of the Group's non-controlling interest in LMAX Limited increased by £13.7m, with the resulting gain recognised within the condensed consolidated statement of other comprehensive income. See Note 17 for detail on the disposal of LMAX Limited in February 2018.

	31 December 2017 £m	31 December 2016 £m
Trade and other receivables		
Prepayments and accrued income	**4.2**	5.8

Current assets

	31 December 2017 £m	31 December 2016 £m
Trade and other receivables		
Trade receivables – credit betting customers	**0.3**	3.5
Trade receivables – other sports betting counterparties	**4.5**	6.8
Trade receivables	**4.8**	10.3
Other receivables	**3.1**	3.7
Value-added tax and goods and services tax	**5.4**	-
Prepayments and accrued income	**35.5**	41.2
Total	**48.8**	55.2

Trade and other receivables
Trade and other receivables are non-interest bearing.

10. Financial assets and cash and cash equivalents

	31 December 2017 £m	31 December 2016 £m
Current		
Financial assets – restricted cash	**75.4**	64.8
Cash and cash equivalents	**306.6**	249.9
Total	**382.0**	314.7

The effective interest rate on bank deposits at 31 December 2017 was 0.38% (2016: 0.65%); these deposits have an average original maturity date of 1 day (2016: 14 days). The bank deposits also have an average maturity date of 1 day from 31 December 2017 (2016: 7 days). 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 2017 £m	31 December 2016 £m
GBP	**173.5**	185.4
EUR	**64.4**	41.0
AUD	**103.9**	52.1
USD	**32.2**	27.2
Other	**8.0**	9.0
Total	**382.0**	314.7

Financial assets

Included in financial assets – restricted cash at 31 December 2017 are bank deposits which were either (1) restricted at that date, as they represented customer funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities. These customer funds that are not held in trust are matched by liabilities of equal value.

As at 31 December 2017, £341.8m (31 December 2016: £349.2m) 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.

11. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2016: 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 2017, 560,732 ordinary shares (2016: 318,523) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £5.8m (2016: £2.5m).

On 2 February 2016, the Company completed an all-share merger with Betfair Group plc. The Merger resulted in the holders of Paddy Power plc shares owning 52% of the Company, and the holders of Betfair Group plc shares owning 48% of the Company, on a fully diluted basis taking into account existing share options and share award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015).

Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares of €0.09 each ("ordinary shares") in the Company in exchange for each Betfair Group plc ordinary share of 0.095 pence each. The Company issued 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc giving rise to a share premium of £4.2bn.

11. Share capital and reserves (continued)

In 2016, following shareholder approval at an Extraordinary General Meeting on 21 December 2015 and court approval on 28 April 2016, the Company cancelled a portion of its share premium account transferring £3.8bn (€4.9bn) to the retained earnings account within reserves.

A total of 1,965,600 ordinary shares were held in treasury as of 31 December 2017 (31 December 2016: 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 2017 (31 December 2016: £40.7m). The cost of treasury shares held by the Company at 31 December 2017 was £4.2m (2016: £4.2m), with a further £36.5m of shares being held by the Company's subsidiaries (2016: £36.5m).

At 31 December 2017, the Paddy Power Betfair plc Employee Benefit Trust ("EBT") held 200,973 (2016: 478,392) of the Company's own shares, which were acquired at a total cost of £15.6m (2016: £30.9m), in respect of potential future awards relating to the Group's employee share plans. The Company's distributable reserves at 31 December 2017 are restricted by this cost amount. In the year ended 31 December 2017, the EBT purchased 29,342 (2016: Nil) Paddy Power Betfair plc ordinary shares for a total consideration of £2.5m. In 2017, 306,761 shares with an original cost of £17.8m (2016: 396,498 shares with an original cost of £18.3m) were transferred from the EBT to the beneficiaries of the EBT.

The foreign exchange translation reserve at 31 December 2017 had a debit balance of £13.8m (2016: credit balance of £29.5m), 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 2017 reflects the weakening of USD against GBP in the year.

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund, a net wealth tax reserve and a fair value reserve. The capital redemption reserve fund of £1.4m (2016: £1.4m) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of £0.2m (2016: £0.2m) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to Euro. The fair value reserve of £13.7m arose on the fair value of the Group's non-controlling interest in LMAX Limited increasing by £13.7m in 2017. Further detail on this is included in Note 9.

In 2016, an amount of £46.3m (2016: £25.6m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of £2.1m of deferred tax relating to the Group's share-based payments was charged to retained earnings in 2017 (2016: £5.9m). An amount of £2.4m of current tax relating to the Group's share-based payments was credited to retained earnings in 2017 (2016: £4.4m).

12. Dividends paid on ordinary shares

	2017 **£m**	2016 £m
Ordinary shares:		
- special dividend of €1.814 (£1.411) per share	**-**	61.9
- Paddy Power plc closing dividend of €0.18 (£0.140) per share	**-**	6.1
- final dividend of £1.13 per share for the year ended 31 December 2016 (31 December 2015: €1.20 (£0.933))	**94.7**	40.8
- Interim dividend of £0.65 per share for the year ended 31 December 2017 (31 December 2016: £0.40)	**54.7**	33.5
Amounts recognised as distributions to equity holders in the year	**149.4**	142.3

The Directors have proposed a final dividend of 135.0 pence per share which will be paid on 29 May 2018 to shareholders on the Company's register of members at the close of business on the record date of 13 April 2018. This dividend, which amounts to approximately £114m, has not been included as a liability at 31 December 2017.

12. Dividends paid on ordinary shares (continued)

The pre-Merger Paddy Power plc closing dividend was paid to Paddy Power plc shareholders for the period from 1 January 2016 to 1 February 2016 (inclusive).

During the year end ended 31 December 2016, the Group paid the Betfair Group plc closing dividend amounting to £22.6m, which represented the period prior to Merger completion.

13. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2017 £m	31 December 2016 £m
Trade and other payables		
Trade payables	**3.1**	9.8
Customer balances	**68.6**	62.2
PAYE and social security	**5.7**	6.6
Value-added tax and goods and services tax	**-**	0.2
Betting duty, data rights, and product and racefield fees	**41.3**	40.4
Employee benefits	**47.7**	46.1
Contingent deferred consideration – business combinations	**3.8**	3.7
Accruals and other liabilities	**164.5**	151.6
Total	**334.7**	320.6
Derivative financial liabilities		
Sports betting open positions	**7.8**	8.6

Non-current liabilities

	31 December 2017 £m	31 December 2016 £m
Trade and other payables		
PAYE and social security	**-**	0.2
Employee benefits	**0.3**	5.0
Contingent deferred consideration – business combinations	**30.0**	20.4
Accruals and other liabilities	**4.2**	1.3
Total	**34.5**	26.9
Derivative financial liabilities		
Sports betting open positions	**2.3**	-

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 £30.0m due to Betfair's historical acquisition of HRTV, a horseracing television network based in the United States, and Paddy Power Betfair's acquisition of DRAFT, a daily fantasy sports operator in the United States, in 2017. The amount payable at 31 December 2017 amounted to £33.4m, with £30.0m due after one year from the reporting date.

14. Borrowings

Current liabilities

	31 December 2017	31 December 2016
	£m	£m
Accrued interest on borrowings	**-**	0.2

Non-current liabilities

	31 December 2017	31 December 2016
	£m	£m
Revolving credit facility	**62.2**	214.0
Less: expenses relating to revolving credit facility	**-**	(0.4)
	62.2	213.6

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300m provided by a syndicate of banks which expires in May 2020. At 31 December 2017, €70m (£62.2m) of this facility was drawn down (2016: €250m (£214.0m)). During 2017, the Group drew down €Nil (£Nil) (2016: €211.0m (£170.9m)) and repaid €180.0m (£157.6m) (2016: €156.0m (£126.8m)) under this facility.

Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at EURIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.

Upfront participation and arrangement fees plus associated costs incurred in arranging the RCF have been capitalised and offset against the loan in the consolidated statement of financial position and are being amortised to the income statement over the expected life of the facility.

It is the Directors' opinion that due to the Group's bank borrowings being subject to floating interest rates and the proven cash generation capability of the Group, there is no significant difference between the book value and fair value of the Group's borrowings.

Under the terms of the RCF, the Group is required to comply with the following financial covenants on a semi-annual basis.

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

During the year ended 31 December 2017, all covenants have been complied with.

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

	Borrowings
	£m
Balance at 1 January 2017	**213.6**
Changes from financing cash flows	
Amounts repaid on borrowings facility	**(157.6)**
Interest paid	**(1.8)**
	(159.4)
Other changes	
Interest on borrowings	**1.7**
Unwinding of capitalised expenses relating to revolving credit facility	**0.4**
Foreign exchange movements	**5.9**
Total other changes	**8.0**
Balance at 31 December 2017	**62.2**

15. Commitments and contingencies

(a) Guarantees
The Group has uncommitted working capital overdraft facilities of £10.5m (2016: £12.4m) 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 2017 was £19.3m (2016: £29.1m). No claims had been made against the guarantees as of 31 December 2017 (2016: £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 2017 (2016: £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 2017, the total value of relevant customer balances attributable to the Australia business segment was £40.0m (AUD69.1m) (2016: £39.8m (AUD68.0m)) and the combined cash and cash equivalent balances held by Sportsbet at that date totalled £107.6m (AUD186.1m) (2016: £50.9m (AUD86.8m)). In addition, the Group holds cash amounts totalling £35.4m (2016: £25.0m) in respect of customer funds that are not held on trust in The Sporting Exchange (Clients) Limited in accordance with local regulations. Customer funds that are not held on trust are matched by liabilities of an equal value.

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

As mentioned in Note 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.

(c) Capital commitments

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

	31 December 2017	31 December 2016
	£m	£m
Property, plant and equipment	**0.3**	3.9
Intangible assets	**0.6**	-
Total	**0.9**	3.9

15. Commitments and contingencies (continued)

(d) Operating leases

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately 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 2017 and 2016, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2017	31 December 2016
	£m	£m
Within one year	**36.7**	32.6
Between two and five years	**105.7**	100.1
After five years	**43.2**	52.7
	185.6	185.4

The Group has a small number of shop properties that are sublet. Sublease payments of £0.5m (2016: £0.4m) are expected to be received during the year ended 31 December 2018.

During 2017, an amount of £34.4m was recognised in profit or loss in respect of operating leases (2016: £33.3m). Contingent rent expense in profit or loss amounted to a credit of £0.6m (2016: credit of £0.5m). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to £0.5m in 2017 (2016: £0.4m).

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 2017 and 2016 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 135.0 pence per share will be paid to shareholders on 29 May 2018. 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 13 April 2018. The total estimated dividend to be paid amounts to £114m.

Disposal of LMAX Limited

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 between the cash consideration and the fair value of the asset at the reporting date will be recognised in the consolidated income statement in 2018.