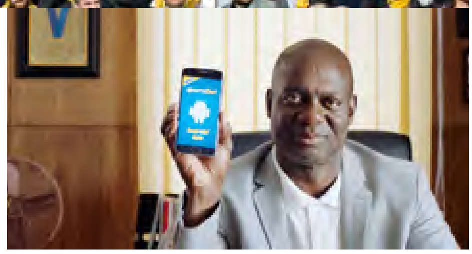
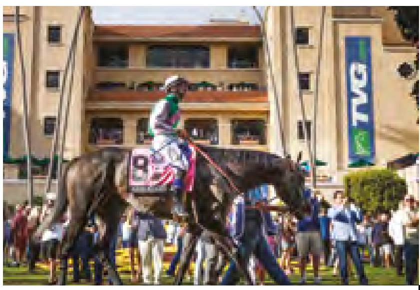
PADDY POWER BETFAIR PLC
ANNUAL REPORT & ACCOUNTS 2017

WE BRING EXCITEMENT TO LIFE

Paddy Power Betfair is a leading international sports betting and gaming operator and a constituent of the FTSE 100 index of the London Stock Exchange. We run some of the world's most exciting online sports betting and gaming brands, powered by sophisticated in-house technology, innovative products and creative marketing and sporting partnerships.





We employ over 7,500 people globally, and our people are linked by their competitiveness, agility, integrity and a relentless customer focus. Across all our brands we have over five million customers worldwide and our purpose is to bring excitement to life for every single one.

If you think you've got what it takes to join our team, check out **www.paddypowerbetfair.jobs**

FINANCIAL HIGHLIGHTS

"We believe the Group is very well placed to serve our customers and stakeholders and deliver profitable growth for our investors in an increasingly responsible and sustainable manner."

Chairman's Statement: pages 2 and 3

"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 and trading and digital marketing."

Chief Executive Officer's Review: pages 6 to 9

Revenue

	Reported statutory results*
£1,745m	£1,745m
2016 Proforma*: £1,551m	2016: £1,501m

EBITDA**

Underlying†	Reported statutory results*
£473m	£466m
2016 Proforma*†: £400m	2016: £264m

Operating profit

Underlying†	Reported statutory results*
£392m	£250m
2016 Proforma*†: £330m	2016: £15m

Full-year dividend per share

200p

Interim Dividend: 65p

Final Dividend (subject to shareholder approval): 135p

* The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date (the "Merger"). The reported statutory 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 Annual Report also 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. A reconciliation between the statutory and the non-GAAP proforma underlying comparative financials is included on page 43.

** EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see page 43).

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

CHAIRMAN'S STATEMENT

"We believe the Group is very well placed to serve our customers and stakeholders and deliver profitable growth for our investors in an increasingly responsible and sustainable manner."

Dear Shareholder

I am pleased to update you on what has been an important year for the Group.

The priority for 2017 was finishing the integration of the Paddy Power and Betfair businesses, particularly the substantial platform investment that was undertaken to create a single technology platform across both brands. I am pleased to report that this is now complete, which should further unlock many of the scale benefits created by the 2016 Merger.

Financially, the business saw continued good growth with revenue up on a proforma basis by 13%* to £1,745m and underlying EBITDA† up on a proforma basis by 18% to £473m.

Governance and corporate culture

The Board believes a strong corporate culture is central to long-term business success and the management of business risk. We have placed an emphasis on our distinct culture and ensuring that this is shared throughout the organisation and understood by all our employees.

High standards of corporate governance are fundamental to the way we operate and central to the effective oversight of the business. Our governance framework is described in the Governance section. As part of ongoing engagement, I again met with many of our major shareholders during 2017 to discuss governance topics in general, including succession, risk and responsible gambling.

Operating responsibly

Operating responsibly is essential to the sustainability of our business, and consistent with our commitment to good governance practice. Our customers, across our multiple brands and geographies, must be able to use our products in a safe and enjoyable way, and we must continue to ensure that we continue to raise our performance when it comes to responsible gambling measures. The Board recognises the importance of this area for the business and a key remit of the Risk Committee is its oversight and scrutiny of all key reputational issues, including responsible gambling and corporate social responsibility.

Gary McGann
Chairman

FURTHER INFORMATION:

Responsible gambling and corporate social responsibility	page 24
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Board of Directors	page 52
Nomination Committee and succession planning	page 60
Audit Committee	page 62
Risk Committee	page 68
Engagement	page 70
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The Strategic Report on pages 2 to 49 was approved by the Board of Directors on 7 March 2018

Peter Jackson, Chief Executive Officer
Alex Gersh, Chief Financial Officer

* Results are reported on a proforma basis as if the Merger completed on 1 January 2016. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

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

BEHAVING RESPONSIBLY

"We are committed to operating a responsible, well-respected company that competes fairly in conditions of relative regulatory certainty."

Find out more: page 24

BACKING SPORT

"Our business relies on clean, fair, good quality sport and we are committed to promoting it."

Find out more: page 26

Board composition and leadership

In August 2017, we announced that Breon Corcoran would step down as Chief Executive Officer, having advised the Board of his decision to leave the business after 16 highly successful years with the Group and its predecessor companies. We were pleased to be able to announce Peter Jackson as Breon's successor. Peter assumed the role on 8 January 2018, with Breon continuing to lead the Group up until that date.

Breon has been pivotal to the growth and success of the Group and its predecessor companies, Paddy Power plc and Betfair Group plc. He joined the Paddy Power business in 2001 and was the major influence in moving the business digital and specifically, in developing a mobile offering. He then joined Betfair Group plc as Chief Executive Officer in 2012 and was again instrumental in transforming the Betfair business into a high-performing group. He played a key role in the 2016 Merger of the two companies and then led the successful integration of the businesses over the last two years. The Board is very grateful to Breon for his significant contribution to the Group's success and wishes him every success in his future ventures.

The Board's unanimous selection of Peter Jackson followed a rigorous and extensive succession process to select a world-class candidate with the skills and expertise to match the ambition of the Group. Peter is a proven chief executive officer and brings a strong track record of successfully leading substantial businesses with international reach in complex regulatory environments, along with significant technology and digital consumer experience. I believe this, together with his understanding of the Paddy Power Betfair business as a Non-Executive Director, uniquely positions Peter to assume the role of Chief Executive Officer and lead the Group in its next stage of development.

Following our AGM in May 2017, Danuta Gray retired as a Non-Executive Director. I would again like to thank Danuta for her valuable contribution over her four years on the Board.

We appointed two new Non-Executive Directors during 2017; Emer Timmons joined on 17 May and Jan Bolz on 6 September. Emer brings to the Board a wealth of global experience specifically in sales and marketing, retail and distribution. Jan has over 25 years' senior management experience across many different industry groups, most recently in the sports betting industry.

Both Emer's and Jan's backgrounds and experience bring increased diversity and significant benefits to the Board.

We announced on 2 March 2018 that Pádraig Ó Ríordáin retired as a Non-Executive Director effective of that date. I would like to thank Pádraig for his valuable contribution to our Board over his tenure, in particular, for his excellent chairmanship of the Remuneration Committee.

As announced on 5 March 2018, Alex Gersh has advised the Board that he intends to step down as Chief Financial Officer once a successor has been appointed. We have appointed an executive search firm to assist with the process of appointing a successor.

Dividends and capital structure

The business performed well in 2017 and that performance is set out later in this Annual Report.

The business is strong and highly cash-generative. At the year end, the Group had net cash of £244m, excluding customer balances. We have proposed a final dividend for 2017 of 135p per ordinary share (subject to shareholder approval), taking the full-year dividend to 200p per ordinary share. The proposed total dividends for 2017 of £169m represents 50% of underlying profits after tax, with the pay-out ratio reflecting the cash generative nature of the business and our attractive prospects.

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.

Our people

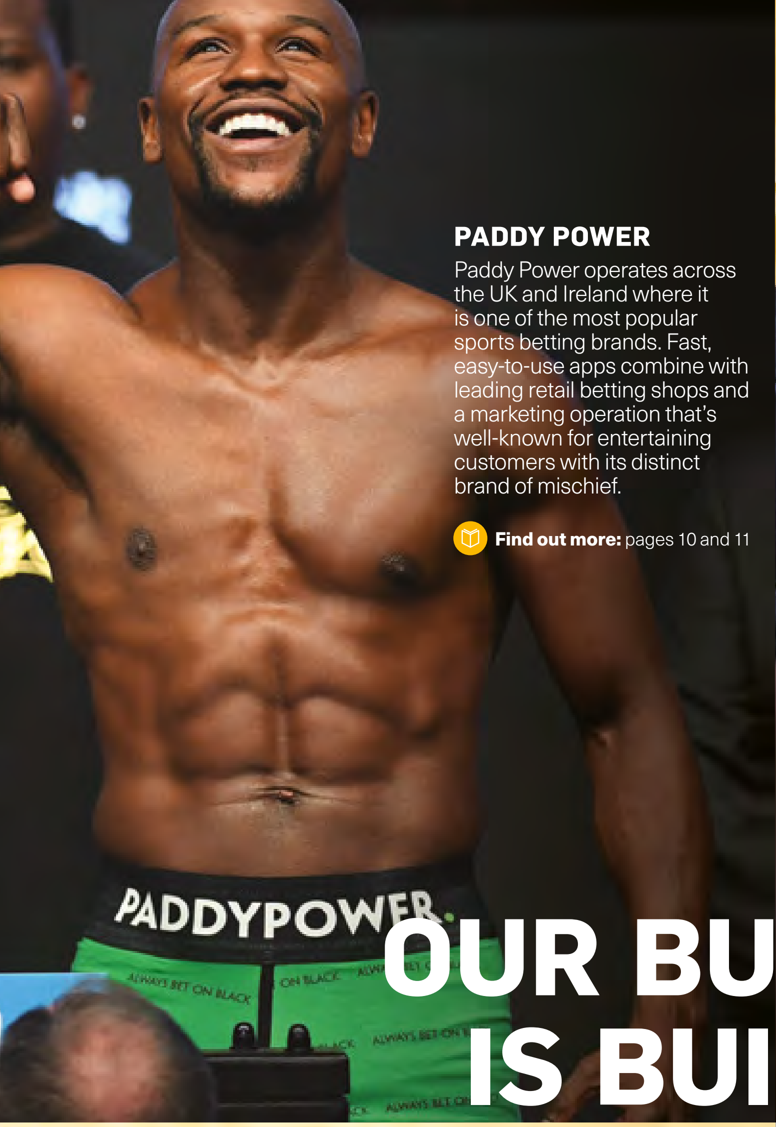
Having again spent time visiting our offices and meeting employees across the business, I continue to be impressed by the quality, talent and passion of our people. I would like to take this opportunity to thank all of them for their continued contribution to the Group's success.

We look forward with confidence to the coming year.

Gary McGann
Chairman

7 March 2018

OUR BUSINESS IS BUILT ON FOUR VIBRANT BRANDS



PADDY POWER

Paddy Power operates across the UK and Ireland where it is one of the most popular sports betting brands. Fast, easy-to-use apps combine with leading retail betting shops and a marketing operation that's well-known for entertaining customers with its distinct brand of mischief.

Find out more: pages 10 and 11

BETFAIR

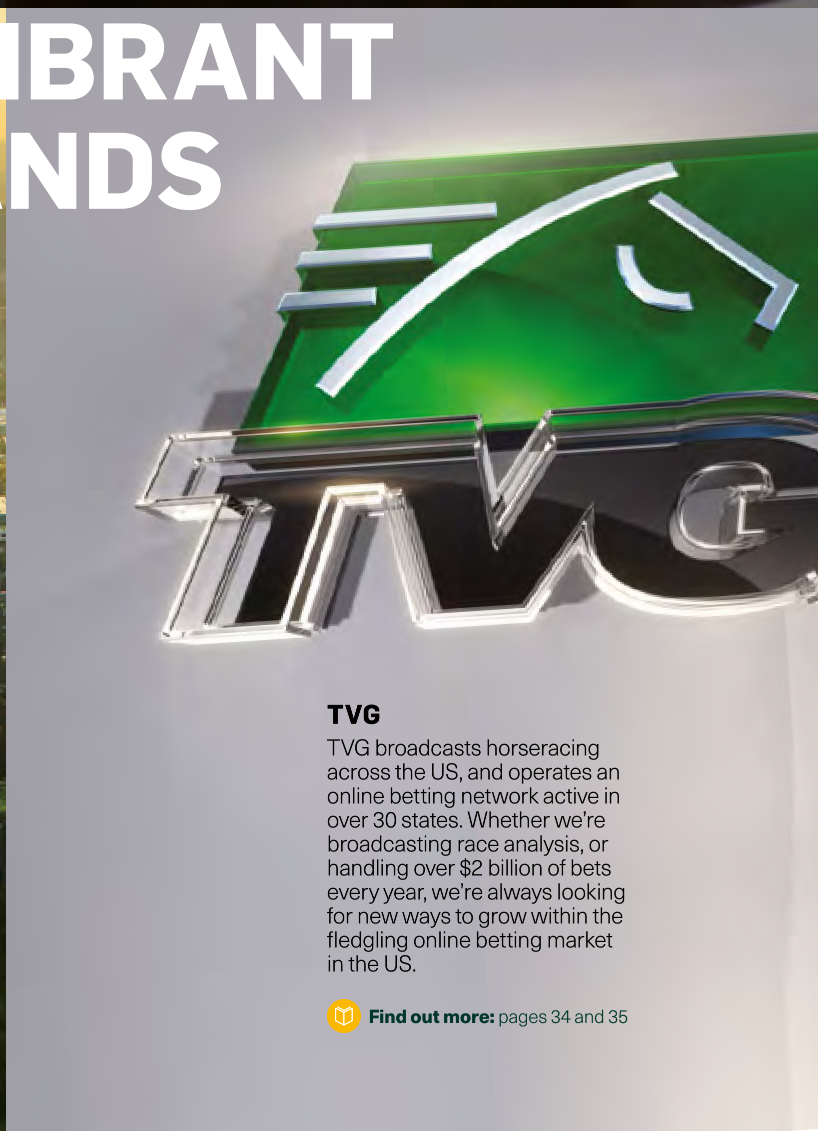
Betfair is an international online sports betting and gaming operator, which pioneered the betting Exchange in 2000. The brand is synonymous with innovation and value, and well-known for its partnerships within sport.

Find out more: pages 22 and 23

SPORTSBET

Sportbet is the market-leading brand in the fast-growing Australian online market. Its leading position is underpinned by disruptive marketing around national sports events, innovative new products and a focus on making betting fun.

Find out more: pages 16 and 17



TVG

TVG broadcasts horseracing across the US, and operates an online betting network active in over 30 states. Whether we're broadcasting race analysis, or handling over $2 billion of bets every year, we're always looking for new ways to grow within the fledgling online betting market in the US.

Find out more: pages 34 and 35

OPERATING AS FOUR DIVISIONS

Online

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

Employees: 3,330

Activities: Sports betting & Gaming

REVENUE

£898m
2016 Proforma*: £853m

UNDERLYING EBITDA†**

£306m
2016 Proforma*: £289m

UNDERLYING OPERATING PROFIT†

£268m
2016 Proforma*: £255m

Find out more: page 37

Australia

Our Australia division, Sportsbet, operates the leading online betting brand in the fast-growing Australian market, combining innovative products with dynamic marketing campaigns around national sports events. Sportsbet employs over 700 people across offices in Melbourne, Sydney and Darwin.

Employees: 723

Activities: Sports betting

REVENUE

£404m
2016: £312m

UNDERLYING EBITDA†**

£139m
2016: £94m

UNDERLYING OPERATING PROFIT†

£125m
2016: £84m

Find out more: page 38

Retail

Our Retail division operates over 620 Paddy Power betting shops across the UK and Ireland. Our shops offer a market-leading customer proposition focused on offering a fun, social environment centred on live sports. We provide a full range of TV content and dynamic multichannel products which complement our leading in-store offering.

Employees: 3,239

Activities: Sports betting & Gaming

REVENUE

£334m
2016: £295m

UNDERLYING EBITDA†**

£82m
2016: £62m

UNDERLYING OPERATING PROFIT†

£63m
2016: £45m

Find out more: page 39

US

Our US division comprises TVG, America's leading horseracing TV and online advance deposit wagering network, along with a number of exciting smaller operations. These include DRAFT, an early-stage operator in daily fantasy sports, the Betfair New Jersey online casino and the Betfair New Jersey horseracing betting exchange.

Employees: 348

Activities: Pari-mutuel wagering on horse races, Gaming & Daily fantasy sports

REVENUE

£109m
2016 Proforma*: £91m

UNDERLYING EBITDA†**

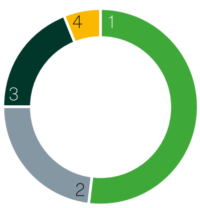
£4m
2016 Proforma*: £12m

UNDERLYING OPERATING (LOSS)/PROFIT†

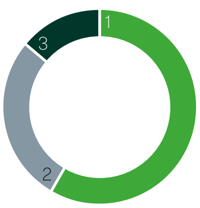
£(5m)
2016 Proforma*: £4m

Find out more: page 40

CONTRIBUTION BY OPERATING DIVISION



2017 Revenue:	
1. Online	52%
2. Australia	23%
3. Retail	19%
4. US	6%



2017 Underlying operating profit/(loss)***:	
1. Online	59%
2. Australia	28%
3. Retail	14%
4. US	(1)%

* The merger of Paddy Power plc and Betfair Group plc completed on 2 February 2016 and is accounted for as an acquisition of Betfair Group plc by Paddy Power plc on that date (the "Merger"). The reported statutory results reflect this accounting treatment in accordance with generally accepted accounting principles ("GAAP") and only include Betfair Group's results since the Merger completion on 2 February 2016 and no Betfair Group results for the period from 1 January 2016 to 1 February 2016 (inclusive). This Annual Report also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power plc and Betfair Group plc had always been merged, which combines the full 12 month results of Paddy Power and Betfair for 31 December 2016. The Directors consider that this is the most appropriate information for understanding and analysing the performance of the Group. A reconciliation between the statutory and the non-GAAP proforma, underlying financials is included on page 43.

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

** EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see page 43).

*** Excluding unallocated central costs of £58m.

CHIEF EXECUTIVE OFFICER'S REVIEW

"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."

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 me 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 focused on responsible gambling.

The key focus areas for each of the regional business units are as follows.

KEY PERFORMANCE INDICATORS ("KPIS")

Revenue +13%[2]

2017	£1,745m
2016	£1,551m*

Underlying Operating Profit[1] +19%[2]

2017	£392m
2016	£330m*

Underlying EBITDA Margin[**1] +1.3%[2]

2017	27.1%
2016	25.8%*

Peter Jackson
Chief Executive Officer

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 on a proforma basis 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.

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

* The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date (the "Merger"). The reported statutory 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 Annual Report also 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 on page 43.

** EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see page 43).

Gaming

In gaming, both brands have underperformed against the market (2017 Betfair revenue +4% on a proforma basis, 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* 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* 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.

"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%."

* Compound average growth rate ('CAGR') is calculated comparing revenue and EBITDA as reported in 2017 vs 2013 revenue and EBITDA with non-sterling denominated component restated at 2017 exchange rates.

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.

Outlook

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.

Peter Jackson
Chief Executive Officer

7 March 2018

"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."

BRINGING EXCITEMENT TO LIFE

PADDYPOWER.

Donald Trump, Floyd Mayweather, Gareth Bale. Three huge personalities at the heart of 2017's biggest moments – so the obvious fourth name on that list is Paddy Power. We harnessed the biggest events of the year to sprinkle some trademark PP mischief.

Paddy Power @paddypower
Head of Trump Betting The tongue-in-cheek job ad went global, to marshal our 100+ special bets on #TheDonald

8:00pm – 2 December 2017

Love him or loathe him, 2017 has been the undoubted year of Trump, cue our job hunt for a Head of Trump Betting to marshal our 100+ special bets on The Donald. The tongue-in-cheek job ad went global, including the New York Times and the front page of USA Today, while even the BBC had to begrudgingly give us a name-check when they covered the story.

Paddy Power @paddypower
Welcome to Bales 'Ronaldo artist' tries again but the result is similar. A fan favourite? #Gareth Bale

9:22am – 3 June 2017

On the football front, global superstar Gareth Bale returned to Cardiff with his Real Madrid buddies for the Champions League Final. In tribute, we thought he deserved the same treatment as his team mate Cristiano Ronaldo, who was honoured with a bust in his eponymous Madeira airport. We tracked down the artist of the widely derided Ronaldo and gave him another chance with Bale; the end result proved a highly popular addition to Cardiff Airport (sort of) ahead of the Champions League Final, although sadly not with the local council.

Paddy Power @paddypower
Lucky Pants: On Tour in Vegas – tracking down Mayweather

12:31pm – 3 July 2017

And amazingly the biggest event of 2017 – befitting of one of the weirdest years in history – was Conor McGregor making his pro boxing debut against all-time great Floyd Mayweather. With an Irishman at the centre of the world's gaze, of course Paddy Power had to get involved – by giving his opponent some Lucky Pants to wear at the weigh-in. Cue the snake emojis on Twitter. The brand's extraordinary social presence, PP has more than 2.5m followers across all platforms, was crucial to fanning the flames around the stunt – with the social media team relocating to Vegas for the week. Well, the rest of Ireland was already there, so why not?

THE GLOBAL MARKET

Paddy Power Betfair operates across a wide range of markets and products globally.

GLOBAL BETTING AND GAMING MARKET[†]

c.€350bn

ONLINE AS PERCENTAGE OF THE GLOBAL BETTING AND GAMING MARKET[†]

c.11%

THE GROUP'S REVENUE FROM REGULATED MARKETS IN 2017[†]

95%

The Market[*†]

The global betting and gaming market is large and diverse, with a wide range of available products including sports betting, lotteries, casino games, poker and bingo. These are available to customers across both land-based operations (including betting shops, race tracks and casinos) and online channels.

The total global betting and gaming market is estimated to be worth c.€350bn. Since it was established in the late 1990s, the online channel has grown strongly and now represents c.11% of the total, though in mature markets such as the UK, Ireland and Australia the online proportion is far higher. The online market has benefited from a structural migration from retail betting and has also driven an expansion of the total market through product innovation. The advent of smartphones has continued these trends in recent years, with betting apps providing greater convenience and a better experience for customers.

The regulation of both land-based and online betting and gaming varies across the world; from government-run operations or licensed monopolies, to fully-open commercial markets where many operators compete. There are also unregulated markets including some where governments are moving to legislate.

In 2017, the Group derived 95% of total Group revenue from regulated markets and a description of the key markets within which we operate is detailed below and opposite.

Our key markets[*†]

UK and Ireland

Market position and trends

Together, the UK and Ireland are our largest markets, representing 61% of our total revenue. This is derived from our Paddy Power and Betfair websites and a retail estate of over 620 Paddy Power retail betting shops.

The UK is a mature, fully regulated gambling market worth around £13.8bn, including the National Lottery. The UK Online market is worth c.£4.9bn and is fully regulated and taxed on a 'point of consumption' basis, with 15% paid on gross gaming yield on all sports and gaming products. The UK Retail market is worth c. £3.2bn and shops (also known as Licensed Betting Outlets or LBOs), currently pay 15% gross profits tax on sports betting and 25% tax on machine gaming.

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

The Group is the largest online betting operator across the UK and Ireland with an estimated 14% share of the total UK & Ireland online market, and an estimated 24% share of the UK&I online sports market. We operate approximately 6% of the LBOs across the UK and Ireland, being the largest retail betting operator in Ireland and the fifth-largest retail betting operator in the UK (by number of shops).

UK ONLINE MARKET

c.£4.9bn

THE GROUP'S SHARE OF THE UK & IRELAND ONLINE SPORTS MARKET

c.24%

* As at 31 December 2017.

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

Australia

Market position and trends

The Australian sports betting market is fully regulated and mature and is worth an estimated AUD$4.7bn, with online accounting for almost 60%. The online market has accelerated from 2008, when a ban on advertising was removed, and has grown consistently at a rate of around 15% in recent years, driven by technological innovation and increased smartphone penetration. Sports betting remains dominated by horse racing, but sports such as AFL, NRL and football are increasing in popularity. The Group holds an estimated 25% share of the Australian online market through our Sportsbet division, which was acquired in 2009.

TOTAL MARKET SIZE

c.AUD$4.7bn

THE GROUP'S ONLINE MARKET SHARE IN AUSTRALIA

c.25%

US

Market position and trends

The US is a predominantly land based market with online betting and gaming available on a more limited basis at state level. The Group is active in the online pari-mutuel horse racing wagering market via its TVG brand, online gaming and horse racing exchange wagering in New Jersey under the Betfair brand, and in the daily fantasy market via the DRAFT brand. There has been some positive momentum on regulation this year, with Pennsylvania passing online casino and poker bills, and an increase in the number of states with a favourable operating environment for daily fantasy sports. The Supreme Court of the United States is due to hear a case on whether the PASPA federal law prohibiting states from determining their own position on sports betting is legal. The Group is well-positioned to take advantage of any positive outcome from this case.

TOTAL ADW MARKET BY HANDLE

c.US$4.2bn

NUMBER OF STATES THE GROUP IS ACTIVE IN

46

Rest of the world

Market position and trends

A number of other international countries have established licensing regimes for online betting and gaming and the Group currently has licences to operate online in Bulgaria, Denmark, Greece, Italy, Malta, Romania and Spain. Italy is the largest fully-regulated continental European online betting market, worth an estimated £740m. The Group currently has an estimated 3% market share. The Spanish online betting market was regulated in 2012 and is worth an estimated £380m. The Group has an estimated 4% market share. We estimate that we have between 1% to 4% share of the nascent online betting and gaming markets in Denmark, Bulgaria and Romania.

ITALIAN ONLINE MARKET

c.£740m

SPANISH ONLINE MARKET

c.£380m

OUR BUSINESS MODEL

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

Competitive advantage

Global and national scale

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

In-house technology

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

Market-leading sports pricing and risk management

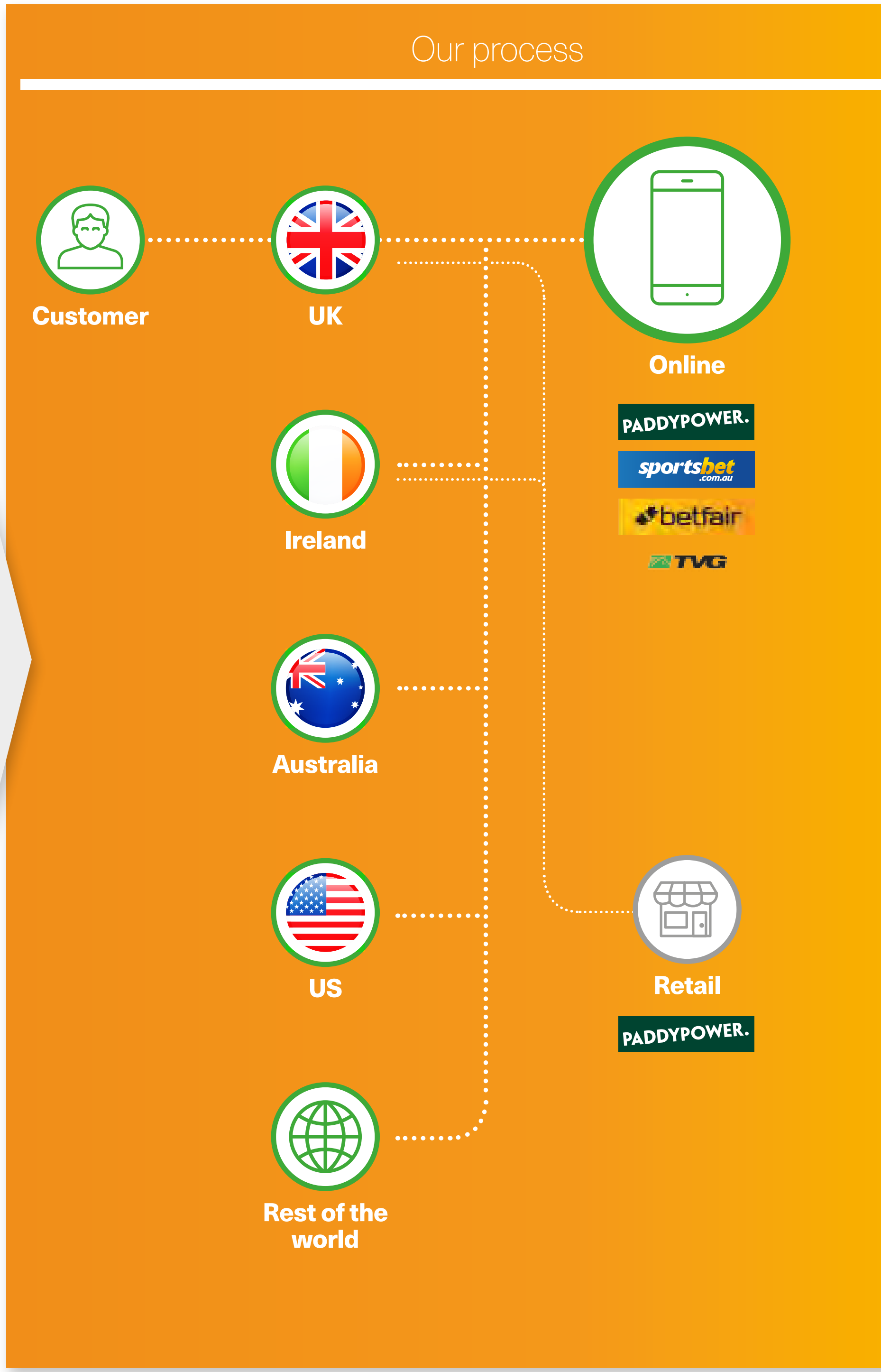
Our advanced in-house sportsbook pricing technology allows us to offer better pricing and more markets across our own sites, and provide white-label products to third parties. Our Betfair Exchange supports this expertise by allowing the hedging of unwanted liabilities.

The Betting Exchange

The Betfair Exchange is a unique tool that facilitates betting between customers, typically resulting in better odds and enhanced trading capability. The product gives our customers more choice and value in their betting.

Strong global team

We have an experienced and diverse global talent pool, comprising industry and market specialists in technology, marketing, trading and commercial fields.



Generating revenues

Sports betting

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

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

Gaming

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

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

Creating value for...

Customers

Over five million customers enjoyed using our online products and visiting our betting shops in 2017. They benefit from market-leading innovation, promotions, value and choice in their betting.

ACTIVE CUSTOMERS DURING 2017

>5m

Shareholders

As a publicly listed company we have a track record of delivering strong returns to our shareholders.

Dividends: page 41

2017 FULL-YEAR DIVIDEND*

200p

Employees**

We employ more than 7,500 people across 15 offices and 626 Paddy Power betting shops.

Our employees and culture: pages 28 to 33

TOTAL NUMBER OF GLOBAL EMPLOYEES**

7,640

Governments

We make a significant financial contribution to the territories in which we operate. During 2017, we paid £332m in gaming, corporation and other taxes.

GAMING, CORPORATION AND OTHER TAXES PAID DURING 2017

£332m

Sports

We contribute back to sport via commercial partnerships, product fees, sponsorship, betting integrity services and charitable support for grassroots sports activities.

MEMORANDA OF UNDERSTANDING WITH SPORTING GOVERNING BODIES

>70

Communities

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

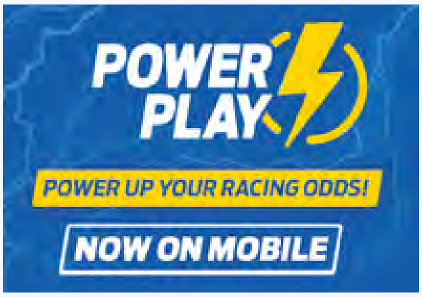
Responsible gambling and corporate social responsibility: pages 24 to 27

* 2017 Final dividend is subject to shareholder approval.

** As at 31 December 2017.


BRINGING EXCITEMENT TO LIFE
sportsbet
.com.au
Sportsbet is the punters' champion in the land down-under and we've powered forward in 2017.

Sportsbet @sportsbet
#PowerPlay: Tap the Power Play button on your betslip and watch your odds Power Up!



10:00am - 21 November 2017

At Sportsbet, we started 2017 with a bang, launching our 'Same Game Multi' product; giving punters the ability to place 'Multi' bets within the same game. Hot off the heels of this we extended the much-loved 'Power Play' product from Racing to our most popular national sporting codes, AFL & NRL. Punters loved it on Racing last year, and they jumped at the chance to power up their odds on other sports.

Sportsbet @sportsbet
Putting the Roid in Android! We launched our new Android App in July with the help of Olympic Gold medallist* #BenJohnson

11:15am - 4 August 2017

We followed this up in July with our most successful TV campaign to date which saw Olympic Gold Medalist* Ben Johnson recruited to put the "Roid in Android" to launch our new Android platform. Purpose built for speed, power and performance, our Android App was a hit with punters, as was our new brand ambassador.

* For 48 hours.

Sportsbet @sportsbet
#TheFold Ben Johnson was back in September to help launch 'The Fold': Don't like your chances, you can cancel mid-race!

1:33pm - 6 September 2017

So successful was Ben Johnson in the ambassador role that he was back by popular demand to help launch our ground-breaking Racing product 'The Fold' for the Spring Carnival. 'The Fold' has well and truly hit the ground running with punters loving the chance to cancel their bet mid-race and get their money back.

OUR STRATEGY

Our competitive advantage lies in our substantial scale and our leading capabilities, together with our portfolio of distinctive brands and differentiated products. We continue to invest to build on these foundations to position Paddy Power Betfair as a long-term structural winner. The focus is on further increasing efficiency and competitiveness through investing in both our capabilities and in our customer proposition. We believe that this approach will enable us to sustainably generate profits from our key existing markets over the long term, which will then drive both investment in new opportunities and deliver shareholder returns.

Sustainable profits over the long term

FOUNDATIONS OF LONG-TERM SUCCESS:

SUBSTANTIAL SCALE

Paddy Power Betfair has substantial global and local online scale, enabling greater investment in product and brand, whilst reducing the cost-to-serve each customer.

- £1.4bn online revenues
- Market-leading positions in key regulated online markets

LEADING CAPABILITIES

- Scalable proprietary technology platforms
- In-house product development
- Digital marketing expertise
- Leading proprietary risk & trading capability
- Leading retail operations

DISTINCTIVE BRANDS

Our portfolio of distinctive sports-led brands enable us to acquire, retain and engage with customers.

DIFFERENTIATED PRODUCTS

Our portfolio of betting products gives our customers greater choice, and our business greater diversification.

FURTHER INCREASING EFFICIENCY AND COMPETITIVENESS BY:

Investing in capabilities

Investing in technology, digital marketing, risk & trading and customer operations allows us to:

- Minimise the cost to service our customers;
- Increase our resilience to external economic, competitive or regulatory pressures; and
- Compete aggressively and sustainably.

TECHNOLOGY
DIGITAL MARKETING
RISK & TRADING
CUSTOMER OPERATIONS

Find out more: page 19

Investing in customer proposition

Investing in the customer proposition across product, brands, pricing and promotions and customer service is critical for enhancing our competitive position. Increasing our competitiveness drives growth and further enhances our scale.

PRODUCT
BRANDS
PRICING & PROMOTIONS
CUSTOMER SERVICE

Find out more: pages 20 and 21

Investing in capabilities

- TECHNOLOGY
- DIGITAL MARKETING
- RISK & TRADING
- CUSTOMER OPERATIONS

Purpose

By investing in proprietary technology across the Group, we aim to deliver leading product differentiation, increased reach and relevance within our digital marketing, and risk and trading excellence.

This enables us to give customers a fast, engaging and good value service whilst enabling us to operate efficiently across multiple brands and territories.

Progress in 2017

- Delivered the integrated technology platform to support multiple brands
- Automation of key trading markets including 'bet request' and 'same game multiples'
- Better personalisation in marketing offers

RISK & TRADING

Improving in-play

Our proprietary trading algorithms allow us to enhance the customer experience through stronger pricing, whilst operating with a high degree of efficiency. In 2017, we successfully automated popular products such as 'bet request' and 'same game multiples', and also rolled-out new football and tennis models, which have dramatically improved our in-play betting experience. We currently price 19 sports via in-house models and supply this pricing to a number of B2B partners.

SPORTS PRICED VIA IN-HOUSE MODELS

19

DIGITAL MARKETING

Relevance and reach

We have a range of digital marketing capability with our global marketing technology stack allowing our 200 marketing professionals to share development and expertise across all operating divisions. In 2017, we have made significant developments to our 'customer relationship management' system, which allows us to make our offers more relevant to each customer through better personalisation.

MARKETING PROFESSIONALS

c.200

TECHNOLOGY

Delivering an integrated platform for the future

Our in-house technology platforms are supported by a team of over 1,000 product engineers. In 2017, we have focused our resources on completing the integration of our heritage Paddy Power and Betfair technology platforms into an integrated customer platform, built to support multiple brands. We started migration of Paddy Power customers onto the new platform in December 2017, and completed at the end of January 2018. The new platform has already delivered a faster, smoother Paddy Power website and app, and will allow us to maximise our development spend in the future by iterating new product features once to then apply across multiple brands.

PRODUCT ENGINEERS

c.1,000

Investing in customer proposition

- PRODUCT
- BRANDS
- PRICING & PROMOTIONS
- CUSTOMER SERVICE

Purpose

Key to our strong competitive position is investment in new product, competitive pricing and promotions, and in maintaining a strong brand presence in key territories. We continually look to use the scale of the Group to drive efficient returns on investment.

Progress in 2017

- Maintained strong TV and Social brand presence in key markets
- New product roll-out across Mobile and Retail
- Significant investments in pricing on Betfair, and promotions on Paddy Power and Sportsbet

BRANDS

Building our presence in key markets

We maintain a strong share of voice for all our brands across TV and print media, and combine this with high-profile sporting partnerships and innovative use of social and digital channels.

Together, the Paddy Power and Betfair brands have 50% of Twitter and Facebook engagement across the industry, and we supply our channels with a range of innovative content through popular Paddy Power in-house activity, and high-profile Betfair partnerships with Juventus, Barcelona and Arsenal. We have invested to build Sportsbet's presence across a range of sports, including AFL and NRL.

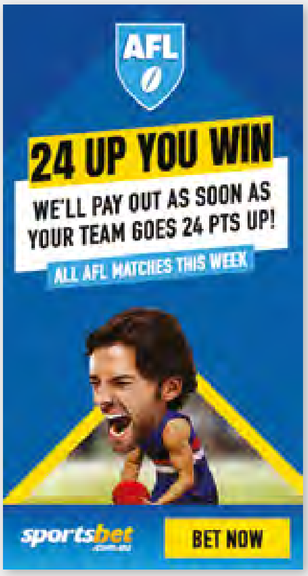
PROPORTION OF INDUSTRY TWITTER ENGAGEMENT FOR THE PADDY POWER AND BETFAIR BRANDS

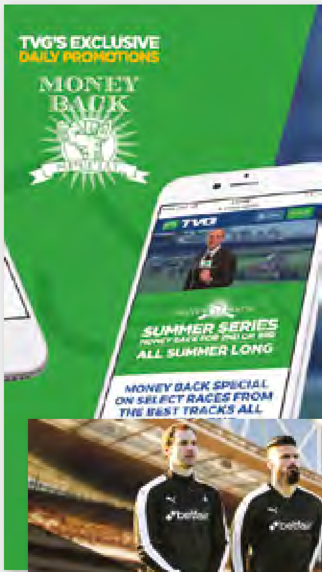
50%

PRICING & PROMOTIONS

Targeted value across all brands

We have made a significant investment into providing consistently attractive value on the Betfair brand in 2017. This has been supported by 'Best Odds' messaging across all major marketing channels and has resulted in a 10%pts increase in football bettors who associate Betfair as 'offering very attractive odds' in Q4 2017 (vs Q4 2016). We have also increased value to Paddy Power, Sportsbet and TVG customers through popular headline offers including "2 Up/24 Up" and 'Money Back Specials', in addition to loyalty bonuses through PowerPlay and "Paddy's Rewards" loyalty scheme. We are set to enhance these programmes in 2018.





INCREASE IN BETFAIR VALUE ASSOCIATION FOR FOOTBALL BETTORS

+10%pts

PRODUCT

New product across all channels

Our primary development focus in 2017 in Europe was the integration of our technology platforms. This work has already improved our Betfair site by providing a greater range of sports events and markets for customers to bet on, and following successful completion in January 2018 has provided Paddy Power customers with a faster sports app featuring enhanced cash-out functionality. Elsewhere in 2017, we released lots of new product including a new Android app and 'Same Game Multi' product feature at Sportsbet and continued to invest in our Retail proposition with the launch of Paddy Power TV and our first ever free-to-play multichannel game, 'Last Man Standing'.

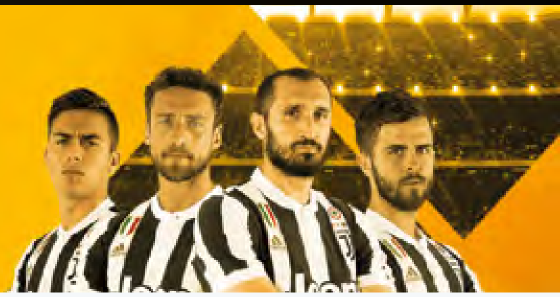
BRINGING EXCITEMENT TO LIFE

betfair

Betfair provides a dynamic combination of choice, value and speed to customers across both the UK and Ireland, and many international markets including Italy, Spain and Denmark.

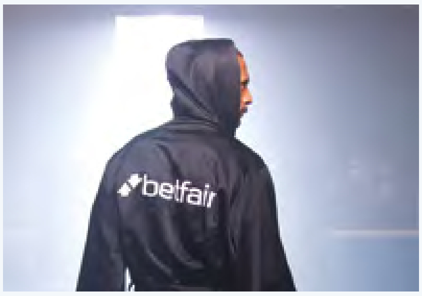
JUVENTUS SCEGLIE BETFAIR

COME OFFICIAL GAMING AND BETTING PARTNER



Betfair @betfair

A new sport. A new goal. @RioFerdy5: "I've won titles, now I'm aiming for a belt." #DefenderToContender



12:00pm – 2 October 2017

Betfair is synonymous with challenge and transformation, so this year we were delighted to team up with Rio Ferdinand for a unique test; training the former Manchester United and England star to become a professional boxer in a 'Defender to Contender' challenge which will run across 2018. The campaign has already attracted significant national media attention which looks set to continue as we count down to Rio's first fight.

Betfair @betfair

Want best value on the 2017 #ATPWorldTourFinals? We had best odds on 97% of the singles matches at the 2017 US Open

9:45am – 5 June 2017

Elsewhere we've continued to focus on the value available through betting on Betfair, with consistent brand messaging supporting our leading odds on Football, Racing, Darts, Tennis and many other sports. Both our Sportsbook and Exchange propositions feature across all TV, print and social marketing, building on the heritage of the brand.

Betfair @betfair

ICYMI: Rivaldo's still got it, even when he wears a wig! Watch him stun these #MagicOfBarca competition winners with his skills

12:31pm – 3 July 2017

We continue to enhance Betfair's international presence with high-profile sporting partnerships in our regulated European territories, including Barcelona FC, Juventus FC, Danish club Brondby IF and Euroleague basketball giants Real Madrid Baloncesto. We've also signed three legends of the game as ambassadors: Michael Ballack in Germany, Henrik Larsson in Sweden, and Barcelona favourite Rivaldo, who was involved in a surprise training session with some superfans and Betfair customers earlier in the year.

RESPONSIBLE GAMBLING AND CORPORATE SOCIAL RESPONSIBILITY

1. Behaving Responsibly

"We are committed to operating a responsible, well-respected company that competes fairly in conditions of relative regulatory certainty."

Oversight provided by the Board through the Risk Committee: page 68

We have robust and wide-ranging policies on responsible gambling and routinely engage with customers we think are at risk. We also fund the education, research and treatment of problem gambling as required by our licensing conditions.

We provide tools and support to our customers to help them manage their gambling across all of our brands and channels including: deposit and loss limits, reality checks, time out facilities and self-exclusion. All employees are required to have regular responsible gambling training and customer-facing employees attend workshops to help them spot and interact with customers who show signs of a problem.

Code of Conduct and Training: page 33

We are active participants in political debates relevant to our sector and have taken progressive positions on key issues for the long-term interests of our business. These include supporting a maximum Fixed Odds Betting Terminal ("FOBT") stake of £10 or less in the UK Government's review, pushing for fewer gambling adverts around live sport in the UK and Australia, and supporting levies on operators in our key markets to create the public health infrastructure needed to cater for the research, education and treatment of problem gambling. We are supportive of regulatory intervention which helps us track customer behaviour, introduce better processes to avoid harm, and to restrict advertising to the young and the vulnerable in all our markets.

We made the following improvements to our responsible gambling tools and processes in 2017:

- We introduced additional risk profiles into our customer monitoring, which enables us to detect and interact with customers showing signs of a problem more quickly. This helped us achieve our goal of having more customers use our responsible gambling tools.
- We introduced new Terms and Conditions and a monitoring programme for our affiliate marketing network to ensure they subscribe to the high standards we have set.
- We launched six new responsible gambling microsites in different languages for our international customers. These sites include self-help tools and live chat functionality.
- We introduced an iPad self-exclusion process for our UK retail betting shops which enables customers to complete the process more quickly and much more efficiently.
- We harmonised our Customer Awareness Activity Programme across both the Betfair and Paddy Power brands. This change led to a 30% increase in the amount of customers using the Betfair responsible gambling microsite.
- We launched updated Player Awareness Monitoring programmes for our FOBT customers along with other members of the Association of British Bookmakers with more advanced markers of harm triggers.

FTSE4Good Index

For the second year running, we were included in the FTSE4Good Index for demonstrating strong environmental, social and governance practices.

FTSE4Good

CASE STUDY

PROMOTING RESPONSIBLE GAMBLING STANDARDS

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. We do this through a variety of organisations, including Gamble Aware and YGAM. We believe this should be obligatory for all licensed operators regardless of size.

Research, education and treatment

In the UK:

- We are part of the Senet Group, an independent body set up to promote responsible gambling standards. Senet's "When the Fun Stops, Stop" advertising campaign is recognised by over 80% of gamblers*;
- We have taken part in the gambling industry's responsible gambling weeks in Retail since 2015 and were an active participant in the first industry-wide version, incorporating all online and offline businesses registered in the UK, during 2017. During that week, we changed all our retail marketing to responsible gambling messages, including in-shop videos and leaflets to remind customers of the key tips for staying in control. We also displayed responsible gambling messaging across our websites and on social media, attended Parliamentary receptions to promote responsible gambling, and arranged talks for our corporate office employees to hear from the problem gambling charities we support;
- We are a board member of GAMSTOP, the online multi-operator self-exclusion scheme, which is expected to be introduced during 2018. GAMSTOP will allow customers to self-exclude from all UK licensed gambling companies in a quick and effective way;
- We support the BetKnowMore project in Islington, London which provides a tailored counselling service to gamblers who think they have a problem; and
- We continue to support the Young Gamblers Education Trust ("YGAM"), a registered charity which aims to 'inform, educate and safeguard young people against problem gambling'. YGAM provides workshops in schools and colleges to educate young people and parents about the risks associated with excessive gambling.

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

In Spain, we helped set up Juego Es Responsible, a self-regulated responsible gambling body, which seeks to raise awareness of problem gambling issues.

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

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

Sustainability

We recognise that climate change is an increasingly important issue for all businesses and we try to reduce our emissions wherever we can. As set out in the table below, our carbon footprint is mainly created by electricity consumption and air travel. We have launched two initiatives to address both aspects:

Electricity consumption

Wherever possible, we try to move our retail shops, offices and data centres onto renewable energy tariffs, which only use power gained from wind, water or solar. We moved all of our 352 UK shops onto renewable tariffs during 2017.

We also try to equip our offices with facilities that minimise our impact on the environment, including:

- Adequate window glazing;
- Efficient heating/cooling systems, which only operate when our customers/staff are on the premises; and
- Motion sensors and LED lighting panels.

Air travel

We have chosen to recognise our carbon emissions caused by business travel by voluntarily reporting on Scope 3 emissions.

We offset our 2016 flight emissions by funding reforestation projects in India, Kenya, Tanzania and Uganda. This project is verified by the Verified Carbon Standard and the Climate Community and Biodiversity alliance. We also intend to offset our 2017 flight emissions in a similar way.

OUR CARBON FOOTPRINT

		2016			2017		
Type of Emission	Activity	Consumption	tCO_2e	% of total	**Consumption**	**tCO_2e**	**% of total**
Direct (Scope 1)	Natural Gas (kWh)	2,047,244	408	1.6%	**5,520,467**	**1,101**	**4%**
	Refrigerants (kg)	1,893	3,939	15.5%	**1,443**	**2,974**	**12%**
	Subtotal		4,347	17.1%		**4,075**	**16%**
Indirect Energy (Scope 2)	Purchased electricity (kWh)	37,116,122	17,156	67.3%	**40,876,746**	**16,615**	**66%**
	Subtotal		17,156	67.3%		**16,615**	**66%**
Indirect other (Scope 3)	Flights	15,295,210	3,984	15.6%	**28,849,001**	**4,370**	**17%**
	Subtotal		3,984	15.6%		**4,370**	**17%**
Total (tCO_2e)			25,487			**25,061**	

The above includes all of our global emissions and was calculated using some assumptions, exclusions and estimations. This footprint was compiled by Carbon Clear to the main requirements of the ISO14064-1 standard. Full details are available on request from csr@paddypowerbetfair.com

* Source: http://senetgroup.org.uk/responsible-gambling-campaigning-works-sustained-consistent-tuned-audience/

2. Backing Sport

"Our business relies on clean, fair, good quality sport and we are committed to promoting it."

Diversity

We provided financial support to Special Olympics Ireland who sent 24 athletes to the Special Olympics World Winter Games in Austria.

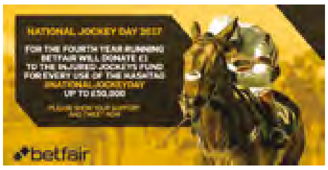
CASE STUDY

BETFAIR'S FAIRER GAME CAMPAIGN

Betfair partnered with Rachel Yankey OBE, former England and Arsenal player, to promote the Fairer Game campaign during 2017. The campaign sought to address the gender imbalance in professional football. There are currently 29 female coaches with a UEFA A licence in England compared with 1,484 men. Through Fairer Game, Betfair is supporting 50 female coaches to gain their UEFA B licence. We want to see more female leaders in football; both coaches and players, to provide much needed role models for young people.

Find out more: https://www.youtube.com/watch?v=4_IK3LpQLPs

National Jockey Day



Rachel Yankey OBE with some of the female coaches supported by Fairer Game in The UK Houses of Parliament

Integrity

We have over 70 Memoranda of Understanding ("MOU") to share suspicious betting patterns with sports governing bodies including FIFA, UEFA, the British Horseracing Authority and the International Olympic Committee. Our Integrity team monitors betting markets and customer accounts before, during and after an event. All our MOU partners have access to a bet monitor system to check betting markets associated with their sport in real time. Our efforts have led to numerous convictions, with many potential corruptors being banned from their sport.

Grassroots

We continue to offer community sports clubs the chance to apply for grants of up to £1,000 to improve facilities, purchase new equipment, or gain coaching qualifications via our Cash-4-Clubs scheme. The scheme will celebrate its 10th year in 2018 with a new website, more funding opportunities and expansion into our international markets.

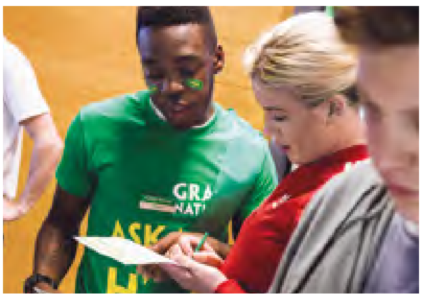
Racing continues to be a big part of our business and we were pleased to launch our third National Jockey Day in 2017 which raised £50,000 for the UK Injured Jockey's Fund. In Ireland, we supported the Injured Jockey's Fund with our 'zorbing derby' at the Galway Festival. We also sponsored Stable Staff Week, culminating with a charity race at Doncaster, the Betfair Clock Tower Cup, where stable staff switched roles with their jockey to ride horses trained by their bosses.

TVG supports the Thoroughbred Aftercare Alliance, PDJF (Permanently Disabled Jockey Fund), and Old Friends Retirement Farms in Los Angeles. We also support racing in our international markets.

Sportsbet continues to be the Principal Partner of Living Legends who care for Australia's finest retired champion racehorses and offer the public a chance to get up close to the legends. It also makes an annual donation and offers in-kind support.

3. Empowering Communities

"We help our employees, customers, and communities to achieve their goals, have fun, and to support good causes."



Upskilling

We partnered with Tomorrow's People in the UK on their London Youth Hub which gives CV workshops and interview training to young people that are not in education employment or training. We also invite Tomorrow's People Candidates to our retail recruitment days and two of them have been hired to work in our UK shops.

In Ireland, we support Jobcare who provide courses for adults suffering from third generation unemployment in inner city Dublin.

We also celebrated National Apprenticeship Week in the UK. We have c.200 apprentices in training for their Retail Level 2 and Retail Management Level 3 diplomas aged between 19-24.

Additionally, we are a funding partner of the New Entrepreneurs Foundation, a London based not-for-profit, who provide seed funding, office space, mentoring and training to young people who want to develop their ideas into a business. We've hired 7 young entrepreneurs from the foundation since 2013.

Communities

In 2017, we launched a Community Investment fund to encourage employees in our Paddy Power retail betting shops to donate to local causes. One of the initiatives supported by the fund in 2017 was Newham Giving, a charity organisation that delivers programmes for young people during the summer holidays. The charity is endorsed by the local Mayor and Council and has been successful in reducing anti-social behaviour, maintaining educational engagement and broadening opportunities and skills for young adults.

We also do our bit in our international locations; our office in Cluj supported a local school in Romania by helping them build their first computer lab. The school is based in a remote village in the Romanian mountains.

Employee volunteering

We organise a wide-range of volunteering, sporting and charity events for our employees to make a difference in our surrounding communities. Some 2017 highlights include:

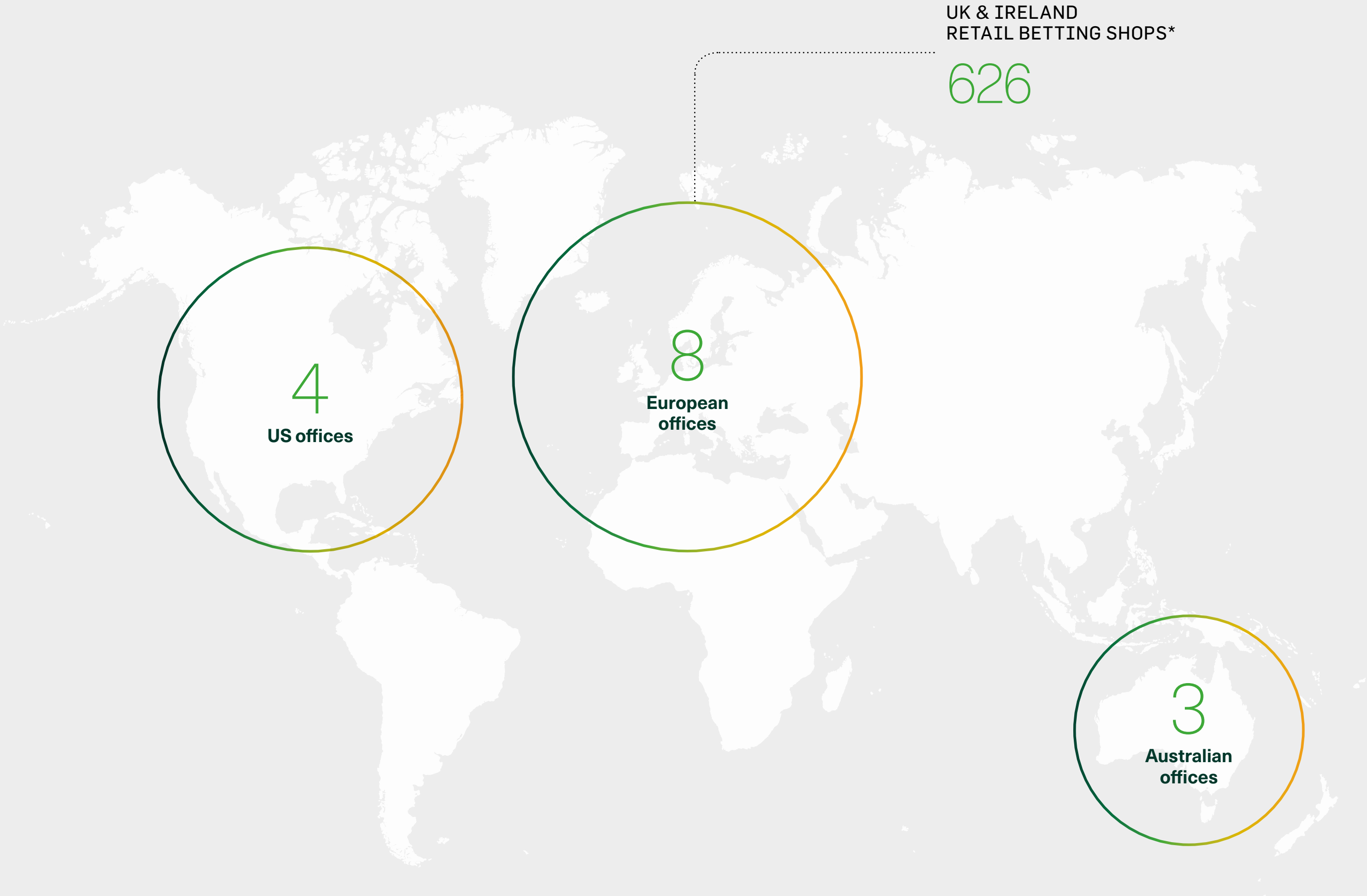
- A charity football tournament of almost 40 employee teams from throughout Europe, which raised £12,000 for Prostate Cancer UK;
- Our Clonskeagh office raised over €7,000 by participating in the Dublin 'Run in the Dark' to raise money for the Mark Pollock Trust, which funds research into finding a cure for paralysis;
- Our TVG employees volunteered at their local food banks in Los Angeles and Oregon by collecting food and packaging it up for distribution. In 2017, TVG supported 800 families through this scheme; and
- Sportsbet supports Orange Sky Australia, a unique charity that offers a free mobile laundry and shower service for the homeless across the country.

CASE STUDY

RAISING MONEY FOR MAGGIE'S CANCER CARE CENTRES

In July, we hosted a Paddy Power Betfair boat race on the Thames in aid of Maggie's Cancer Care Centres and Fulham Reach Boat Club. The event raised over £13,000 and helped Maggie's to open a new centre at St. Bartholomew's Hospital in Smithfield.London.

OUR PEOPLE AND CULTURE



NUMBER OF EMPLOYEES*:

ALL CORPORATE OFFICES

PaddyPower. / Betfair	3,330
Sportsbet	723
TVG / Betfair / Draft	348

RETAIL BETTING SHOPS

PaddyPower.	3,239

ALL EMPLOYEES*

A: Male: 61.5% (4,702)
B: Female: 38.5% (2,938)

PADDY POWER BETFAIR PLC BOARD DIRECTORS*

A: Male: 82% (9)
B: Female: 18% (2)

SENIOR MANAGEMENT* (COMPRISES MEMBERS OF THE EXECUTIVE COMMITTEE AND THEIR DIRECT REPORTS)

A: Male: 73% (46)
B: Female: 27% (17)

Board diversity: page 61

SUBSIDIARY ENTITY BOARD DIRECTORS

Senior managers are defined in legislation as including both persons responsible for planning, directing or controlling the activities of the Company (or a strategically significant part of the Company); and any other directors of undertakings included in the consolidated accounts. For reporting purposes, as at 31 December 2017, there were 34 Group subsidiary entity board directors, comprising 6 women and 28 men.

* As at 31 December 2017.

OUR VISION

To be a world-class betting and gaming business trusted by our customers, colleagues and partners.

OUR PURPOSE

To Bring Excitement to Life

OUR VALUES

Collaboration

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

Relentless will to win

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

Integrity

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

Agility

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

Low ego

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

Employee Engagement

Creating a great place to work for all employees really matters to us. We're pleased that our engagement scores have been steadily improving since the Merger.

- In Europe, we survey our employees twice a year and the automated, data-driven insights allow us to make real-time people decisions and quickly address concerns to further solidify our culture. In 2017, we used a new online tool and over 80% of our European corporate employees participated.
- In the US, we survey our employees annually and teams are allocated to review the feedback and in particular, to work on improving the lower scoring areas and ensure improvements are made quickly.
- In Australia, we survey our employees every quarter and also hold quarterly Q&A sessions to discuss any concerns which may arise in between the formal surveys.
- For Retail, we survey employees in our Irish and UK retail betting shops. In 2017, over 70% of Irish Retail employees participated and as a result we now run a quarterly Employee Engagement Forum between Retail management and elected Irish Retail representatives. In 2017, over 52% of our UK Retail employees participated sharing important ideas on how to improve the way we work.

At other times during the year, we conduct short "pulse" surveys in certain locations and functions. We are striving for working practices that are low on hierarchy and high on collaboration. We also regularly host "meet-ups" in all locations to provide employees with the opportunity to share face-to-face feedback with senior leaders.

CASE STUDY

LIFE AT PADDY POWER BETFAIR

In early 2017, following extensive consultation with our employees, we launched our employee value proposition ("EVP"). The EVP describes "The Deal" for employees working at Paddy Power Betfair. Being an international FTSE100 company means we are able to offer employees competitive rewards, exposure to new ideas and career opportunities, but without the formality of a big corporate.

The culture we are solidifying has characteristics of a start-up: flexibility, high levels of empowerment, innovation and quick decision making are at the core. We bring 'The Deal' to life every day in very tangible ways through our values, rewards, benefits, performance management, training and social initiatives.

Benefits

Reward

During 2017, we developed a new benefits programme for UK & Ireland corporate employees to eliminate heritage differences and ensure that we remain competitive and progressive. As a result, we increased our investment in employee benefits and have launched a leading-edge offer that provides greater choice and flexibility. This includes, among other things, extending our pension matching contribution to alternative long-term savings products and the launch of uncapped annual leave for corporate office employees in the UK and Ireland. We recognise that employees work hard to get the results we strive for, and with that comes the need to unwind and recharge to promote positive health and well-being. With the introduction of uncapped holiday allowance, we have moved away from traditional restrictions on leave. Performance is what matters, not the hours that are worked, and we trust and manage our employees in a way that strives to provide balance. In line with this approach, we invest in a variety of well-being programmes for our employees, including sports and social activities, health assessments and nutrition and mental health skills building across all of our EU corporate offices.

Online Learning

Our learning philosophy is to equip employees with the tools to own their careers and drive their own development. There are plenty of opportunities to learn on the job and we offer several bespoke leadership and management training programmes to employees. Our corporate office employees have 'anytime, anywhere' access to over 5,000 online tutorials on a range of topics covering business, leadership and technology.

Communication

Communication is key to life at Paddy Power Betfair, and a potential challenge across our multiple locations and different time zones. We don't believe that more emails or a 'traditional' intranet provide the answer for our employees. Therefore, we introduced Workplace by Facebook to create an interactive and visual platform where employees can share and discuss things that are happening in the business and in the wider industry. Workplace is a secure platform for all corporate employees to share news about their work, their successes, team updates and keep in touch with colleagues in other offices.

Performance Management and Career Development

Our employees are typically high-performing, curious and ambitious and are keen for progression and are self-directed in their career planning. We have quarterly checkpoints to discuss performance and update goals to reflect the agile way in which we work. One of the questions regularly asked is *"How can I get ahead at PPB?"* In 2017, we launched a bespoke tool called Game Plan that provides interactive guidance to employees on how they can chart their career path. Game Plan guides employees through a detailed competency assessment by level and helps them to map out their career development options in four simple steps. With Game Plan, employees can review their career plans and development opportunities, assess their current skill set and define the steps they need to take to achieve their next career move.

Fair Game is an internal initiative kicked off by HR and led by senior business leaders across Paddy Power Betfair in Europe. The objectives of Fair Game are to promote a diverse and inclusive workforce, with a focus on gender. In response to interest from employees, Fair Game has expanded its agenda to encompass sexual orientation, ethnicity and mental health and well-being.

FAIR GAME

Updates provided to the Board and its Committees: pages 56 and 61

How are we encouraging greater diversity?

We are committed to improving diversity in our business. We are focused on the recruitment, retention and progression of key talent regardless of their gender (or other characteristic), and offering market-leading flexibility and well-being programmes that support all employees across the Group.

Our policies on maternity, paternity and adoption leave, as well as flexible working, help to ensure we're offering a great deal for all. We reduced the qualifying periods for family leave and enhanced paternity and maternity leave entitlements to ensure our policies are market-leading.

We have made some important changes to core HR practices:

- We interview all females that match 75% of the criteria on the job spec to increase diversity in our candidate pipeline.
- Job descriptions are entered into a gender 'decoding tool' to eliminate any non-inclusive language.
- Our refreshed careers site and events are gender neutral and inclusive.
- We're looking harder for high-quality diverse talent. Agency partners are briefed to submit diverse candidates for open roles.
- We've completed initial pilots of diversity training covering unconscious bias and made available curated bite-sized diversity and inclusion training to all employees using the LinkedIn platform.

Since updating our job specs to be more inclusive, rolling out training to hiring managers, and requesting more diversity from our search partners and ourselves, we have increased the number of female hires from 20% (in May 2017) to 33% (in September 2017).

In addition to the above, we've also:

- implemented bespoke retention initiatives for some high-potential female colleagues (including MBA sponsorship, stretch assignments and promotions);
- collaborated with several organisations on initiatives, aligned with the Corporate Social Responsibility team, to access best practice approaches, more diverse candidates and training for our employees, for example, we:
  - sponsored the Code First: Girls conference in London;
  - joined up with stemwomen.co.uk and gradireland.com on grad recruitment;
  - sponsored Ladies at UX, Dublin; and
  - signed up as a founding member of the All In Diversity Project focused on improving diversity in the global gambling and gaming sector;
- launched a voluntary internal mentoring programme with 50 initial participants;
- launched a maternity buddy programme in UK and Ireland to support returning mothers and offering phased return to work; and
- launched Fair Game Circles covering ethnicity, mental health, gender and LGBTIQ led by 40 active volunteers delivering a bespoke programme of events, support and knowledge sharing.

Gender Pay Gap

The UK Government has implemented Gender Pay Gap Reporting regulations and we have complied with this methodology in our reporting below.

The Group has two UK employing entities with over 250 employees. Under the gender pay gap reporting regulations we are required to provide information for each of these entities separately. We are also voluntarily disclosing our consolidated results for the Group's UK employees as a whole.

It is important to note the employee composition of the two UK reporting entities. They contain significantly different teams – with 1,600 of the 1,700 Power Leisure Bookmakers Limited employees working in our retail betting shops, contrasted to the employees of Betfair Limited who primarily work in developing and servicing our online systems. The gender make-up and actual pay levels in the two reporting entities differ significantly with 45% of the employees of Power Leisure Bookmakers Limited being female compared with 21% of employees in Betfair Limited (as at the relevant period defined on page 32).

As an integrated Group with consolidated and harmonised HR policies, we feel it is most appropriate for us to consider our results as a whole, given we think about our policies, culture and diversity initiatives on a Group-wide basis.

A significant proportion of our workforce is based outside of the UK and therefore the gender pay gap data shown (as required under UK legislation) does not directly represent that for the Group internationally.

As described in this section, we are focused on a range of initiatives that will help address our gender pay gap.

Further information on gender pay gap reporting: paddypowerbetfair.com

Single entity gender pay gap reporting mandatory disclosures

POWER LEISURE BOOKMAKERS LIMITED - 1,859 EMPLOYEES

Bonus and pay gap

The table on the right shows Power Leisure Bookmakers Limited's mean and median hourly gender pay gap and bonus gap as at the snapshot date (i.e. 5 April 2017 (pay) and in the 12 months reference period to 5 April 2017 (bonus) (the "relevant period").

	Mean	Median
Hourly pay	10.3%	5.8%
Bonus	50.3%	27.6%

Proportion of employees receiving a bonus

The diagram below shows that the same proportion of men and women received a bonus for their performance in the relevant period:

Male	90%
Female	90%

Pay quartiles: The chart below illustrates the gender distribution across Power Leisure Bookmakers Limited in four equally sized quartiles:

	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Upper Quartile
Male	48%	51%	57%	67%
Female	52%	49%	43%	33%

BETFAIR LIMITED - 490 EMPLOYEES

Bonus and pay gap

The table on the right shows Betfair Limited's mean and median hourly gender pay gap and bonus gap as at the snapshot date (i.e. 5 April 2017 (pay) and in the 12 months reference period to 5 April 2017 (bonus) (the "relevant period").

	Mean	Median
Hourly pay	13.0%	13.8%
Bonus	31.5%	14.7%

Proportion of employees receiving a bonus

The diagram below shows that 7% more men than women received a bonus for their performance in the relevant period:

Male	91%
Female	84%

Pay quartiles: The chart below illustrates the gender distribution across Betfair Limited in four equally sized quartiles:

	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Upper Quartile
Male	76%	75%	79%	85%
Female	24%	25%	21%	15%

Voluntary disclosure of consolidated results for the Group's UK employees as a whole (2,401 employees)

We set out below the gender pay gap for all of the Group's UK employees, including Power Leisure Bookmakers Limited and Betfair Limited and also any reporting entities which have fewer than 250 employees and therefore fall outside the mandatory disclosure requirements.

Bonus and pay gap

The table on the right shows the Group's UK employees mean and median hourly gender pay gap and bonus gap as at the snapshot date (i.e. 5 April 2017 (pay) and in the 12 months reference period to 5 April 2017 (bonus) (the "relevant period").

	Mean	Median
Hourly pay	26.7%	10.8%
Bonus	71.0%	62.2%

Proportion of employees receiving a bonus

The diagram below shows that 2% more men than women received a bonus for their performance in the relevant period:

Male	91%
Female	89%

Pay quartiles: The chart below illustrates the gender distribution across all of the Group's UK employees in four equally sized quartiles:

	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Upper Quartile
Male	48%	55%	61%	78%
Female	52%	45%	39%	22%

Code of Conduct

A priority is to build a culture of being responsible and operating with integrity. Our Code of Conduct defines our culture and encompasses policies on areas such as business conduct, anti-bribery and corruption, whistleblowing and equal opportunities.

Mandatory training

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

Anti-bribery and corruption

The Group is committed to maintaining the highest standards of ethics and compliance with all relevant laws wherever it does business. We do not tolerate any form of bribery or corruption and require all individuals working for us, whether employees, permanent or temporary, contractors or third parties, including associated persons that perform services on behalf of the Group, agents, intermediaries, introducers, joint ventures and partnerships to comply with anti-bribery and corruption laws and ethical standards.

We have in place policies, procedures, training, management systems and internal controls to prevent bribery and corruption occurring, including requiring due diligence to be carried out on individuals or companies who will perform services for, or on behalf of, it and risk assessments of new business ventures, including in the context of bribery and corruption risk. These obligations are set out in our Code of Conduct, which all employees are required to adhere to under their contracts of employment/service contracts. This also includes guidance on receiving and offering gifts and hospitality, internal gifts, political donations and contributions and charitable donations. Employees must consider the appropriateness of the giving and receiving of gifts and hospitality, which is reinforced by having different approval levels. Consideration is also given as to when, and how, charitable donations may be given going some way to address issues of conflict of interest. We don't make political donations. A compulsory e-learning training module is also required to be completed by employees. We regularly monitor this area including its suitability, adequacy and effectiveness and implement improvements as appropriate.

Equal opportunities

We're committed to equal opportunities and diversity in our workplace and will not tolerate harassment, discrimination, victimisation or bullying. We recruit, employ and promote employees based on their qualifications and abilities.

Our Equal Opportunities Policy states our commitment to a policy of equality of opportunity and treatment in our employment practices. We don't discriminate on any grounds, including gender, sexual orientation, marital or civil partner status, gender reassignment, race, religion or belief, colour, nationality, ethnic or national origin, disability or age, pregnancy, trade union membership, or part-time or fixed-term status and take appropriate steps to accommodate the requirements of an individual's religions, cultures, and domestic responsibilities.

Diversity and inclusion initiatives: page 31

Modern Slavery Statement

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

Our Modern Slavery Statement can be found on our website:
paddypowerbetfair.com

Human Rights

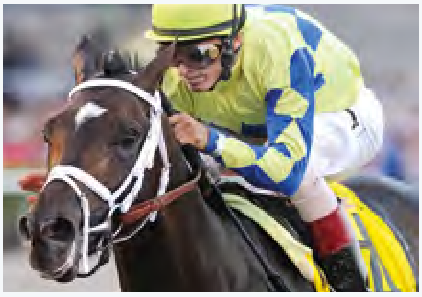
We support the United Nations' Universal Declaration of Human Rights. We do not consider it necessary for the Group to have a specific human rights policy at the moment as our policies already require employees to behave ethically and to respect human rights of our employees and other stakeholders in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

Health and safety

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

TVG @TVG

Your horse may not have won, but TVG has your back with #MoneyBackSpecials



9:03am – July 23 2017

Key to our improved performance were two new products. First, our Money Back Special offer, launched in May, which we've since offered consistently through all the big events, and second our free-to-play Super 8 Contest, where players make one selection across eight featured TVG races for the chance to take home a huge jackpot.

Both of these products are unique to the market and have been very popular acquisition initiatives, seeing high levels of engagement across social channels.

TVG @TVG

Hall of Fame jockey #MikeSmith helps explain TVG's Money Back Special!

9:03am – July 23 2017

Over the year we refreshed our Brand marketing; launching some high-profile TV campaigns featuring star US jockey Mike Smith, as well as using our leading TV talent much more effectively across our ADW marketing.

TVG @TVG

How would you like 20/1 odds on ANY horse in the #BreedersCup Classic?

9:03am – 28 August 2017

We finished the year on a high, with a record performance at the Breeders' Cup in Del Mar California, led by our incredible offer of 20/1 on any horse in the Breeders' Cup Classic. The 20/1 offer headlined a key TV spot on NBC in the run-up to the big race, won by Gun Runner after a brilliant duel with Collected.

BRINGING EXCITEMENT TO LIFE

TVG

TVG – Your Best Bet! This year saw significant strides in both our product and brand as we continue to lead the US racing scene.

OPERATING AND FINANCIAL REVIEW

Group

Alex Gersh
Chief Financial Officer

"Revenue growth combined with operating leverage led to an 18% increase in underlying EBITDA to £473m."

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 43.

Group revenue increased on a pro forma basis by 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, proforma 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 proforma: £400m), representing an EDITDA margin of 27%. Underlying operating profit increased on a proforma basis by 19% to £392m (2016: £330m). Underlying EBITDA, excluding a £3m adverse impact from foreign exchange translation, increased by 19%.

Total operating costs increased on a proforma basis 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 proforma: £12m).

Group[1]

		Proforma[2]		
	2017 £m	2016 £m	Change %	Constant currency change[7] %
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**		

† Note throughout this Operating and Financial Review results are reported on a proforma basis as if the Merger completed on 1 January 2016. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

* See footnote detail on page 41.

Online

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:	UNDERLYING EBITDA:	UNDERLYING OPERATING PROFIT:	BRANDS OPERATING:
£898m +5%	£306m +6%	£268m +5%	PADDYPOWER betfair
(2016 Proforma: £853m)	(2016 Proforma: £289m)	(2016 Proforma: £255m)	

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 on a proforma basis 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.

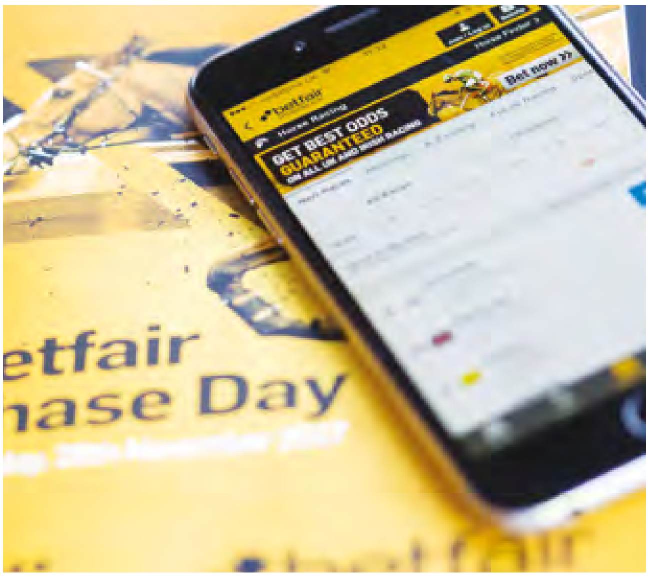
The sportsbook net revenue percentage in 2017 benefitted from the more favourable sports results partially offset by increased investment in pricing and promotions. The increased investment of approximately £20m, primarily related to improved odds for Betfair customers, but also included enhanced value to Paddy Power customers 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 on a proforma basis by 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 on a proforma basis 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 on a proforma basis by 6%, or 3% in constant currency, reflecting continued marketing investment, the annualisation of merger synergies and continued underlying operating efficiencies.

		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%**



Australia[6]

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

REVENUE:

£404m +21%**
(2016: £312m)

UNDERLYING EBITDA:

£139m +42%**
(2016: £94m)

UNDERLYING OPERATING PROFIT:

£125m +42%**
(2016: £84m)

BRANDS OPERATING:

sportsbet.com.au

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.

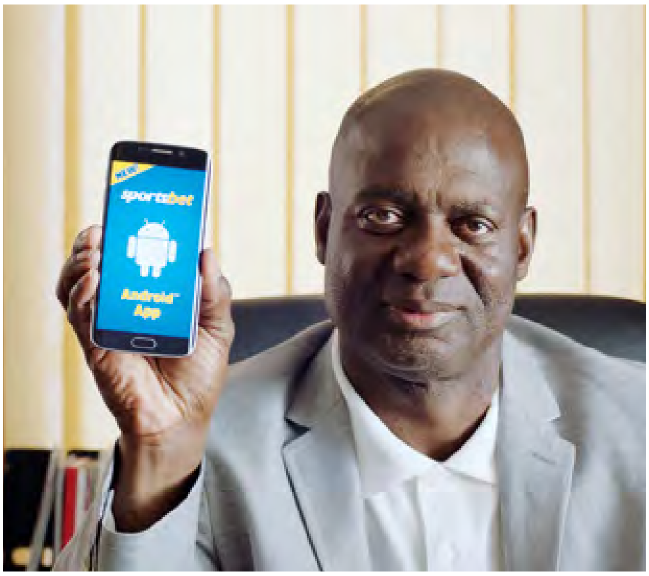
Growth was driven by continued investment in promotions, product and marketing to maintain Sportsbet's market leading customer proposition. Key elements of an increased year-on-year investment in promotions, of approximately £35m, included '*Power Play*' (launched in October 2016) and our '*24-up*' and '*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).

Proforma	**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%**



† Note throughout this Operating and Financial Review results are reported on a proforma basis as if the Merger completed on 1 January 2016. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

* See footnote detail on page 41.

** Growth rates shown in local curency.

Retail

The Retail division operates 626 Paddy Power betting shops across the UK and Ireland.

REVENUE:

£334m +13%
(2016: £295m)

UNDERLYING EBITDA:

£82m +31%
(2016: £62m)

UNDERLYING OPERATING PROFIT:

£63m +41%
(2016: £45m)

BRANDS OPERATING:

PADDYPOWER.

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[10] revenues increased by 8% and operating costs increased by 2%. The like-for-like[10] 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.

	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%

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US[1,6]

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.

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 on a proforma basis 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 proforma: £12m) with profit growth at TVG and the Betfair Casino offset by start-up losses incurred in DRAFT and the Betfair Exchange.

REVENUE:	UNDERLYING EBITDA:	UNDERLYING OPERATING (LOSS)/ PROFIT:	BRANDS OPERATING:
£109m +15%** (2016 Proforma: £91m)	£4m -73%** (2016 Proforma: £12m)	(£5m) N/A (2016 Proforma: £4m)	TVG, Betfair, DRAFT

	2017 £m	Proforma[2] 2016 £m	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**

† Note throughout this Operating and Financial Review results are reported on a proforma basis as if the Merger completed on 1 January 2016. Underlying EBITDA and underlying operating profit exclude separately disclosed items, such as Merger related expenses, integration costs and non-cash Merger related items, including intangible asset amortisation.

* See footnote detail on page 41.

** Growth rates shown in local currency.

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% (2016 proforma: 15.5%).

Capital expenditure

The Group had £89m of capital expenditure in 2017 (2016 proforma: £85m[9]). Approximately 19% of the expenditure related to our retail business with the remainder primarily related to technology projects and product development.

Dividend

The Board has proposed a final dividend 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.

Cash flow and financial position

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.

	2017 £m	Proforma[2] 2016 £m
Underlying EBITDA[3,4]	473	400
Capex[9]	(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

Footnotes to the Operating and Financial Review

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 Annual Report also 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 43).
3. EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 43)
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 119 to the financial statements and Appendix 2 on page 43).
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. 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.
10. Like-for-like growth rates are in constant currency 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

	Online			Australia				Retail			US				Group			
£m	**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 rev %	***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:
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.

	2016 Comparatives		
£m	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	65

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 of 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.

	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	
£m	**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.

		Proforma				
£m	**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%

UNDERSTANDING AND MANAGING OUR PRINCIPAL RISKS

Risk Governance and Responsibilities

The Board's responsibility:

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

The Audit Committee's responsibilities:

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

The Risk Committee's responsibilities:

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

The Executive Committee's responsibilities:

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

Risk Management Process

1. Identify risks

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

2. Assess and quantify risks

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

3. Develop action plans to manage and mitigate risk

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

4. Monitor and reassess risk post mitigation and report

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

Lines of Defence and Responsibilities

First Line

Executive Committee

Business Operations:
Management

Establish and develop the risk and control environment

Primary responsibility for day-to-day risk management

Proactive management of continuous business process improvement

Second Line

Risk Committee

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

Establish Group policies and procedures within risk appetite

Provide guidance and direction for their implementation

Monitor the appropriate execution and application of policies and procedures

Third Line

Audit Committee

Independent assurance:
Internal/External Audit

Provide independent challenge and assurance that risk is appropriately managed

Systematic evaluation and monitoring of controls

Identify efficiencies and process improvement opportunities

Identifying our principal risks

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

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

Risk assessment key

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

Increased risk | No change in risk | Decreased risk

Impact: Impact on the business if the risk materialises

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

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

Principal risk/ uncertainty	Why we need to manage this	Impact / Likelihood	How we manage and mitigate the risk
Product availability and competition Risk category: • **Commercial** • **Financial** • **Reputational** • **Technology** Change in risk: **New Risk**	An inability to deliver market-leading customer-facing products across our brands could materially impact competitiveness and market share.	Impact: **High** Likelihood: **Medium**	• The strategic direction of the Group is clearly articulated. There is a structured product prioritisation process in place that ensures the right product development is prioritised for customers. • The Group has a programme of brand investment and corporate communications to maintain and enhance its market position. The Group also monitors competitors and their promotional offers. • We develop products with an emphasis on mobile products and innovative features and acquisition through marketing.
Technology infrastructure, systems stability and availability Risk category: • **Commercial** • **Reputational** • **Technology** Change in risk:	Our operations are dependent on technology and advanced IT systems and any damage or failure to these could reduce revenue and harm our business reputation. Reduced availability of our products arising from software, infrastructure and system issues could result in a poor customer experience and may have an impact on customer loyalty affecting our ability to grow the business.	Impact: **High** Likelihood: **Medium**	• Further to the completion of the single technology platform, customers are interfaced onto a single platform, which has increased resilience. • We continuously invest in a cost-effective technology platform to ensure stability and availability, to eliminate single points of failure and improve performance. • Key metrics are in place to monitor key systems and platforms and identify potential emerging issues. There is a formal incident management process for identifying, escalating and resolving issues and a post incident process to ensure similar issues cannot happen again. • Robust development and change management processes help reduce the risk of unplanned outages.
Health and safety Risk category: • **Commercial** • **Financial** • **Legal and Regulatory** • **Reputational** Change in risk:	A major health and safety incident in our retail betting shops would have a material impact upon employees and could lead to significant reputational damage as well as fines and regulatory action.	Impact: **Medium** Likelihood: **Low**	• There are processes in place to manage the risks in our retail betting shops, including health and safety structures, single manning processes and loss prevention and security measures. • There are a number of risk assessments conducted in our shops at various stages of their lifecycle. In addition, a formal incident management process and follow-up procedures reduce the likelihood of repeat issues.

Principal risk/ uncertainty	Why we need to manage this	Impact / Likelihood	How we manage and mitigate the risk
Business continuity planning and disaster recovery Risk category: • **Commercial** • **Reputational** • **Technology** Change in risk:	The ability of the Group to recover from severe disruption to our technology systems and business operations is paramount. A significant disruption to one of our data centres or offices can cause reduction in revenue and loss of customers. Delays in restoring services following a major disruption could result in loss of customers and reputational damage.	Impact: **High** Likelihood: **Low**	• We regularly review our Business Continuity Plans and our IT Disaster Recovery capability and have in place service level agreements with third parties. Where possible, we have failover solutions available and seek to limit single points of failure.
Reliance on third parties and key supplier relationships Risk category: • **Commercial** • **Technology** Change in risk:	We rely on third parties across our business. Managing relationships with, and performance by, key suppliers, particularly those supplying software platforms, payment processing and data to support the Group's products is key to the Group's strategic objectives.	Impact: **Medium** Likelihood: **Medium**	• Where possible, we limit reliance on a single supplier to reduce potential single points of failure. • The Group has strong commercial relationships with its key suppliers. Contracts and service level agreements are in place with third parties and are regularly reviewed. Proposed new contracts are passed through a procurement process to ensure adequate protection for the Group. • The Group monitors the performance of third-party suppliers in order to ensure the efficiency and quality of contract performance.
Key employees recruitment and retention Risk category: • **Commercial** • **Strategic** Change in risk:	Continued success and growth is dependent on the performance of Executive Directors, senior management and other key employees. Retention and recruitment of these individuals is a key component in securing the ability to grow and develop the business. The Group's ability to continue to attract, retain and motivate passionate and highly skilled employees in an intensely competitive environment is key.	Impact: **Medium** Likelihood: **Medium**	• The Board reviews key positions and reward through the Nomination and Remuneration Committees. The Executive Directors, senior management and other key employees are part of medium or long term incentive plans, which reward performance and loyalty. • Our HR function actively manages succession planning and the processes that are in place throughout the business to identify key roles and conduct regular appraisals, succession and talent reviews, engagement surveys as well as career development opportunities. • All employees are subject to regular salary reviews, a comprehensive benefit package and are able to join (subject to local jurisdictional requirements) our all-employee save as you earn share scheme, which provides an opportunity for them to participate in the Group's performance.

The Board continues to monitor Brexit-related developments and currently does not consider this to be a material risk to the business. We are a global business, geographically and product diversified, and licensed country-by-country. Specific areas considered in terms of impact include regulation, people, legal and tax impacts. There remains a high level of uncertainty around Brexit and therefore little clarity around specific risks that may materialise.

CHAIRMAN'S STATEMENT

"A strong corporate culture and shared values throughout the Group play an important part in delivering the long-term sustainable success of the business to deliver shareholder value."

Gary McGann
Chairman

ALIGNMENT WITH THE UK CORPORATE GOVERNANCE CODE:

Leadership
Pages 52 to 57

Effectiveness
Pages 57 to 61

Accountability
Pages 62 to 69

Remuneration
Pages 72 to 92

Engagement
Page 70 and 71

Dear Shareholder

I believe that a strong corporate culture and shared values throughout the Group play an important part in delivering the long-term sustainable success of the business to deliver shareholder value. Therefore, the Board is committed to ensuring decisions taken by it and the Executive Committee reflect the culture we wish to instil in the business and drive the right behaviours, which in turn impacts our reputation. Our corporate reputation is an important element of delivering on our Vision of being a world-class betting and gaming business trusted by our customers, colleagues and partners and society. We also appreciate the constant need to consider the impact we can have on a wider group of stakeholders beyond investors and the need to ensure positive outcomes.

Strategic Report: pages 2 to 49

This Corporate Governance Report describes how the Board functions and the approach we are taking to ensure effective governance and oversight of the business. Governance for us is about our values, our ethics, and doing the right thing. Our governance principles provide a clear and robust framework within which decisions are made. The Board is supported by four principal Committees (the Audit, Nomination, Remuneration and Risk Committees) and the work undertaken by them during 2017 is described in this section. As Chairman, I am responsible for leading an effective Board and actively encouraging an environment, which promotes open and honest engagement and allows for constructive challenge to management.

Board composition and diversity

Succession planning for both Executive and Non-Executive Directors has been a key priority of the Nomination Committee and the Board (see pages 60 and 61). Breon Corcoran stepped down as Chief Executive Officer as of 7 January 2018 and was succeeded by Peter Jackson, previously a Non-Executive Director. On behalf of the Board, I would like to thank Breon for his significant contribution to the Group and previously to Paddy Power plc and Betfair Group plc over the past 16 years. Danuta Gray retired as a Non-Executive Director on 17 May 2017. On behalf of the Board, I would also like to thank her for her contribution to the Company. In 2017, we welcomed Emer Timmons and Jan Bolz as Non-Executive Directors on 17 May and 6 September 2017 respectively. The new Directors increase Board diversity and bring fresh insights and perspectives and improve our decision-making. Further to Board changes and also as part of succession planning, we made a number of changes to the composition of our Committees and these are set out in the individual Committee reports. The most notable changes are those to the Remuneration and Risk Committee Chairs, Peter Rigby succeeded Pádraig Ó Riordáin as Chair of the Remuneration Committee and Zillah Byng-Thorne became Chair of the Risk Committee, both effective as of 1 January 2018.

We announced on 2 March 2018, Pádraig Ó Ríordáin retired as a Non-Executive Director effective as of that date. I would like to thank Pádraig for his valuable contribution to our Board over his tenure, in particular, for his excellent chairmanship of the Remuneration Committee.

As announced on 5 March 2018, Alex Gersh has advised the Board that he intends to step down as Chief Financial Officer once a successor has been appointed. We have appointed an executive search firm to assist with the process of appointing a successor.

Statement of compliance

As a dual listed company with a premium listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange, on behalf of the Board, I am pleased to confirm that we have fully complied with both the UK Corporate Governance Code 2016 (the "UK Code") and the Irish Corporate Governance Annex (the "Irish Annex") for the year ended 31 December 2017.

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

The Irish Annex is available from the Irish Stock Exchange's website:
ise.ie

Fair, balanced and understandable

The Board believes that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Audit Committee assisted the Board with this assessment as explained on page 65. The Statement of Directors' Responsibilities appears on page 97.

We value diversity in its broadest sense, beyond just gender, at Board-level, in our senior management population and throughout the organisation. The Nomination Committee considers this at Board-level and is also kept updated on the initiatives to drive this in our senior leadership population.

In 2016, we undertook an evaluation of the performance of the Board and its Committees by an independent third party and therefore, in 2017, we elected to undertake an internal performance evaluation. This confirmed that the Board and its Committees were operating effectively and that each Director continues to bring relevant knowledge, diversity of perspective, an ability and willingness to challenge group thinking and a strong commitment to the role (see page 59).

Remuneration Policy

During 2017, the Remuneration Committee undertook a comprehensive review of the remuneration arrangements in the context of the Group's strategy, best practice and the emerging governance environment. The Committee believes that our current Remuneration Policy remains largely fit for purpose and continues to be aligned to our forward-looking strategy and as such only minor changes are recommended for approval to shareholders at the upcoming AGM. Details of this can be found in the Directors' Remuneration Report.

Reputation

Given the importance of our corporate reputation, the Risk Committee focuses on the reputational impact of the Group's activities and how these are being managed, particularly in relation to compliance with our regulatory licences, operational matters such as anti-money laundering, anti-bribery and corruption and responsible gambling.

Systems of risk management and internal controls

An essential part of the Board's remit in promoting the long-term success of the Group is to ensure that sound systems of risk management and internal controls are in place. The Risk Committee, alongside the Audit Committee, monitors the Group's risk management processes for assurance that these are appropriate and in line with the risk appetite for the Group and reports on this to the Board.

Shareholder engagement

We welcome the opportunity to engage with our investors and during 2017, I was pleased to meet with a number of our investors (see pages 70 and 71). We look forward to meeting our shareholders at our Annual General Meeting which will be held on 18 May 2018 at 11.00am at our head office in Clonskeagh, Dublin.

Objectives for 2018

The Board's objectives for 2018 are to support Peter Jackson as the new Chief Executive Officer with the review and execution of our strategy, to continue to ensure that the focus and composition of the Board evolves to enhance effective governance practices and to ensure oversight of the business and balancing and managing risk is in the best interests of all of our stakeholders.

Gary McGann
Chairman

7 March 2018

BOARD OF DIRECTORS

Gary McGann (age 67)
Chairman – Independent on appointment

Appointed to this position: 1 July 2015

(Became a Non-Executive Director on 24 November 2014)

Nationality:

Skills and experience: Gary has significant Board-level experience in both the private and public sector and experience in senior finance and operations roles over the past 40 years. He was Group Chief Executive of Smurfit Kappa Group PLC from 2002 until he retired in September 2015 but continued to be a Non-Executive Director until May 2017. He joined Smurfit Kappa Group in 1998 as Chief Financial Officer and also served as President and Chief Operations Officer. He had previously been the Chief Executive of Gilbeys of Ireland and Aer Lingus Group. Gary holds BA (UCD) and MSc Management (Trinity) degrees and is a Fellow of the Association of Chartered Certified Accountants.

Other current appointments: Chairman of Aryzta AG, Non-Executive Director of Green Reit plc and Chairman of Sicon Ltd

Peter Jackson (age 42)
Chief Executive Officer

Appointed to this position: 8 January 2018

(Non-Executive Director of Betfair Group plc: April 2013 and Paddy Power Betfair plc: February 2016)

Nationality:

Skills and experience: Peter has extensive experience in leading a substantial consumer business with international reach within a highly regulated industry and a combination of technology and digital consumer sector expertise. Prior to becoming Chief Executive Officer, Peter was Chief Executive Officer of Worldpay UK, an operating division of Worldpay Group plc. He was formerly Head of Global Innovation at Banco Santander and a Director of Santander UK Group Holdings plc and prior to this, Chief Executive Officer of Travelex Group. Before that he held senior positions at Lloyds and Halifax Bank of Scotland, and McKinsey & Company. Peter holds an MEng from the University of Cambridge.

Other current appointments: None

Alex Gersh (age 54)
Chief Financial Officer*

Appointed to this position: 2 February 2016*

(Chief Financial Officer of Betfair Group plc: December 2012)

Nationality:

Skills and experience: Prior to being Chief Financial Officer of Betfair Group plc, Alex had been Chief Financial Officer at NDS Group, Flag Telecom and BT Cellnet. Alex was previously a Non-Executive Director and Chairman of the Audit Committee of Black Earth Farming Ltd, a company listed on NASDAQ OMX (Stockholm). His early career was spent with Ernst & Young. In addition to having held a number of senior finance positions across a variety of companies, he has considerable experience of working in highly competitive and regulated, digital international businesses. Alex is a qualified Certified Public Accountant.

Other current appointments: Non-Executive Director of Moss Bros Group plc

* As announced on 5 March 2018, Alex Gersh has advised the Board that he intends to step down as Chief Financial Officer once a successor has been appointed.

Jan Bolz (age 57)
Independent Non-Executive Director

Appointed to this position: 6 September 2017

Nationality:

Skills and experience: Jan has over 25 years of senior management experience across marketing, sales and finance functions, most recently as the Chief Executive Officer of Tipico, a German sports betting business. Prior to this, Jan held several senior executive roles with Electronic Arts, including that of Vice President of Marketing and Sales for International, and Bertelsmann Music Group as Managing Director of BMG Ariloa Munich. He has a wealth of global experience across the gambling and gaming industry. Jan studied Economics at Hamburg University and Mechanical Engineering at the Technology University of Karlsruhe.

Other current appointments: None

Zillah Byng-Thorne (age 43)
Independent Non-Executive Director

Appointed to this position: 2 February 2016

(Non-Executive Director of Betfair Group plc: September 2013)

Nationality:

Skills and experience: Zillah is the Chief Executive of Future plc and prior to this was Chief Financial Officer of Trader Media Group, Fitness First Group Ltd and Thresher Group. She previously held non-executive directorships with Mecom plc and Gondola Holdings plc. Having worked in consumer businesses for the last 20 years, Zillah brings great insight into retail trends, consumer behaviour and enhancing a company's brand. She is a qualified accountant and has an MA in Management Studies and an MSc in Behavioural Change.

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

Michael Cawley (age 63)
Independent Non-Executive Director

Appointed to this position: 17 July 2013

Nationality:

Skills and experience: Michael previously held a number of senior positions at Ryanair: Deputy Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Commercial Director. Prior to that, Michael was Group Finance Director of Gowan Group Limited. He has significant experience of senior finance and operational roles in addition to Board-level experience gained though non-executive directorships in public listed companies across different sectors. He holds a Bachelor of Commerce degree and is a fellow of the Institute of Chartered Accountants in Ireland.

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

Ian Dyson (age 55)
Senior Independent Director

Appointed to this position: 2 February 2016

(Non-Executive Director of Betfair Group plc: February 2010)

Nationality: 🇬🇧

Skills and experience: Ian has more than 20 years' experience of working in public companies, having held senior finance roles and both executive and non-executive directorships. This includes working in regulated businesses and the gambling and gaming sector. He was formerly a Non-Executive Director of Punch Taverns plc, having previously been Chief Executive. Previous positions held by him include Finance & Operations Director at Marks and Spencer Group plc, Finance Director at The Rank Group plc, Group Financial Controller of Hilton Group plc and Finance Director at Le Meridien. His early career was spent with Arthur Andersen, where he became a Partner at the firm in 1994. Ian is a qualified chartered accountant.

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

Emer Timmons (age 49)
Independent Non-Executive Director

Appointed to this position: 17 May 2017

Nationality: 🇮🇪 🇨🇦

Skills and experience: Emer has a wealth of global experience and understanding of leading all aspects of sales, marketing, retail and distribution. She is the Chief Marketing Officer and President of Strategic Sales for Brightstar Corporation. Prior to this, Emer held several senior executive roles at BT, including President of BT Group Strategic Deals and Customer Engagement, as well as leading BT's Global Services UK business. She holds a degree in Maths and Economics from the National University of Ireland.

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

Peter Rigby (age 62)
Independent Non-Executive Director

Appointed to this position: 2 February 2016

(Non-Executive Director of Betfair Group plc: April 2014)

Nationality: 🇬🇧

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

Other current appointments: Chairman of MVF

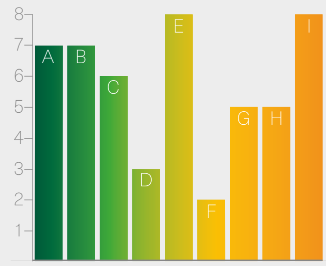
Key to Committee membership

- A Audit Committee
- N Nomination Committee
- Re Remuneration Committee
- Ri Risk Committee
- C Committee Chairman

As at 7 March 2018:

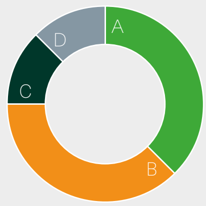
DIRECTORS' SKILLS

A: Finance: 7
B: Regulation and regulatory: 7
C: Retail/ Consumer: 6
D: Gambling/ Gaming: 3
E: Digital: 8
F: Technology systems: 2
G: Marketing: 5
H: Brands: 5
I: Operational: 8



LENGTH OF TENURE
(NON-EXECUTIVE DIRECTORS)*

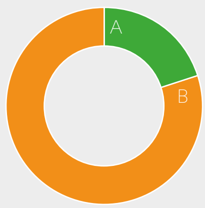
A: 1-3 years: 42.9% (3)
B: 3-6 years: 42.9% (3)
C: 6-9 years: 14.2% (1)



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

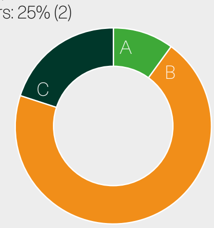
GENDER

A: Female: 22% (2)
B: Male: 78% (7)



BALANCE OF INDEPENDENCE

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



* Independent on appointment.
** Excluding Chairman.

CORPORATE GOVERNANCE FRAMEWORK, ROLES AND RESPONSIBILITIES

Board

Nomination Committee

Ian Dyson (Chair)
Michael Cawley
Gary McGann

Considers the structure, size and composition of the Board and its Committees and advises on succession planning.

Committee Report: pages 60 and 61

Audit Committee

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

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

Committee Report: pages 62 to 67

Risk Committee

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

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

Committee Report: pages 68 and 69

Remuneration Committee

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

Reviews all aspects of Executive remuneration, reviewing trends across the industry and setting Executive remuneration policies, which are designed to incentivise and retain talent to support the delivery of the Group's long-term strategy.

Committee Report: pages 72 to 92

Disclosure Committee

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

Executive Committee

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

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

Chief Executive Officer

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

Terms of reference: paddypowerbetfair.com/investor-relations

Board of Directors

- Responsible for the stewardship of the Group, overseeing its conduct and affairs to create sustainable value for the benefit of all of its stakeholders, including employees, customers and the communities in which it operates
- Responsible for the Group's strategic direction, long-term objectives and development
- Discharges some of its responsibilities directly and others through its Committees and management
- Approves strategic plans and annual budgets and ensures that the necessary financial and human resources are in place for the Group to meet its objectives
- Maintains an oversight of the Group's operations, financial performance and governance, ensures we have in place a robust system of internal controls and risk management, and oversees our compliance with statutory and regulatory obligations
- Responsible for ensuring that the Group has the necessary leadership team in place to efficiently execute its strategy
- Responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Group are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Group. Our Values underpin the expected behaviours of the business
- Determines the Group's risk appetite

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

Chairman
Gary McGann

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

Senior Independent Director
Ian Dyson

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

Non-Executive Directors
(all independent)

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

Chief Executive Officer
Peter Jackson

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

Chief Financial Officer
Alex Gersh

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

Company Secretary
Edward Traynor

- Ensures a good flow of timely information to the Board and its Committees and between management and the Non-Executive Directors
- Advises the Board on legal and governance matters and ensures compliance with Board procedures
- Facilitates all new Director inductions and Directors' ongoing training
- Coordinates the evaluation of the Board
- Also Group General Counsel - oversees the legal and regulatory affairs teams

2017 BOARD ACTIVITIES

2017 BOARD MEETING ATTENDANCE

Directors during 2017	Meetings attended/ Eligible to attend	% of meetings attended
Gary McGann	10/10	100%
Breon Corcoran[1]	10/10	100%
Alex Gersh[2]	9/10	90%
Jan Bolz	3/3	100%
Zillah Byng-Thorne	10/10	100%
Michael Cawley	10/10	100%
Ian Dyson[2]	9/10	90%
Danuta Gray[3]	3/5	60%
Peter Jackson[1]	10/10	100%
Pádraig Ó Ríordáin[4]	10/10	100%
Peter Rigby[2]	9/10	90%
Emer Timmons	5/5	100%

1. Breon Corcoran ceased being Chief Executive Officer on 7 January 2018 and was succeeded by Peter Jackson on 8 January 2018.
2. Alex Gersh, Ian Dyson and Peter Rigby missed one meeting each due to a prior commitment notified to the Chairman in advance.
3. Danuta Gray resigned from the Board and the Remuneration and Audit Committees on 17 May 2017. She missed two meetings due to prior commitments notified to the Chairman in advance.
4. Pádraig Ó Ríordáin retired from the Board and the Nomination and Risk Committees on 2 March 2018.

GOVERNANCE IN ACTION

BOARD VISIT: BETFAIR, US

In June 2017, the Board visited the offices of Betfair US in Los Angeles to gain a better insight into the TVG business, the Group's other operations in the USA and the marketplace. The Board was provided with an understanding of the opportunities and challenges in the USA, particularly the regulatory environment, the competitive landscape and the market in the region. Presentations covered a wide range of the areas including TVG, the New Jersey Exchange, Draft, People, Technology, Product, Commercial, Marketing and Regulation. It also afforded the Board an opportunity to meet the US-based management team as well as employees at all levels in the US operation.

Board meetings

Ten scheduled Board meetings were held in 2017, all of which, with the exception of the meeting held as part of the Board's visit to Los Angeles, were held in Ireland. At each, standing agenda items were updates by the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. Each Committee Chair also provided an update on their respective Committee meetings at the next Board meeting and copies of each Committee's minutes (to the extent that they contain no items which would be a potential conflict for other Directors) are circulated to the Board. There were also six Non-Executive Directors only meetings held in 2017.

Board and Committee members are provided with papers in advance of each meeting and these are uploaded in a timely manner on to an electronic portal. Generally, Non-Executive Directors receive all Committee papers unless there is a possible conflict. Each Director ensures that they have reviewed papers in advance of the meeting. If a Director is unable to attend, comments are provided to the Chairman or the relevant Committee Chairman beforehand. If any Director has unresolved concerns about the Group or a proposed action, these are recorded in the minutes of the meeting. There were no such occasions in 2017.

Key activities of the Board in 2017

Strategic and operational matters	Through the Chief Executive Officer, updated on operational, business and strategic matters, including responsible gambling and regulatory initiatives as well as competitor analysis
	A dedicated offsite strategy day was held to consider the Group's strategic opportunities and challenges, comprising both internal and external presentations
	Various presentations on functional updates and developments by Executive Committee members and other members of senior management including actions, progress and risks in relation to strategic priorities
	Approved the acquisition of Draft and continued to monitor opportunities for acquisitions
	Updated on material communications with regulators
Finance and investor relations	Through the Chief Financial Officer, updated on financial performance updates
	Consideration of the 2017/18 budget in the context of the three-year plan
	Reviewed and approved the results announcements and trading updates
	Updated on investor views and shareholder relations, analysts' reports and media updates, share register movements and share price performance
	Updated on engagement with investors
	Reviewed and approved the going concern and viability statements
	Reviewed the Group's financing and capital structure, including our dividend policy and shareholder returns. The interim and final dividends declared for 2017 were specifically reviewed in the context of the Company's distributable reserves (see Note 13 to the Company Financial Statements on page 169)
	Approved the Group's Tax strategy and its publication on our website
Governance	Reviewed developments in corporate governance and legal and regulatory updates
	Updated on industry reviews, for example the CMA investigation and the Triennial Review
	Undertook a fair, balanced and understandable review of the Annual Report and Accounts
	Received updates on our internal controls and risk management systems through reports from the Audit Committee and Risk Committee Chairs
	Internal Board and Committee effectiveness evaluation
	Reviewed and approved the Matters reserved for the Board and each Committee's terms of reference
	Approved the Group's Modern Slavery Statement for publication on our website
Leadership and people	Discussed the composition of the Board and its Committees, including succession planning
	Approved the appointment of the new Chief Executive Officer and two new Non-Executive Directors, as well as the changes to Committee composition and Chairs
	Updated on people strategy, engagement, succession planning and talent management particularly at senior management level

GOVERNANCE IN ACTION

RESPONSIBLE GAMBLING

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

Time commitment

On appointment, Directors are advised of, and required to make, the necessary time commitment to discharge their responsibilities effectively. No precise timings are given as this will vary from year-to-year depending on activities. The Chairman keeps under continual review the time each Non-Executive Director has dedicated to the Group and his own time commitment is kept under review by himself in conjunction with the Board. This was also considered as part of the internal Board evaluation (see page 59). The majority of Directors are experienced board directors of public companies and all have an understanding of the time and intellectual commitment that is necessary to fulfil their commitments to the Group. For any Director who hasn't previously been a director of a public company, time expectations are highlighted on appointment. The Board recognises the UK Code's guidance and investors' expectations that Directors give sufficient time to discharge their responsibilities. Attendance at Board and Committee meetings is a priority. In addition to the formal scheduled meetings, there is significant other engagement by Directors. This includes private individual meetings with the Chairman, the Chief Executive Officer and other Directors, as necessary.

As part of enhancing business knowledge and insight, Non-Executive Directors, in particular Committee Chairs, had meetings with other members of senior management throughout the year. During 2017, the Board travelled to the US to visit our offices, and the Non-Executive Directors also visited our operations in London. The Chairman and Committee Chairs also spend considerable time outside of the formal meetings preparing for meetings with the assistance of the Company Secretary.

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

Executive Directors may hold one other external non-executive directorship (but not a chairmanship) of a large public listed company (or its equivalent) but must obtain the prior consent of the Chairman before accepting this. Executive Directors may retain the fees from any such directorship. This is considered helpful to broaden and deepen their skills, knowledge and experience. As set out on page 52, Alex Gersh, Chief Financial Officer, serves as a Non-Executive Director of Moss Bros Group plc and in 2017 received fees of £7,333 in respect of this.

Conflicts of interest

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

Election/Re-election of Directors

All Directors are appointed on a three-year basis with any subsequent term reviewed by the Nomination Committee and recommended to the Board. This is subject to the annual re-election of all Directors at the AGM. As part of the recommendation to shareholders for the election/re-election of individual directors, the skills and experience each Director brings as well as their time commitment, tenure and independence is considered. The performance review and evaluation also feed into this.

In respect of all current Directors, the Board recommends the election of Jan Bolz and Emer Timmons and the re-election of all other current Directors to shareholders at our upcoming AGM.

DIRECTOR INDUCTION, DEVELOPMENT AND EVALUATION

Director induction, development and evaluation

On joining the Board, all new Directors undertake an induction programme, which is managed by the Chairman and Company Secretary over the first few months after appointment. The primary purpose is to familiarise them with the Group's operations and business, the regulatory environment, our stakeholders as well as Director duties and our governance practices. Visits to our offices are also encouraged to gain a first-hand understanding of our culture. While there is an overall induction programme in place, this is tailored to take into account a Director's previous experience and specific Committee responsibilities. This is then discussed with the Director themselves. At the end of the induction, the Director has meetings with the Chairman and the Chief Executive Officer. Any Directors who have had a change in responsibilities, for example appointment as a Committee Chair, also receive appropriate inductions in relation to this.

GOVERNANCE IN ACTION

INDUCTION: JAN BOLZ AND EMER TIMMONS

- Met with Executive Committee members and other functional leads from across the business
- Received presentations on strategy, the industry, our competitors and external regulatory environment
- Provided with an insight into the Group's financial structure
- Received information on the role and duties of a Non-Executive Director, our corporate governance framework and responsibilities under the EU Market Abuse Regulation
- Received an induction pack on information on the Group, including copies of previous analyst and investor reports
- Specific Committee induction was provided in relation to the Committees which Emer and Jan were being appointed to
- Visited our Clonskeagh and Hammersmith offices and Emer also visited our US offices in Los Angeles

Ongoing training and development and advice

The Chairman and Company Secretary keep under review Directors' knowledge and understanding of the Group to fulfil their roles on the Board and its Committees. All Directors can request further information as they consider necessary to fulfil their role. As part of ongoing development, legal and regulatory updates are provided as necessary for the Board and each Committee by internal and external advisers. For example, in 2017, this included updates on the EU-wide General Data Protection Regulation, the 4th Anti-Money Laundering Directive and given the external environment and recent reviews into remuneration, the Remuneration Committee was provided with a governance update on the current remuneration landscape.

We recognise that our Directors have a diverse range of experience, and we accordingly encourage them to attend external seminars and briefings that will assist them individually, particularly in the case of Committee Chairs.

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

Board and Committee evaluation and Director performance

We recognise the importance of evaluating the performance of the Board, its main Committees and all Directors, in line with the UK Code. Further to the independently externally facilitated evaluation in 2016, the Nomination Committee and the Chairman reviewed the approach and recommended an internally facilitated process for 2017.

2016 Board and Committee external evaluation: Actions and progress

The Nomination Committee reviewed the actions from the 2016 evaluation and progress against these are summarised below:

Actions	Progress
Focus on Board and Committee succession planning given Board changes	Two Non-Executive Director appointments during 2017; each bringing additional skills and experience to the Board as a whole. Chief Executive Officer succession planning.
Given expected new Board appointments in 2017 would be the first post-Merger, focus on the Director induction programme	Emer Timmons' and Jan Bolz's inductions are summarised on page 58.
Further enhancement of Non-Executive Directors' knowledge of the Group's business and also ensuring that they are kept up-to-date with key industry and other developments	Throughout 2017, there has been a range of presentations by senior executives and third parties at Board meetings with deep dives into the US market as part of the Board's US visit, as well as more presentations from the Commercial team on objectives and progress made in 2017. There were also presentations on capital markets, stock market trends and developments in mergers and acquisitions. The Board and each Committee received presentations on legal and regulatory developments on areas impacted within their remit.

2017 Board and Committee internal evaluation

Questionnaire

Each Director completed a questionnaire covering the following themes:

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

Director performance

- **Chairman**: Ian Dyson, as Senior Independent Director, had individual meetings with all Directors as part of his review of the Chairman's performance. This was then discussed with the Directors and feedback given to the Chairman
- **Non-Executive Directors**: Throughout 2017, the Chairman kept under review the performance of all Non-Executive Directors, providing continual feedback as appropriate. As part of the internal evaluation, performance was also discussed with each Director
- **Chief Executive Officer**: The Chairman discussed this with the Chief Executive Officer
- **Chief Financial Officer**: The Chief Executive Officer evaluated the Chief Financial Officer and incorporated feedback from the other Directors as necessary

Results

- The results were collated by the Company Secretary's office and a report prepared summarising the feedback and highlighting themes. This was discussed with the Chairman and the Nomination Committee Chair and presented at the Board meeting in March 2018
- Actions for 2018 were discussed and agreed with the Board
- Progress against actions will be monitored by the Nomination Committee and the Company Secretary during 2018
- Each Committee Chair also received feedback on their respective Committee in order to continue to improve its effectiveness

Conclusion

- Overall, it was concluded that the Board and each of its Committees were effective and worked well together, giving due discussion to areas within their remit and no significant concerns were raised. There is a positive and supportive culture of openness which is facilitated by the Chairman
- All Directors are considered to be making an effective contribution to their roles, bringing relevant knowledge, diversity of perspective, and an ability and willingness to challenge, and each retains a strong commitment to the role
- The Chairman continues to perform very effectively, both in respect of Board matters and in relation to other aspects of his role as Chairman taking into account the benefit of all stakeholders, including shareholders

Focus Areas for 2018

- With the change in Chief Executive Officer and structure of his management team, the Board will continue to provide oversight and support to them in reviewing and executing the strategy
- To increase the amount of time at Board-level allocated to risks and challenges that could impact the business with a specific focus on responsible gambling and cyber security
- As part of increasing the knowledge of Directors especially in light of external industry and regulatory changes, the Board will have further internal and external presentations
- The Board will continue to focus on Board composition and succession planning with an emphasis on diversity

NOMINATION COMMITTEE REPORT

"The focus of the Committee during 2017 was succession planning for the Chief Executive Officer, the appointment of two Non-Executive Directors and a comprehensive review of Committee composition."

Ian Dyson
Nomination Committee Chairman

CURRENT COMMITTEE MEMBERS

Ian Dyson (Chair)
Michael Cawley
Gary McGann

2017 COMMITTEE MEETING ATTENDANCE

2017 Committee members[1]	Date appointed	Attended/ Eligible to attend
Ian Dyson (Chair)	February 2016	4/4
Zillah Byng-Thorne[2]	February 2016	4/4
Gary McGann	July 2015	4/4
Pádraig Ó Ríordáin[3]	December 2016	4/4

1. All members are independent Non-Executive Directors and the Chairman was independent on appointment to that role.
2. Zillah Byng-Thorne ceased being a member on 31 December 2017.
3. Pádraig Ó Ríordáin ceased being a member on 2 March 2018.

OTHER ATTENDEES

Other Board Directors, including the Chief Executive Officer and Committee Chairs, are invited to attend meetings as appropriate in order to provide relevant input. For two Committee meetings in 2017, all Non-Executive Directors attended, given the focus on Chief Executive Officer succession planning.

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

Role and responsibilities

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

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

Key activities undertaken in 2017

Chief Executive Officer succession

During 2017, the Committee led a thorough succession planning process for the new Chief Executive Officer. Spencer Stuart, an independent external search agency, assisted with this process. A role profile was created with the requirements and the desired skill-set that a potential successor would need and the resultant pool of candidates was reduced to a shortlist who were interviewed. Peter Jackson was unanimously appointed by the independent Non-Executive Directors. The Board's selection of Peter reflects his experience as a proven chief executive officer; his track record of leading substantial businesses with international reach; and, a combination of technology and digital consumer sector expertise.

Board composition and balance

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

New Non-Executive Director appointments

We engaged independent external agencies to conduct a search for new Non-Executive Directors. A broad selection criteria was considered with particular focus on enhancing the Board's collective skills and diversity in line with our Board Diversity Policy. Potential Non-Executive candidates were considered by the Committee and a shortlist was interviewed on merit, after assessing their relevant qualifications and time commitments. This culminated in the recommendations of Jan Bolz and Emer Timmons. Jan has significant senior management experience across marketing, sales and finance functions and also industry knowledge having been the CEO of a sports betting business. Emer brings a wealth of global experience in sales and marketing, retail and distribution.

Changes to Committees

The Committee also concentrates on strengthening the Board's existing capabilities and matching the right skills and experience to those required by each Board Committee. Given Board changes and pro-active succession planning, the Committee recommended a number of changes to the composition of Committees and two Chair changes. As of 1 January 2018, Peter Rigby succeeded Pádraig Ó Ríordáin as Chair of the Remuneration Committee having been a member of the Remuneration Committee since the Merger and prior to that as a member of the Remuneration Committee of Betfair Group plc. Also effective as of 1 January 2018, Zillah Byng-Thorne was selected as Chair of the Risk Committee given her relevant and appropriate experience and a strong commitment to the subject matter.

Skills and experience

For balanced and effective decision-making, it is important that the Board has a broad range of skills and experience. Our skills matrix is based on self-assessment by each Director of their experience and skills and the review of this by the Chairman and the Committee. This allows the mapping of the Board's skills, as a whole, against the evolving needs of the business and ensuring a focused future search.

Directors' biographies: pages 52 and 53

Diversity

We consider diversity in its widest sense to include age, experience, ethnicity, professional background, skills and international experience. However, we are also mindful of the reviews in this area including the Davies Review, the Parker Review and Hampton-Alexander Review. As part of our Board Diversity Policy, we have committed to achieving our target of having at least 33% female Directors by 2020. As at 7 March 2018, 22% of our Directors are female. As part of working towards achieving our target, in 2017, we ensured that any external search agency appointed to assist with our Non-Executive Director search produced a long list of candidates from a broad and diverse global pool giving sufficient consideration to female representation. Accordingly, the long and short list comprised at least 50% female candidates, including candidates from outside of FTSE100 companies. In line with our Board Diversity Policy, The Zygos Partnership and Spencer Stuart, the executive search agencies appointed for the Non-Executive and Executive searches, were both signatories of the Voluntary Code of Conduct for Executive Search Firms in Board appointments. All recommendations for appointments to the Board by the Committee are made on the basis of merit.

The Committee kept the gender diversity of the Executive Committee and their direct reports under review (as at 31 December 2017, the composition was 17 (27%) women and 46 (73%) men).

Information on our diversity initiatives, gender diversity statistics for both our senior management team and workforce: pages 28 to 33

Tenure and Independence

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

Taking into account my tenure on both the Board of Betfair Group plc and the Company cumulatively, I have been a Non-Executive Director for over six years and therefore a rigorous review of my independence was undertaken (in my absence) by the Committee and Board. They were satisfied that I remain independent and continue to make a valuable contribution.

Given Pádraig Ó Ríordáin is a partner at Arthur Cox (one of the Group's legal advisers) and also had been a Non-Executive Director for over nine years from the end of July 2017, the Committee and the Board ensured that it continued to monitor and review his continued independence, particularly given his role as Remuneration Committee Chair throughout 2017. As per previous years, both remained comfortable that he continued to be independent as there had been no change in Pádraig's or Arthur Cox's relationship with the Group as against prior years. As announced on 2 March 2018, Pádraig has retired as a Non-Executive Director effective as of that date.

Board and Committee evaluation

The Committee considered and agreed the process for the 2017 internal evaluation of the Board and its Committees and during 2017 monitored the progress against the 2016 evaluation actions.

Board and Committee evaluation: page 59

Effectiveness of the Committee

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

Focus for 2018

To continue to focus on composition and succession planning for the Board, specifically for the role of Chief Financial Officer, and its Committees.

Ian Dyson
Nomination Committee Chairman

7 March 2018

AUDIT COMMITTEE REPORT

"In 2017, the Committee continued to ensure appropriate governance and oversight over the integrity of the Group's financial reporting and the Group's internal controls and risk management frameworks."

Michael Cawley
Audit Committee Chairman

CURRENT COMMITTEE MEMBERS

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

2017 COMMITTEE MEETING ATTENDANCE

2017 Committee members[1]	Date appointed	Attended/ Eligible to attend[2]
Michael Cawley (Chair)	July 2013 & Chairman since July 2014	7/7
Jan Bolz	October 2017	2/2
Zillah Byng-Thorne	February 2016	7/7
Ian Dyson	February 2016	7/7
Danuta Gray[3]	February 2016	2/3
Emer Timmons	May 2017	3/3

1. All members are independent Non-Executive Directors.
2. One of these was a Joint Audit and Risk Committee meeting.
3. Danuta Gray ceased being a member of the Committee on 17 May 2017; she missed one meeting due to a pre-existing arrangement notified to the Chairman in advance.

Role and responsibilities

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

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

OTHER ATTENDEES

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

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

In addition to the Director of Internal Audit and Compliance who presents at every meeting and the Chief Financial Officer who updates the Committee on key financial matters, in 2017, other presentees, included:

- Chief Technology Officer
- Director of Technology Security
- Group Director of Finance and Corporate Controller
- Director of Tax
- Group Head of Treasury & Client Funds
- MD, Customer Operations
- Head of Group Finance Services
- Chief Information Officer, Sportsbet
- CEO, Sportsbet
- Chief Information Officer, US
- CEO, TVG
- Chief Technology Officer, TVG

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

Directors' biographies: pages 52 and 53

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

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

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

Key activities undertaken in 2017

The Committee met seven times in 2017, which included a joint Audit and Risk Committee meeting. Meetings are generally scheduled around the financial reporting cycle to allow the Committee to discharge its duties in relation to the financial statements. The Committee's activities in 2017 included:

Financial reporting	• Monitoring the integrity of the financial statements and the formal announcements relating to the Group's financial performance
	• Reviewing significant financial reporting judgements
	• Assessing and reporting on the Group's viability in line with the UK Code requirements and the appropriateness of the going concern basis
	• Considering the report of the External Auditor on the financial statements and the year end audit
	• Ensuring compliance with relevant regulations for financial reporting and the UK Code
Reporting and governance	• Advising the Board as to whether, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the necessary information to shareholders to assess the Group's position and performance, business model and strategy
	• Reviewing the Committee's Terms of Reference and making amendments in line with changes to the UK Code and best practice guidelines
	• Reviewing the Committee's schedule of proposed matters for its 2018 meetings
Risk management and internal controls	• Assessing the appropriateness of the Group's overall risk management and internal control framework
	• Ensuring that there is a robust process in place to monitor and evaluate the principal risks to which the Group is exposed, including those that would threaten its business model, future performance, solvency or liquidity
	• Reviewing our whistleblowing arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and any outputs therefrom
	• Reviewing processes for detecting fraud, misconduct and control weaknesses and considering responses to any such occurrence
Internal Audit	• Monitoring and reviewing the effectiveness of the Group's Internal Audit function
	• Considering the results of internal audits undertaken and Management's responses to the findings, including updates on actions identified
	• Approving any changes to the Internal Audit Plan for 2017 and the Internal Audit Plan for 2018
	• Reviewing and approving the Internal Audit Charter
External Auditor	• Considering and making a recommendation to the Board in relation to the continued appointment of KPMG as the External Auditor and approving its remuneration and terms of engagement for the 2017 financial year
	• Reviewing and approving the External Audit Plan for 2017 presented by KPMG, including consideration of its key areas of risk and the audit approach applied by KPMG, the proposed areas of coverage of KPMG's audit and any changes of scope and risk areas during the year
	• Considering KPMG's updates during 2017 in relation to the External Audit Plan and related actions
	• Evaluating the performance of KPMG, including its independence and objectivity and monitoring any non-audit services provided by them
	• Reviewing the Group's Non-Audit Policy and required approvals of non-audit services and related fees provided by KPMG during 2017

Financial reporting and significant financial issues

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

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

Matter considered	Action
Revenue The Group has a number of income streams across its online and retail operations with a high prevalence of cash and credit card transactions. Effective operational and fraud-related controls from both an IT systems and financial control perspective assist in ensuring the accuracy and completeness of these income streams.	The Committee gained comfort over this area through discussion with the Chief Financial Officer and the Group Director of Finance and Corporate Controller in relation to the operation of key financial controls such as cash and revenue reconciliations. Representations from the Director of Technology Security and the MD, Customer Operations provided additional assurance during 2017 in relation to the operating effectiveness of our IT systems and the processes in place to detect any errors or omissions. The Group Head of Treasury & Client Funds presented to the Committee on treasury and banking controls in operation to ensure the accuracy and integrity of funds held in the Group's bank accounts. The Committee also gained an understanding of, and challenged, the work performed by KPMG, including its assessment of the key IT controls in operation in relation to the Group's IT systems. As a result of the above procedures the Committee is satisfied that there are appropriate controls and processes in place across the Group to ensure the completeness and accuracy of reported income.
Compliance with laws and regulations including tax The Group operates in a heavily regulated industry across a number of geographical jurisdictions. The area of compliance continues to evolve in all of our markets. Compliance with the laws and regulations in each jurisdiction that could have a direct effect on material amounts reported and disclosed in the Group's Financial Statements is a key risk area considered by the Committee. This includes matters such as tax, where judgement and estimation is required to interpret international tax laws relating to gaming, transfer pricing as well as point of consumption tax and the way these taxes interact within each jurisdiction, in order to identify and value provisions in relation to gaming and other taxes as applicable, licensing, data protection, money laundering, fraud and other legislation.	The Risk Committee has direct oversight of the Group's Compliance function including reviewing the processes in place to ensure compliance with laws and regulations. Annually, there is a joint Audit and Risk Committee meeting. I (as Audit Committee Chairman) am a member of the Risk Committee and the Risk Committee Chairman also provides an update to the entire Board on the discussions at the previous Risk Committee meeting with minutes circulated to all Directors. Accordingly, the Committee is kept fully appraised of any engagements with regulatory authorities, including the UK Gambling Commission, the Advertising Standards Authorities and other regulators. Any Internal Audit reports covering compliance with laws and regulations are reviewed by this Committee. The Committee was also kept updated on fraud prevention activities and any issues as they arose during 2017 and is updated on any employee concerns raised through the Group's whistleblowing facility. In addition, KPMG reported to the Committee on the results of its procedures which are designed to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. The above procedures provided the Committee with assurance that sufficiently robust policies and procedures are in place to prevent and detect instances of non-compliance with laws and regulations that could have a material impact on the amounts reported in the Group's Financial Statements. The Group engages PricewaterhouseCoopers ("PwC") as our main tax advisor. In 2017, the Group's Director of Tax presented to the Committee in relation to the Group's tax compliance. The combination of independent advice, our in-house expertise and the procedures and reporting provided by KPMG assisted in providing assurance to the Committee that the processes, assumptions and methodologies used by the Group in relation to taxation amounts reported and disclosed in the Group's Financial Statements are appropriate.

Matter considered	Action
Data integrity and IT security The integrity and security of our systems are key to the effective operation of the business and appropriate revenue recognition. As the Group regularly collects, processes and stores personal data through its business operations (including name, address, email, phone number and financial data such as bank details and betting history) it must ensure strict compliance with all relevant data protection and privacy-related laws and regulations in all jurisdictions where it operates. The Group is potentially exposed to the risk that customer or employee personal data could be inappropriately collected, lost or disclosed, or processed in breach of data protection regulation. This could also result in formal investigations and/or possible litigation resulting in prosecution and damage to our brand and reputation. Data protection regulations are changing significantly with the EU-wide General Data Protection Regulation coming into force in May 2018.	The Group has appropriate data protection policies in place in order to protect the privacy rights of individuals in accordance with the relevant data protection legislation. The Group's Legal and Compliance teams ensure that the business adheres to industry best practice standards and relevant laws of data protection compliance. There is ongoing significant investment in IT security resources and we partner with a variety of external security specialists to ensure security arrangements and systems are up-to-date with emerging threats and the Committee is kept appraised of this. A project is also underway to ensure compliance with new EU-wide General Data Protection Regulation coming into force in May 2018. Updates on this are provided directly to the Risk Committee, and this Committee is kept updated on any progress through the Board and myself as Committee Chairman (through my membership of the Risk Committee). Should any issues arise that may impact the integrity of the Financial Statements, these would be formally reported to this Committee. IT security is embedded in IT operations and development processes. The Group's Information Security function continuously assesses the risks and controls around security and IT operations and reported on this to both this Committee and the Risk Committee during 2017. A significant proportion of the Internal Audit Plan reviews IT Security and Data Integrity controls in operation. The Committee reviews these reports and follows up in some detail where issues are identified. Based on assurances from Management, the Internal Audit function and the External Auditor, the Committee is satisfied with the internal controls and the residual level of risk.

Fair, balanced and understandable

The Board is responsible for ensuring that the Annual Report and Accounts, as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee, at the request of the Board, assisted the Board with this and on the basis of its review summarised below, considered this to be the case in its opinion. As part of this review, the Committee:

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

Internal Audit

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

The Director of Internal Audit and Compliance attends and reports at every Committee meeting. She has direct access to all members of the Committee and the Committee Chairman also meets with her outside of Committee meetings throughout the year. The Committee approved the 2017 Internal Audit Plan in December 2016 and this was assessed to ensure that it provided adequate coverage across the Group and was risk-based in its approach. Changes are made to this plan based on emerging risks or changes in the business that are required to be addressed. All changes to this plan were reviewed and agreed by the Committee during 2017.

Progress against the Internal Audit Plan was reported to the Committee throughout 2017, including in detail at the half year end and post year-end. The Committee also reviewed the specifics of audit findings and the progress of the business in addressing audit recommendations. Internal Audit regularly reported to the Committee on key risk themes, methodology enhancements and on the overall risk management frameworks in the business.

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

Risk management

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

Understanding and managing our principal risks: pages 46 to 49

The Board is also required under the UK Code to explain how it has assessed the prospects of the Group, over what period it has done so, why this period is considered appropriate and state whether the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities if they fall due over the period of their assessment drawing attention to any qualifications or assumptions as necessary. The Board has reported on these requirements on page 96.

This Committee, and the Risk Committee together, support the Board in relation to monitoring the adequacy and effectiveness of the risk management systems. During 2017, this Committee oversaw the third line function and reviewed the output of both the Internal Audit function and the work completed by KPMG and the management of risks highlighted through their work as well as the management of financial risks. The Risk Committee, reviewed the work of the second line functions and ongoing operational risk management. To ensure that there is a full review of the risk management process as a whole, I am a member of the Risk Committee (and from 1 January 2018, the Chair of the Risk Committee is also a member of this Committee) and there is at least one joint meeting of the Audit and Risk Committees annually at which, a review of the risk management process, as a whole, is undertaken, for its appropriateness and effectiveness in identifying the principal risks and reviewing how those risks are being managed and mitigated. The Committees also rely on the work of internal and external audit to ensure that appropriate measures are taken to address risks as they are identified or as their risk profile changes.

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

Risk Committee Report: pages 68 and 69

Code of Conduct, Anti-bribery and Whistleblowing

Our Code of Conduct sets out the standard of conduct and behaviour expected of our employees throughout the organisation. We have in place policies, procedures, management systems and internal controls to prevent bribery and corruption occurring, including policies on whistleblowing, gifts and hospitality and anti-bribery and corruption. The formalised whistleblowing policy and procedure encourages employees to raise issues regarding possible improprieties in matters of financial reporting or other matters on a confidential basis. It is the responsibility of the Committee to monitor its effectiveness and any notifications made and the Committee is satisfied that the process is working appropriately. In 2017, the Committee, together with the Risk Committee, reviewed the outputs from the whistleblowing service.

Code of Conduct and training: page 33

External Auditor: KPMG

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

Performance

In April 2017, KPMG presented its 2017 audit plan to the Committee. This plan provided detail on the proposed audit approach and methodology, the materiality level intended to be used during the audit and highlighted the areas considered to have a higher risk due to the level of judgement involved and the potential impact of a misstatement on the Group Financial Statements. The areas of highest risk were considered to be those of revenue and tax provisioning. In addition, KPMG highlighted Management override of controls as a significant audit risk, as required by Auditing Standards. The Committee reviewed and appropriately challenged the conclusions reached by KPMG before agreeing its proposed audit plan's scope and approach.

KPMG presented a detailed report of its audit findings for the 2017 financial year at the Committee's meetings in February and March 2018. During 2017, KPMG presented its findings of the half-year review procedures to the Committee and in December 2017, it presented a detailed report of its IT audit findings. These findings were reviewed and questioned by the Committee, with appropriate challenge made to the work performed, assumptions made and conclusions drawn – particularly in relation to the higher risk areas as identified above.

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

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

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

Reappointment and length of service

The Committee is responsible for making recommendations on the appointment, reappointment and removal of the External Auditor to the Board and ensuring that the External Auditor is, and remains, objective and independent. The Committee reviewed the performance and effectiveness of KPMG and concluded that it continues to provide an effective audit service and that there are no compelling reasons for change. Accordingly, the Committee recommended the reappointment of KPMG (which was accepted) for the 2018 financial year. Michael Harper is the current lead audit partner. In line with best practice on independence requirements, the 2017 financial year will be his final year in this role based on the time he has served as audit partner to the Group and previously for Betfair Group plc. Cliona Mullen, a partner with KPMG Ireland, is the incoming audit partner and accordingly the lead audit office will move from the UK to Ireland.

The Committee is mindful of the requirements of the EU Directive on audit reform. Under the Directive's transitional arrangements, KPMG can continue to act as the Group's External Auditor for the period up to 31 December 2023 at which point the Committee will need to recommend the appointment of a different audit firm. Having reviewed the effectiveness of KPMG, we concluded that it was not in the best interests of the Group to undertake an external audit tender at this time, but we will continue to monitor the performance of KPMG and a tender will be undertaken when appropriate and, in any event, as required under the current legislation.

Independence and the provision of Non-Audit Services

The Committee is responsible for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group. In recognition of the fact that the perceived independence and objectivity of the external auditor may be compromised where it receives fees for non-audit services, a policy operated during 2017 formalising the process to be followed when considering whether to engage the External Auditor for non-audit services (the "Non-Audit Policy"). Any engagement of the External Auditor for non-audit work must satisfy applicable rules and legislation. This includes Statutory Instrument SI 312, signed into law in Ireland on 15 June 2016, to give effect to the 2014 EU directive and regulation on audit reform. Our Non-Audit Policy also complies with the guidelines and practice on the provision of non-audit services in the UK and Ireland – IAASA Ethical Standard for Auditors (Ireland) April 2017 and APB Ethical Standards (as set out in APB ES 5 Non-Audit Services Provided to Audit Clients) and the FRC updated guidance note of January 2016.

KPMG, as the External Auditor, is precluded from engaging in non-audit services that would compromise its independence, would violate any laws or regulations affecting its appointment as the External Auditor, or would lead a reasonable third party to regard the objectives of the proposed non-audit service as being inconsistent with the external audit. The Non-Audit Policy specifically calls out services that the External Auditor cannot provide to the Group. No approval can be given under any authority for the provision of prohibited services. Beyond this all engagements of KPMG for the provision of other services up to £50,000 must be approved by the Chief Financial Officer and for engagements in excess of £50,000 formally approved by the Committee. In addition, the total fees for non-audit services to the Group shall be limited to no more than 70% of the average of the fees paid for the last three consecutive years for statutory audit work for the Group. These restrictions are forward-looking from 2017.

During 2017, the Committee monitored the extent to which KPMG was engaged to provide non-audit services and considered and approved the engagement as required under the Non-Audit Policy. An analysis of the non-audit fees provided by KPMG during 2017 is set out in Note 7 to the Consolidated Financial Statements out on page 121. For 2017, non-audit fees paid to KPMG amounted to 74% of audit related fees paid to the UK firm and overseas offices (2016: 98%). The Committee expects that the level of non-audit fees will reduce below 70% in the coming years in line with the Non-Audit Policy. The Committee is satisfied that the non-audit services provided and fees paid in relation to these do not impair KPMG's independence and objectively and there are sufficient safeguards in place in respect of this.

Hiring of former employees of the External Auditor

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

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

Effectiveness of the Committee

This is monitored by me and was also specifically reviewed as part of the internal evaluation process (see page 59). It was concluded that the Committee is operating effectively.

Focus for 2018

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

Michael Cawley
Audit Committee Chairman

7 March 2018

RISK COMMITTEE REPORT

"In 2017, the Committee continued to focus on matters and risks that impact our reputation."

Zillah Byng-Thorne
Risk Committee Chairman

CURRENT COMMITTEE MEMBERS

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

2017 COMMITTEE MEETING ATTENDANCE

2017 Committee members[1]	Date appointed	Attended/ Eligible to attend[2]
Peter Rigby[3] (Chair)	February 2016	5/5
Michael Cawley	February 2016	5/5
Peter Jackson[4]	February 2016	5/5
Gary McGann	July 2015	5/5
Pádraig Ó Ríordáin[5]	December 2011	5/5

1. All members are independent Non-Executive Directors and the Chairman of the Board, was independent on appointment to that role.
2. One of these was a Joint Audit and Risk Committee meeting.
3. Peter Rigby ceased being Committee Chairman on 31 December 2017.
4. Peter Jackson ceased being a member on 31 December 2017.
5. Pádraig Ó Ríordáin ceased being a member on 2 March 2018.

Role and responsibilities

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

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

OTHER ATTENDEES

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

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

In 2017, presentees included:

- Director, Risk and Trading
- Director of Internal Audit and Compliance
- Head of Compliance
- Chief Technology Officer
- Director of Technology Security
- Head of Public Affairs
- General Counsel and Company Secretary
- Head of Data Protection
- Head of Responsible Gambling
- CEO, Sportsbet
- General Counsel, US
- Chief Financial Officer, US
- Director of Retail

I was appointed as the Chair of the Committee from 1 January 2018 and would like to thank Peter Rigby for his work as the Committee Chair since the Merger.

The Committee's focus in 2017

The key areas of focus included monitoring and review of:

- all compliance activities - regulatory compliance, operational, anti-money laundering and marketing;
- corporate social responsibility and responsible gambling initiatives;
- Group's risk management activities and the Group Risk Register;
- the Group's bookmaking risk limits and policy and risk and trading activities; and
- our Modern Slavery Statement and recommendation for approval to the Board.

Key activities undertaken in 2017

Compliance

At each meeting, the Committee received an update on the Group's operational compliance with its regulatory licences and considered the processes in place to manage and mitigate the risks related to operational matters, including anti-money laundering, anti-bribery and betting integrity and upcoming legislative changes in these areas. A Risk Committee meeting was held in the US in 2017 at which updates from the local team were provided on anti-money laundering and responsible gambling. An update was also given on operational compliance in Australia by the Sportsbet team. In 2017, the Committee specifically received presentations on the Group's roadmap for compliance with the upcoming EU-wide General Data Protection Regulation and the 4th EU Anti-Money Laundering Directive. The Committee was kept informed of substantive communications with regulators and any active cases and reviewed our Annual Assurance Statement for the Gambling Commission in order to advise the Board as part of its approval of this. It also regularly received updates on the Group's compliance with legal and regulatory

CASE STUDY

CONSIDERATION OF TECHNOLOGY-RELATED RISKS, INCLUDING CYBER RISK

Cyber-threats continue to be a feature of operating e-commerce businesses and the Board is acutely aware of these risks. Accordingly, the Board, the Risk Committee and the Audit Committee spent time during 2017 monitoring Technology risks, including cyber risk, and the progress in mitigating these risks and preventing any possible attacks or material adverse IT incidents. This included briefings from the Chief Technology Officer and the Director of Technology Security. In 2017, we successfully handled and defended against a number of large cyber-attacks and dealt with high-profile ransomware attacks. Management of cyber risk includes:

- a team of over 50 in-house IT security professionals globally with strong capability in a number of areas;
- a dedicated Cyber and Threat Management team;
- a 24/7 Security operations centre to continually monitor for any cyber incident;
- a constant check of the perimeter to check for any weakness or vulnerability;
- regular security testing of all products and services;
- an in-house 'ethical hacking' team that tests our sites and products in the same way as hackers would;
- defensive measures, procedures and teams to protect from malicious distributed denial of service ("DDOS") attacks;
- processes in place to ensure security is built in to product development;
- sharing of proactive threat intelligence as part of industry reviews and discussions;
- a formal Technology Risk Management function overseen by the Chief Technology Officer to ensure that risks are being appropriately managed;
- significant annual investment in people, process and technology to stay ahead of threats;
- the Security function and associated controls are certified to ISO27001:2013 standard; and
- an emphasis on employee awareness, education and testing.

marketing requirements, standards and rulings issued by the regulators in this area impacting our business, our competitors and the industry in which we operate.

Together with the Audit Committee, the Committee was updated on the Group's Code of Conduct and related policies, which included our policies on whistleblowing, gifts and hospitality, anti-bribery and corruption and business conduct and how this is communicated to employees throughout the Group, including the mandatory training in place.

Code of Conduct and training: page 33

Responsible Gambling and Corporate Social Responsibility

In addition to responsible gambling being a standing agenda item as part of the Chief Executive Officer's update at Board meetings, the Committee considers the Group's approach and potential actions taken in relation to promoting responsible gambling. The Committee was provided with the Group's objectives and strategy in respect of corporate social responsibility, including priorities and how it delivers on these. As detailed in the Strategic Report, we categorise our corporate social responsibility into three pillars: behaving responsibly, backing sport and empowering communities. Responsible gambling is an essential part of our behaving responsibly and we have in place wide-ranging policies as well as tools and support mechanisms to help our customers manage their gambling. We recognise that clean, fair, good quality sport is important for our business and therefore the Committee is kept aware of the Group's contribution back to sport via commercial relationships, product fees, sponsorship, betting integrity services and charitable support for grassroots sports activities.

Responsible Gambling and Corporate Social Responsibility: pages 24 to 27

Risk management

This Committee, alongside the Audit Committee, supports the Board in monitoring the Group's risk management processes for their appropriateness and effectiveness in identifying the principal risks. As part of the overall risk management framework, Management maintains an overall Group Risk Register. The Group Risk Register details the significant risks facing the business and considers the potential likelihood and impact of these risks materialising once the existence of controls and mitigating factors are considered.

The Committee reviews how our risks are being managed and mitigated and has oversight of the second line functions. During 2017, the Committee met with, and received, detailed presentations from various key functions to assess the management of key operational risks, including specific updates for TVG/Betfair US, Sportsbet and Retail operations. The Audit Committee has oversight of the third line function (see the Audit Committee Report). The Executive Committee manages the specific risks associated with their areas of responsibility and are supported by the second and third line functions.

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

Audit Committee Report: pages 62 to 67

Understanding and managing our principal risks: pages 46 to 49

Effectiveness of the Committee

This is monitored by me (and in 2017 by Peter) and was also specifically reviewed as part of the internal evaluation process (see page 59). All feedback received is used to improve the Committee's effectiveness.

Focus for 2018

Having become Chair of the Committee, I will continue to ensure that we focus on matters and risks that impact our reputation as a business, in particular the area of responsible gambling and cyber risk, the regulatory environment and the robustness of our risk management processes.

Zillah Byng-Thorne
Risk Committee Chair

7 March 2018

ENGAGING WITH SHAREHOLDERS

KEY INVESTOR EVENTS IN 2017

JAN

2016 Post Close Trading update

FEB

MAR

2016 Preliminary Results
Analyst and investor presentation followed by an investor roadshow

Corporate governance calls with proxy advisory agencies

APR

Attendance at investor conferences

MAY

Q1 2017 Trading update

AGM 2017
Analyst and investor conference calls

Investor dinner with the Chief Executive Officer

Private wealth managers' lunch with the Chief Financial Officer

Attendance at investor conferences

JUN

Attendance at investor conferences

Board engagement with shareholders

The Board is responsible for ensuring a satisfactory dialogue takes place with the shareholders of the Company to promote mutual understanding of the Company's objectives. The Chairman, the Senior Independent Director and other Non-Executive Directors are available to meet institutional investors on request. The Board is kept informed of the views of the shareholders by receiving updates on any engagement undertaken at Board meetings. Analyst research on the Company is also shared with the Board.

During 2017, we engaged with shareholders in various ways, including:

- full-year and half-year results formal reporting and trading updates;
- presentations/conference calls by the Chief Executive Officer and the Chief Financial Officer to institutional investors and analysts following results and trading updates;
- a full programme of engagement with shareholders, potential shareholders and analysts, across the UK, Ireland and overseas, undertaken by the Chief Executive Officer, the Chief Financial Officer and the Investor Relations team (including post-results roadshows, attendance at investor conferences and ad-hoc meetings);
- at the AGM in May, where all Directors were in attendance and available to answer questions from shareholders;
- meetings with investors by the Chairman throughout 2017 on corporate governance topics in general, including succession, risk and responsible gambling;
- the Chairman engaged with proxy advisory agencies on corporate governance;
- investor and analyst briefing presentations by senior management on our Sportsbet business and our Retail operations; and
- communication with private individual shareholders via the Company Secretary's office.

Current substantial shareholders: page 94

JUL

AUG

2017 Half-Year Results
Analyst and investor presentation followed by an investor roadshow

Investor and analyst briefing presentation on Sportsbet

SEPT

Investor and analyst briefing presentation on our Retail operations

Attendance at investor conferences

OCT

Attendance at investor conferences

NOV

Q3 2017 Trading update
Analyst and investor conference calls

Corporate governance meetings with shareholders and proxy advisory agencies

DEC

AGM

At the 2017 AGM, an average of 72.74% of the total issued share capital was voted across all resolutions, with an average of 98.84% voting 'For' each resolution.

Our 2018 AGM will be held on Friday, 18 May 2018 at 11.00am at the Company's headquarters at Belfield Office Park, Clonskeagh, Dublin, Ireland. A letter from the Chairman and the notice convening the AGM will be sent to shareholders and is available at:

paddypowerbetfair.com/investor-relations

All Directors attend the AGM if they are able to do so, with the Chairman and each Committee Chair making themselves available to take questions from shareholders. Separate resolutions are proposed on each item of business.

Website

Further details on the Group and our business can be found on our corporate website:

paddypowerbetfair.com

Financial dates

The key financial dates can be found on page 178; and are updated on our website.

Other stakeholders

The Board recognises that we have a number of stakeholders in addition to investors, including customers, employees, governments and regulators, and the communities in which we operate. It is kept updated on our engagement with these through updates provided at both Board and Committee meetings. Throughout this Annual Report and Accounts, we have provided information on different initiatives and approaches undertaken in relation to stakeholder engagement by the Group during 2017.

Strategic Report: pages 2 to 49
Governance: pages 50 to 96

REMUNERATION COMMITTEE CHAIRMAN'S STATEMENT

"As Chairman of the Committee , I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017."

CURRENT COMMITTEE MEMBERS

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

2017 COMMITTEE MEETING ATTENDANCE

2017 Committee members[1]	Date appointed	Attended/ Eligible to attend
Pádraig Ó Ríordáin[2] (Chair)	August 2008	6/6
Jan Bolz	October 2017	1/1
Danuta Gray[3]	January 2013	1/2
Peter Jackson[4]	February 2016	5/5
Gary McGann	July 2015	6/6
Peter Rigby[2]	February 2016	6/6

1. All Committee members are independent Non-Executive Directors and the Chairman, who is a member, was independent on appointment as Chairman.
2. Pádraig Ó Ríordáin ceased being Chair and a Committee member on 31 December 2017 and Peter Rigby became Committee Chair on 1 January 2018.
3. Danuta Gray ceased being a member of the Committee on 17 May 2017; she missed one meeting due to a prior commitment, notified to the Chairman in advance.
4. Peter Jackson ceased being a Committee member on 31 December 2017. Following the announcement in August 2017 of Peter Jackson succeeding Breon Corcoran as Chief Executive Officer, Peter Jackson was not present for any part of Committee meetings at which his remuneration and/or Breon Corcoran's leaver-related arrangements were discussed. Due to the agenda of one of the meetings Peter was not eligible to attend.

OTHER REGULAR ATTENDEES:

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

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

Peter Rigby
Chairman of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017 in my new role as Chairman of the Remuneration Committee, having previously served on the Committee since the Merger and prior to that on the Remuneration Committee of Betfair Group plc. Pádraig Ó Ríordáin stepped down as Chairman of the Committee on 31 December 2017 having served as Chairman for nine years. I, and the other members of the Committee, would like to thank him for his rigour, extensive contribution and for the insightful experience he has brought to our discussions as Chairman.

Remuneration Policy review

The Group's current Remuneration Policy was approved by shareholders at the December 2015 EGM, taking effect on the date of Merger on 2 February 2016. During the second half of 2017, the Committee undertook a comprehensive review of remuneration arrangements in the context of the Group's strategy, best practice and the emerging governance environment. We determined that the current Remuneration Policy remains largely fit for purpose and continues to be aligned with our forward-looking strategy. A number of small changes are being proposed to ensure our framework stays aligned to best practice, including the formalisation of the policy of a two-year post-vest holding period as part of the LTIP (which we had previously already applied to the 2017 LTIP awards).

The updated Remuneration Policy will apply for up to three years following its approval by shareholders at the 2018 AGM. However, should our strategic priorities significantly shift, we may deem it necessary to present an updated policy for shareholder approval, prior to the normal expiry date of this policy in 2021. In such circumstances, we would engage with our shareholders as appropriate.

Departure of Breon Corcoran and appointment of Peter Jackson as Chief Executive Officer

On 7 January 2018, Breon Corcoran stepped down as Chief Executive Officer. He will cease to be an employee of the Group on 10 August 2018 following completion of his notice period. During the period between him stepping down as Chief Executive Officer and ceasing being an employee he will be available to support the transition, drawing on his deep knowledge of our business and our industry. Following the cessation of his employment, Breon Corcoran will be subject to a contractual non-competition, non-solicitation and non-hiring restrictive covenant for a period of 12 months commencing on 11 August 2018.

In determining the appropriate remuneration treatment on his departure, the Committee gave full consideration to his contribution to the Group's success, our loss of office policy under the current approved Remuneration Policy, and the interests of our shareholders.

As he was in service for the full 2017 financial year, Breon Corcoran will receive an annual bonus of 108% of salary, based on performance against the relevant targets for 2017 (see pages 77 and 78). One-third of this bonus will be deferred into shares, released at the conclusion of the 12 month restrictive covenant period in line with the Deferred Share Incentive Plan ("DSIP") rules, together with his other unvested options held under the DSIP. Unvested LTIP awards that continue to be subject to performance conditions will vest at the normal vesting date, pro-rated for time served as Chief Executive Officer over the vesting period.

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

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

Reporting currency

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

This treatment is in line with the current Remuneration Policy for departing Directors.

Peter Jackson was appointed as Chief Executive Officer as of 8 January 2018. The Committee determined that he should receive a salary on joining of £720,000, reflecting his extensive experience in senior executive roles in large consumer businesses, including most recently as CEO of Worldpay UK. Peter will participate in the annual bonus and LTIP in line with the Remuneration Policy, and will be made an award of 300% of salary under the LTIP 2018 at the same time as other participants.

Peter Jackson forfeited a number of incentives when leaving Worldpay UK including shares due to vest in December 2018 that were not subject to performance conditions. As provided for in the recruitment provisions under our approved Remuneration Policy, Peter will be granted a restricted share award in the Company's shares equivalent to 100% of his salary as the Group's Chief Executive Officer to replace his forfeited award. This award represents a value that is materially less than the forefeited awards and incentives. In addition, the replacement award, to be granted on 12 March 2018, will vest in three equal tranches in December 2018, 2019 and 2020, subject to continued employment.

2017 outcomes

The 2017 annual bonus opportunity was set based on stretching revenue and profit targets, requiring delivery of significant levels of top and bottom line growth. Financially, the Group saw continued good growth in 2017. Revenue of £1,745m and underlying operating profit (before Merger-related separately disclosed items) ("EBIT") of £392m were up 13% and 19%, respectively, on the prior year (on a proforma basis). Operationally, a key priority for 2017 was finishing the integration of the Paddy Power and Betfair businesses, particularly the substantial platform investment that was undertaken to create a single technology platform across both brands, which has now successfully completed.

In respect of 2017, the performance against targets (on a constant currency basis) resulted in a bonus outcome of 126% of salary (70% of maximum). The Committee calculates the bonus and then reviews the outcome based on the overall performance of the Group, non-financial factors, and any industry-specific positive or negative factors beyond the control of Management that influenced the result, including any tax or regulatory changes. For 2017, Management and the Committee together determined that 60% of maximum was an appropriate outcome, and therefore a downward discretionary adjustment was made to the outcome.

The 2015 LTIP Part B represents the portion of the legacy 2015 Betfair LTIP, which will vest on 1 July 2018 based on the proforma EPS and Revenue performance of the Group over 2016 and 2017. Earnings and revenue growth have been very strong over this period, with an EPS growth of 32% p.a. and a revenue growth of 15% p.a. As such, the maximum target under both measures was exceeded, and this award will vest in full.

Remuneration in 2018

The Committee sets targets for incentive awards based on internal budget and brokers' expectations, giving full consideration to the broader commercial environment in which the Company operates. Our industry is currently subject to a number of significant changes in the regulatory and tax environment. Target ranges for the 2018 bonus and LTIP award have therefore been set in this context and reflect the completion of the Paddy Power and Betfair Merger. The targets therefore, whilst still stretching, represent lower anticipated growth levels than those under the prior year's awards.

The LTIP vests based on three year EPS (75% of award) and Revenue (25% of award) growth targets. The Committee has set a threshold EPS target of 5% p.a. for the three year performance period of this award.

Maximum vesting will require a stretching EPS growth of 10% p.a. Under the Revenue measure, threshold growth is 4% p.a., with maximum vesting requiring a growth of 10% p.a. over the three years to 2020. The targets for the 2018 bonus will be disclosed retrospectively in next year's annual report on remuneration.

Whilst some Australian states have indicated their intended approach to Point of Consumption taxes ("POC") implementation, significant uncertainty remains around the full extent of these taxes and the timing of their introduction. As such, the Committee has set the performance target ranges for the 2018 annual bonus and 2018 LTIP award to take into account the currently enacted POC taxes only i.e. Southern Australia.

An adjustment to the EPS target range will be made at the end of the performance period when the full extent of POC is known. The impact of any adjustment will be fully disclosed to investors in the relevant annual report on remuneration. In line with the discretion available under our policy to make these adjustments, the revised targets will not be materially less difficult to satisfy than the original target ranges set. The nature of POC taxes is such that the impact on earnings is mechanistic in nature, and therefore the Committee is satisfied that these adjustments can be made transparently to investors, and will be fair to both shareholders and participants. An adjustment will also be made to the 2018 annual bonus outcome to reflect POC enacted during the year and will be disclosed in next year's annual report on remuneration.

Approval

The Board recommends the Chairman's Statement, Annual Report on Remuneration and Remuneration Policy to shareholders. This report was approved by the Board of Directors and the Remuneration Committee and signed on its behalf by:

Peter Rigby
Chairman of the Remuneration Committee

7 March 2018

ANNUAL REPORT ON REMUNERATION

REMUNERATION AT A GLANCE:

This section is a snapshot of the remuneration received by our Executive Directors in 2017 and implementation of the remuneration policy in 2018.

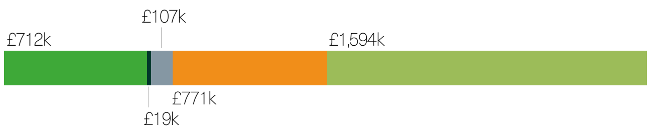
Single total remuneration figures for 2017

This sets out the total single figure of remuneration for 2017 for each of our Executive Directors during the year. Full details are set out on page 77.

Salary · Benefits · Pension · Annual bonus · LTIP · SAYE

Breon Corcoran

Total: £3.203m



Alex Gersh

Total: £2.021m

2017 Annual bonus

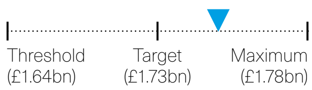
The 2017 annual bonus was assessed on Revenue and EBIT performance. The performance against targets (on a constant currency basis) resulted in a bonus outcome of 126% of salary (70% of maximum). The Committee calculates the bonus and then reviews the outcome based on the overall performance of the Group, non-financial factors, and any industry-specific positive or negative factors beyond the control of Management that influenced the result, including and tax or regulatory changes. For 2017, Management and the Committee together determined that 60% of maximum was an appropriate outcome, and therefore a downward discretionary adjustment was made to the outcome as set out in the table below:

Measure	Bonus outcome for FY 2017
Breon Corcoran	£771,120 (108% of salary)
Alex Gersh	£484,704 (108% of salary)

REVENUE

Performance achieved

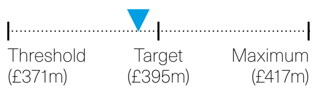
£1.75bn



EBIT

Performance achieved

£392m



Bonus deferral

As part of Breon Corcoran's leaving arrangements and in line with our loss of office policy and DSIP plan rules, one-third of his annual bonus for 2017 will be deferred into shares under the DSIP, all vesting after completion of his 12 month restrictive covenant period.

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

2015 LTIP Part B outcome

Performance period ended on 31 December 2017

The 2015 LTIP Part B[1] vests on 1 July 2018, based on performance against annualised proforma EPS and Revenue growth targets for the Group for two financial years, 2016 and 2017. The performance targets and actual performance are set out below:

REVENUE	EPS
Actual three year performance (p.a. growth)	Actual three year performance (p.a. growth)
15%	32%
Threshold (6%) – Maximum (10%)	Threshold (12%) – Maximum (23%)

1. 2015 LTIP Part B represents the portion of the 2015 LTIP award which is subject to performance conditions from the date of the Merger to 31 December 2017 (see page 78)

Breon Corcoran	100% of award vests
Alex Gersh	100% of award vests

Updates to our current Remuneration Policy and implementation in 2018

We are presenting an updated Remuneration Policy to shareholders for approval at the 2018 AGM. No material changes have been made to the previously approved Remuneration Policy, and the key changes that are being made are detailed below together with how we intend on implementing this in 2018.

	Policy change	Implementation for 2018
Total salary	No changes to Remuneration Policy proposed	Peter Jackson: £720,000 Alex Gersh: £461,815 – a 2.9% increase to total salary
Benefits Pension	Maximum pension contribution reduced from 20% of total salary to 15% of total salary (or an equivalent cash payment in lieu)	Peter Jackson will not receive a car allowance. Executive Directors will receive cash in lieu of 15% of total salary.
Annual bonus and Deferred Share Incentive Plan ("DSIP")	No changes to Remuneration Policy proposed	Maximum opportunity: 180% of total salary The performance measures and their relative weightings remain unchanged: 50% EBIT and 50% Revenue
Long term Incentive Plan	A two-year post-vest holding period will apply to all future awards made under the LTIP, in line with best practice and the preference of our shareholders Note: A holding period applies to the 2017 LTIP award, although this was not required under the previously approved Remuneration Policy	Maximum opportunity: 300% of total salary for Peter Jackson and 250% of total salary for Alex Gersh The performance measures and their relative weightings remain unchanged: 75% EPS and 25% Revenue
Shareholding guidelines	The Chief Executive Officer is required to build up and maintain a minimum holding equivalent to 300% of total salary Note: The Committee decided to introduce the 300% shareholding requirement for 2017 although this was not required under the previous approved Remuneration Policy Vested but unexercised share options, on a net notional tax basis, will count towards the shareholding guidelines (previously only beneficially owned shares counted)	Peter Jackson will be required to retain half of all post-tax vested awards until his shareholding requirement of 300% of salary is achieved. Alex Gersh continues to be subject to a shareholding requirement of 200% of salary, which he currently meets.

This section provides details of remuneration outcomes for the financial year ended 31 December 2017 for Executive Directors who served during 2017, and how the updated Remuneration Policy will be implemented for all Directors in 2018.

The Committee's role and responsibilities

- Setting the Remuneration Policy for the Executive Directors, taking into account trends across the industry and the Group.
- Ensuring that the Remuneration Policy and reward decisions incentivise and retain talent, and support the delivery of our long-term strategy.
- Considering the appropriateness of the Remuneration Policy when reviewed against the rest of the organisation.
- Determining the terms of employment for Executive Directors and the Executive Committee, including recruitment and termination arrangements.
- Approving the measures and targets for incentive schemes for Executive Directors and the Executive Committee.
- Assessing the appropriateness and achievement of performance targets relating to incentive plans.

The Committee's focus in 2017

Overall remuneration	Review Executive Directors and Executive Committee total remuneration
Short-term incentives	Determine and approve annual bonus outcomes in respect of 2017 performance
	Approve opportunities and review performance targets for 2018 annual bonus
Long-term incentives	Review performance targets for 2018 LTIP award
Governance	Review and approve the 2016 Directors' Remuneration Report
	Prepare the 2017 Directors' Remuneration Report
	Review the advisors to the Committee and conduct a competitive tender process
	Consideration of the UK Gender Pay Gap reporting requirements and disclosure
	Review the annual Remuneration Committee calendar
	Review the Committee's Terms of Reference
	Assess dilution from share schemes against recommended limits and use of the Employee Benefit Trust
Shareholder consultation	Review key shareholder themes, feedback and voting, and the Company's shareholder engagement strategy regarding remuneration
Remuneration Policy review	Comprehensive review of existing reward structure in the context of strategic objectives and market trends
Chief Executive Officer transition	Payments for loss of office and leaver-related arrangements for Breon Corcoran
	Recruitment arrangements for Peter Jackson

External advisors

In 2017, the Committee undertook a competitive tender process in respect of its advisors and effective as of 2 August 2017, appointed PricewaterhouseCoopers ("PwC") as Remuneration Committee advisors in place of Kepler. Advisors provide independent commentary and advice, together with updates on legislative requirements, best practice and market practice and during the year both PwC and Kepler provided the Committee with information on executive remuneration, advice on market data and trends to enable it to reach informed decisions.

During their respective tenures, both advisors reported directly to the Committee, and are signatory to, and abide by the Code of Conduct for Remuneration Consultancies (which can be found at www.remunerationconsultantsgroup.com). The fees paid to Kepler in respect of work carried out for the Committee in 2017 totalled £18,515. The fees paid to PwC in respect of work carried out for the Committee in 2017 totalled £63,833, and are based on an agreed fee for business as usual support (with additional work charged at an hourly rate). PwC and Kepler also advised and supported the Group's management in relation to remuneration during the year. Other than advice on remuneration, no other services were provided by Kepler to the Group. PwC also provided tax advice to the Group during 2017.

The Committee undertakes due diligence periodically to ensure that the remuneration advisors remain independent of the Group and that the advice provided is impartial and objective. The Committee is satisfied that there were no such conflicts.

The Committee also seeks advice and support from the Company Secretary, Deputy Company Secretary, HR Director and Reward Director as appropriate.

Shareholder voting at shareholder meetings

The following shows the results of the previous years' advisory votes on the annual statement and Annual Report on Remuneration and the Remuneration Policy:

	For	Against	Total votes cast	Votes withheld
2016 Annual Report on Remuneration (AGM 2017)	60,016,072 (97.82%)	1,335,501 (2.18%)	61,351,573	155,482
Paddy Power Betfair Remuneration Policy (approved at 2015 EGM, effective 2 February 2016)	28,157,200 (80.9%)	6,655,486 (19.1%)	34,812,686	597,413

Our engagement in 2016 with our major shareholders and proxy advisory bodies is set out in our Annual Report and Accounts 2016.

Single figure of total remuneration for Executive Directors (audited)

The table below sets out the single figures of total remuneration received by each Executive Director during the year ended 31 December 2017 and the prior year. For Breon Corcoran and Alex Gersh, 2016 remuneration relates to the period from 2 February to 31 December 2016. Please refer to the notes below the table for full details of how the figures are calculated, and additional disclosure of the full-year equivalent remuneration for Breon Corcoran and Alex Gersh for the 2016 financial year (January to December).

Executive Director	Year	Total salary[1] £000	Benefits[2] £000	Annual bonus[3] £000	LTIP[4] £000	Pensions[5] £000	Other[6] £000	Single figure of total remuneration (£000)
Breon Corcoran[7]	2017	712	19	771	1,594	107	0	3,203
	2016	642	19	798	0	96	2	1,557
Alex Gersh[7]	2017	447	18	485	999	67	5	2,021
	2016	403	19	532	0	61	0	1,015

The figures in the table have been calculated as follows:

1. Total salary: amount earned for the year.
2. Benefits: comprise taxable benefits (£1,376 for Breon Corcoran and £921 for Alex Gersh) and car allowance (£17,500 for each).
3. Annual bonus: payment for performance during the financial year. For 2016, Breon Corcoran and Alex Gersh's bonus comprised a pro-rated element relating to Paddy Power Betfair performance over the 2016 financial year, pro-rated to reflect the proportion of the financial year from 1 May to 31 December 2016, plus a pro-rated element relating to the Betfair group performance to 30 April 2016, to reflect the proportion of the financial year from 2 February to 30 April 2016. The bonus figure shown in the table above includes both the pro-rated Paddy Power Betfair bonus and the pro-rated Betfair bonus.
4. For 2017, as vesting of the 2015 LTIP Part B award occurs after the Directors' Remuneration Report is finalised, the award is valued based on the three-month average share price to 31 December 2017 of £82.2976.

   For details of Breon Corcoran and Alex Gersh's LTIP 2015 Part A awards granted whilst Directors of Betfair Group plc refer to the Annual Report and Accounts 2016.
5. Pension: the pension for Breon Corcoran and Alex Gersh is the value of the cash paid to them in lieu of contributions. No Executive Director has a prospective entitlement to a DB pension by reason of qualifying services.
6. Other: includes SAYE. Value based on the share price discount for the whole of the savings contract.
7. Remuneration to Breon Corcoran and Alex Gersh:

   2016 remuneration relates to the amount paid during the period 2 February to 31 December 2016. On appointment as Directors of Paddy Power Betfair plc, Breon Corcoran's total salary was £700,000 and Alex Gersh's total salary was £440,000. For information, full-year equivalents for the 2016 financial year (January to December) are as follows:
   - for Breon Corcoran, salary of £685,871, benefits of £19,440, pension of £102,881, and bonus of £877,819;
   - for Alex Gersh, salary of £436,667, benefits of £19,632, pension of £63,833, and bonus of £591,717.

Incentive outcomes for 2017

2017 Annual bonus (audited)

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

The 2017 annual bonus was based on equally weighted EBIT and Revenue targets as set out in the table below. In line with our historic approach, annual bonus targets and year-end performance are determined on a constant currency basis (i.e. based on budgeted exchange rates). To support transparency and ensure comparability with financial reporting, these targets and actual performance are re-stated to reflect actual exchange rates.

		Performance targets – determined on constant currency basis and restated to reflect actual exchange rates					
Measure	Max opportunity (% of salary)	Threshold	Target	Maximum	Actual[1] performance (as per financial reporting)	Bonus outcome (% of max)	Bonus outcome (% of salary
EBIT	90%	£371m	£395m	£417m	£392m	31%	55.8%
Revenue	90%	£1,643m	£1,729m	£1,778m	£1,745m	39%	70.1%
Total	**180%**					**70%**	**125.9%**

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

The Committee calculates the bonus and then reviews the outcome based on the overall performance of the Company, affordability, non-financial factors, and any positive or negative external factors beyond the control of management that influenced the result, including any tax or regulatory changes. For 2017, Management and the Committee together determined that 60% of maximum was an appropriate outcome, and therefore a downward discretionary adjustment was made to the formulaic outcome as set out in the table below:

Executive Director	Formulaic bonus outcome (% of max)	Discretionary adjustment	Adjusted bonus outcome (% of max)	Bonus outcome (% of salary)	Bonus outcome (£)
Breon Corcoran	70%	(10%)	60%	108%	£771,120
Alex Gersh	70%	(10%)	60%	108%	£484,704

In line with the Remuneration Policy, one-third of bonus earned is deferred into shares under the DSIP, vesting 50% after one year from grant and 50% after two years from grant. As part of Breon Corcoran's termination arrangements and in line with the relevant DSIP rules, Breon Corcoran's DSIP shares will be deferred over the 12 month period from cessation of employment (10 August 2018) during which his restrictive covenants apply. Shares that are deferred under the DSIP are eligible to receive dividends. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting.

The Committee is satisfied that the annual bonus awarded is a fair reflection of the Group's performance during 2017.

2015 LTIP (audited)

Upon Merger the 2015 LTIP (originally granted on 1 July 2015; replacement award granted on 2 February 2016) was apportioned into two parts which will vest on 1 July 2018:

(i) 2015 LTIP Part A being a portion of the full 2015 LTIP award, reduced on a pro-rata basis to the date of the Merger. The performance test for this related to the Betfair group performance. For further information refer to Annual Report and Accounts 2016; and

(ii) 2015 LTIP Part B being the remaining portion of the full 2015 LTIP awards which were subject to Paddy Power Betfair performance conditions below.

Through 2016 and 2017 the Group has delivered strong earnings and Revenue growth, with an EPS of 398p in 2017, representing a proforma increase of 32% p.a., and proforma Revenue growth of 15% p.a. This performance exceeds the maximum targets under both metrics (which were 23% p.a and 10% p.a. for EPS and Revenue respectively), and the 2015 LTIP Part B will therefore vest in full. The table below sets out a summary of the number of shares vesting and the resulting gross estimated vesting value for the 2015 LTIP Part B awards for Breon Corcoran and Alex Gersh. Breon Corcoran's award has been prorated to 7 January 2018 to reflect time served as Chief Executive Officer.

2015 LTIP performance measures outcome – performance period ended on 31 December 2017:

	Targets		Outcome		
Performance measure	Threshold	Maximum	Actual performance	% of maximum achieved	% of award eligible for vesting
EPS (75%)	12% p.a.	23% p.a.	32%	100%	100%
Revenue (25%)	6% p.a.	10% p.a.	15%	100%	100%
Total				**100%**	**100%**

Executive Director	Award type	Number of awards[1]	% of total award vesting	Number of shares vesting	Value at vesting[2]
Breon Corcoran	Nil cost option	19,372[3]	100%	19,372	£1,594,269
Alex Gersh	Nil cost option	12,138	100%	12,138	£998,929

1. Includes additional dividend equivalent shares to reflect dividends accrued during the vesting period, as appropriate.
2. Value is estimated based on the three-month average share price to 31 December 2017 of £82.2976 given that the 2015 LTIP Part B awards vest after the date of this report.
3. Pro-rated to 7 January 2018 as part of Breon Corcoran's departure arrangements.

Share scheme interests awarded in 2017

Long Term Incentive Plan 2017 Awards (audited)

On 10 March 2017, Breon Corcoran and Alex Gersh were granted LTIP awards of 25,579 and 13,399 nil cost options, respectively; details are provided in the table below:

Executive Director	Date of grant	Date of vest	Number of awards	Market price at date of award[1]	Face value at date of award (£000)	Face value at date of award (% of salary)
Breon Corcoran	10 March 2017	10 March 2020	25,579	£83.7375	£2,141,922	300%
Alex Gersh	10 March 2017	10 March 2020	13,399	£83.7375	£1,121,999	250%

1. Three-day average share price to the grant date of 10 March 2017.

The above LTIP awards are based on growth in EPS and Revenue measured over three years, weighted 75% EPS and 25% Revenue. Awards are eligible to receive dividends, to the extent they vest. The three-year period over which performance is measured is 1 January 2017 to 31 December 2019, with the award eligible to vest in its entirety on the third anniversary of the date of grant subject to achievement of performance and continued employment. Malus and clawback provisions apply to the LTIP both prior to vesting and for a period of two years post-vesting.

As part of Breon Corcoran's departure arrangements, his 2017 LTIP will vest on the normal vesting date, pro-rated to 7 January 2018 for the proportion of the performance period served as Chief Executive Officer and subject to the relevant performance targets.

The performance targets for the 2017 LTIP awards are summarised in the table below:

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

DSIP 2017 Awards (audited)

50% of awards made under the DSIP vest one year following grant and the remaining 50% two years following grant (subject to continued employment). Details of the awards made under the DSIP are set out below. As Breon Corcoran is no longer the Chief Executive Officer and will cease to be an employee on 10 August 2018, his deferred bonus shares due to vest in 2019 are subject to a deferral period of 12 months following his leave date, in line with his restrictive covenant period.

Executive Director	Date of grant	Number of awards	Market price at date of award[1]	Face value at date of award (£000)	Vesting
Breon Corcoran	10 March 2017	2,227	£83.7375	£186,483	50% vesting after 12 months, 50% following completion of 12-month restricted covenant period
Alex Gersh	10 March 2017	1,400	£83.7375	£117,233	50% vesting after 12 months, 50% after 24 months subject to continued employment only

1. Three-day average share price to the grant date of 10 March 2017.

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

The table below sets out the single figures of total remuneration received by each Non-Executive Director who served during the year ended 31 December 2017:

Non-Executive Director	Board Committee member or Chairman during 2017 (as applicable)	Fees[1] (£000) 2017	2016
Jan Bolz[2]	Re A	**25**	n/a
Zillah Byng-Thorne[3]	A N	**79**	67
Michael Cawley	A Ri	**101**	93
Ian Dyson[3]	A N	**90**	82
Danuta Gray[4]	A Re	**26**	65
Peter Jackson[3]	Re Ri	**66**	59
Gary McGann	Re Ri N	**395**	354
Pádraig Ó Ríordáin	Re Ri	**96**	89
Peter Rigby[3]	A Ri N	**80**	73
Emer Timmons[5]	A	**49**	n/a

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

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

1. Fees are converted from Euros to Pound Sterling as appropriate, using the 12-month average exchange rate over the financial year (2016: £1 = €1.2203; 2017: £1 = €1.1406).
2. Jan Bolz was appointed as a Non-Executive Director on 6 September 2017.
3. Zillah Byng-Thorne, Ian Dyson, Peter Jackson and Peter Rigby became Non-Executive Directors of Paddy Power Betfair plc on 2 February 2016 (previously Non-Executive Directors of Betfair Group plc).
4. Danuta Gray resigned as a Non-Executive Director on 17 May 2017.
5. Emer Timmons was appointed as a Non-Executive Director on 17 May 2017.

For legacy Betfair Group plc Directors, 2016 fees relate to the period 2 February to 31 December 2016. At Betfair, the Company Chairman fee was £250,000, the annual Non-Executive Director base fee was £50,000, and additional fees were £10,000, £15,000 and £10,000 for the Senior Independent Director, the Audit Committee Chairman and the Remuneration Committee Chairman, respectively.

Changes to the Board (audited)

Payments for loss of office and payments to past directors

Breon Corcoran

On 7 January 2018, Breon Corcoran stepped down as Chief Executive Officer of the Group. He will cease to be an employee of the Group on 10 August 2018 following completion of his notice period. During the period between him stepping down as Chief Executive Officer and ceasing being an employee he will be available to support the transition, drawing on his deep knowledge of our business and our industry. Following the cessation of his employment, Breon Corcoran will also be subject to a contractual non-competition, non-solicitation and non-hiring restrictive covenant for a period of 12 months commencing on 11 August 2018.

In determining the appropriate remuneration treatment on his departure the Committee gave full consideration to his contribution to the Company's success, our loss of office policy under the approved Remuneration Policy, and the interests of our shareholders.

Breon Corcoran will be paid his salary (excluding his Directorship fee of £65,000), benefits and cash in lieu of pension for the period from 8 January to 10 August 2018, on a monthly basis. This represents a total value of £487,616. For clarity, no payment in lieu of notice will be paid after he ceases employment with the Group.

As he was in service for the full 2017 financial year, Breon Corcoran will receive an annual bonus of 108% of salary in relation to 2017, based on performance against the relevant targets for 2017 (see page 77). One-third of this annual bonus will be deferred as shares as a DSIP 2018 award, which will be released at the conclusion of his 12 month restrictive covenant period, in line with the DSIP rules and our loss of office policy under the current approved Remuneration Policy, together with other unvested options held under the DSIP. No bonus will be paid to Breon Corcoran for 2018.

All unvested and unexercised awards will be treated in accordance with the applicable share plan rules and our loss of office policy.

Unvested options held under the DSIP will become exercisable on conclusion of his restrictive covenant period, and in accordance with the rules of the DSIP will remain exercisable by Breon Corcoran for a period of 6 months from this date.

Vested but unexercised LTIP awards (including those held under the 2012 Share Option Agreement) will be exercisable for up to 12 months following completion of the restrictive covenant period. LTIP awards with outstanding performance periods will continue to be subject to the relevant performance conditions and will vest at the normal vesting date, pro-rated for time served as Chief Executive Officer over the vesting period (i.e. up to 7 January 2018). Parts A and B of the 2015 LTIP will vest in July 2018, in line with that Plan's normal cycle. Part A was pro-rated to the date of Merger, with performance assessed to that point. Part B will vest based on performance in 2016 and 2017, pro-rated for time served as Chief Executive Officer over the vesting period. The awards remain subject to malus and clawback and the 2017 LTIP award has a two-year post-vest holding period.

Andy McCue and Cormac McCarthy

Andy McCue and Cormac McCarthy were treated as good leavers under the Company's share plans. Details of the treatment of Andy's awards are provided in the 2016 Directors' Remuneration Report and Cormac's awards are provided in the 2015 Directors' Remuneration Report. In 2017, the following shares (inclusive of dividend shares), pro-rated for time, vested to Andy and Cormac in respect of their 2014 LTIP and 2015 Part A LTIP awards.

Name	Share plan	Vest date	Number of shares vested
Andy McCue	2014 LTIP	6 March 2017	14,266
	2015 LTIP Part A	2 May 2017	9,752
Cormac McCarthy	2014 LTIP	2 February 2017	19,852
	2015 LTIP Part A	2 February 2017	4,397

Alex Gersh

On 5 March 2018, we announced that Alex Gersh will be leaving the business during the year. He will remain as Chief Financial Officer until a successor is appointed. Full details of the treatment of his remuneration on termination will be disclosed in the 2018 Annual Report on Remuneration.

New Chief Executive Officer

Peter Jackson

Peter Jackson was appointed Chief Executive Officer on 8 January 2018.

His base salary on appointment was £720,000 per annum. Peter will not receive a car allowance (a car allowance was provided to his predecessor).

Peter will receive benefits in line with the normal Remuneration Policy, with a cash supplement in lieu of pension of 15% of his total salary. As Chief Executive Officer, Peter is eligible to participate in the annual bonus and LTIP as described in the Remuneration Policy. He will therefore participate in the 2018 annual bonus with a maximum opportunity of 180% of salary, and will be granted an award under the 2018 LTIP award with a maximum opportunity of 300% of his base salary at the same time as other participants.

Peter Jackson forfeited a number of incentives when leaving Worldpay UK including shares due to vest in December 2018 that were not subject to performance conditions. As provided for in the recruitment provisions under our approved Remuneration Policy, Peter will be granted a restricted share award in the Company's shares equivalent to 100% of his salary as the Group's Chief Executive Officer to replace his forfeited award. This award represents a value that is materially less than the forefeited awards and incentives. In addition, the replacement award, to be granted on 12 March 2018, will vest in three equal tranches in December 2018, 2019 and 2020, subject to continued employment. No other replacement awards were made.

Implementation of Remuneration Policy for 2018

Executive Directors' Remuneration

Total Salary

The Committee approved the following total salaries for the Executive Directors, effective from 8 January 2018 for Peter and 1 March 2018 for Alex Gersh:

Executive Director	Role	2018 salary	2017 salary	% change
Peter Jackson	Chief Executive Officer	**£720,000**	n/a	n/a
Breon Corcoran[1,2]	Chief Executive Officer	**£714,000**	£714,000	n/a
Alex Gersh[1,3]	Chief Financial Officer	**£461,815**	£448,800	2.9%

1. Total salaries for Breon Corcoran and Alex Gersh are split between a salary in respect of their employment and a payment in respect of their roles as Directors.
2. Breon Corcoran stepped down as Chief Executive Officer on 7 January 2018. As he continues to be an employee until 10 August 2018, he will continue to receive his employment salary of £649,000 per annum (i.e. he will not receive his directorship fee of £65,000) as part of his loss of office arrangements until then.
3. Alex Gersh's total salary for (i) 2017 comprised £383,800 in respect of his employment and £65,000 in respect of his role as a Director and (ii) 2018 comprised £396,815 in respect of his employment and £65,000 in respect of his role as a Director.

Alex Gersh received a 2.9% salary increase in line with other employees in Europe.

Pension and Benefits

In line with the Remuneration Policy, the Executive Directors will receive a cash supplement in lieu of pension contribution of 15% of total salary in 2018. They will also receive benefits in line with the Remuneration Policy.

Annual Bonus

The maximum annual bonus opportunity for Executive Directors in 2018 will remain at 180% of total salary, as stated in the Remuneration Policy.

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

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

The performance measures for the 2018 bonus are as follows:

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

The EBIT target range determined for this award will be subject to an adjustment following year end based on the full extent to which additional POC taxes are implemented in 2018. The Committee anticipates that these adjustments will be mechanistic in nature, and will result in targets that are not materially less difficult to satisfy than the original ranges. The impact of any adjustment will be disclosed when the outcome against the target range is published in the annual report on remuneration.

LTIP

During 2017 (and as part of the review of the Executive Director Remuneration Policy), the Committee reviewed the LTIP structure and measures in the context of our strategic priorities over the coming three years. The Committee determined that the current framework continues to appropriately support delivery of our strategic plan, with EPS and Revenue targets both strongly aligned with our internal metrics and the shareholder experience. EPS reflects the long-term growth in earnings and the financial performance expected by shareholders, with Revenue maintaining focus on the top line growth that is key to our strategy.

Alignment with investors is further supported through executive shareholding requirements and the combined five-year period between grant and release under the LTIP.

The levels of the LTIP award in 2018 will be in line with the approved Remuneration Policy (300% for the Chief Executive Officer). Following the announcement that Alex Gersh will leave the business, no award will be made to him under the 2018 LTIP.

Awards will vest on growth in EPS and Revenue measured over three years, weighted 75% EPS and 25% Revenue. The 2018 LTIP performance targets are as follows:

	Performance targets	
Performance measure	Threshold (25% vesting)	Maximum (100% vesting)
EPS (75% of award)	5% p.a.	10% p.a.
Annualised growth in EPS over the three-year period 2018 - 2020	Award vests on a straight-line basis between the two points	
Revenue (25% of award)	4% p.a.	10% p.a.
Annualised growth in Revenue over the three-year period 2018 - 2020	Award vests on a straight-line basis between the two points	

The above targets have been calibrated with reference to brokers' forecasts and internal budget, and include any POC currently enacted. The Committee will adjust these target ranges once the full extent of POC implementation is known. The adjustments made will be detailed in the relevant annual report and accounts, and in line with the discretion available under our policy will not make the targets materially less difficult to satisfy than those set out above.

The awards will vest three years from the grant date, subject to meeting the performance targets and continued employment at the time of vesting. These will be released after a further two-year holding period and may not be sold during the holding period except to cover tax liabilities. Awards are eligible to receive dividend equivalents. Malus and clawback provisions apply to the LTIP both prior to vesting and for a period of two years post-vesting. Vested awards are included for the purpose of calculating achievement of shareholding guidelines.

SAYE

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

Chairman and Non-Executive Director Fees

The fees payable to the Chairman of the Board and other Non-Executive Directors for 2018 are as follows:

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

These fees were reviewed in December 2017 by the Board and continue to be considered appropriate for 2018. The current aggregate annual fee for all Non-Executive Directors, including the Chairman, is €1,087,287, which is significantly below the maximum aggregate fee allowed by the Company's Articles of Association of €2,000,000. The €2,000,000 cap is considered to be an upper limit in excess of what is currently required.

Percentage Change in Chief Executive Officer Remuneration Compared to Other Employees

The table below shows the percentage change in the Chief Executive Officer's remuneration from the prior year compared to the average percentage change in remuneration for other employees. To provide a relevant comparison, the analysis includes only salaried corporate office UK and Ireland employees, as a relevant comparison group, and is based on a consistent set of employees, i.e. the same individuals appear in the 2017 and 2016 populations.

	Chief Executive Officer			Other employees[2]
	2017 (£000)	2016[1] (£000)	% change	Average % change
Salary	**712**	686	+3.8%	+5.9%
Taxable benefits	**19**	19	0%	+1.5%
Annual bonus[3]	**771**	878	-12.2%	-3.7%

1. Based on full-year equivalent remuneration for Breon Corcoran.
2. The UK and Ireland corporate office employee population is, in the view of the Committee, the most appropriate comparator group. The calculation covers employees who were continuously employed for the period (1 January 2016 to 31 December 2017).
3. Bonuses for the workforce for 2017 have not been concluded at the time of signing this report and therefore this is an indicative figure.

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and return of capital) for the financial years ended 31 December 2016 and 31 December 2017.

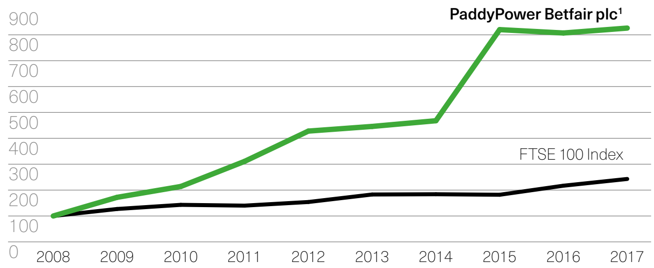
	2017 (£m)	2016 (£m)	% change
Dividends[1]	**149**	179	-17%
Total shareholder distributions	**149**	179	-17%
Employee remuneration	**379**	364	+4%

1. Dividends include dividends paid to shareholders of Paddy Power Betfair, Paddy Power and Betfair during 2017 and 2016, including in 2016 the special dividend paid to Paddy Power plc shareholders on completion of the Merger of €80m (£62m).

Pay for Performance

This graph shows Paddy Power Betfair plc's[1] Total Shareholder Return performance (share price plus dividends paid) compared with the performance of the FTSE100 Index over the nine-year period to 31 December 2017, assuming a nominal £100 investment in Paddy Power plc[1] and the FTSE100 Index at the start of the timeframe. This index has been selected because we believe that the FTSE100 provides a relevant and appropriate broad market comparator index for the combined entity, and includes companies of a similar size. The table below details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

VALUE OF £100 INVESTED AT 31 DECEMBER 2008



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

Source: Datastream

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

Incumbent	2009 Patrick Kennedy	2010 Patrick Kennedy	2011 Patrick Kennedy	2012 Patrick Kennedy	2013 Patrick Kennedy	2014 Patrick Kennedy	2015 Andy McCue	2016 Andy McCue	2016 Breon Corcoran	**2017 Breon Corcoran**
Chief Executive Officer single figure of remuneration[1] (£000)	2,993	3,323	5,775	6,534	6,752	6,450	2,701	2,109	1,557	**3,203**
Annual bonus outcome (% of maximum)	74%	72%	86%	62%	55%	67%	77%	0%[2]	67%	**60%**
LTIP vesting outcome[3] (% of maximum)	100%	100%	100%	100%	95%[4]	83%[5]	100%	100%	n/a	**100%**

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

Directors' shareholding (audited)

The table below shows the shareholding of each Director against their respective shareholding requirement (where relevant) as at 31 December 2017 and there have been no changes to this from then until the date of this report.

The Chief Executive Officer and Chief Financial Officer are required to build and maintain holdings of 300% and 200% respectively. Share ownership guidelines may be met through both beneficially owned shares and vested but unexercised options net of notional tax. Those subject to continued employment or performance assessment are not included.

		Share option awards					
Director	Beneficially owned[1]	Subject to performance	Vested but not yet exercised	Subject to continued employment only[2]	Shareholding required (% total salary)	Current shareholding[3] (% total salary)	Requirement met
Breon Corcoran	140,465	61,597	391,929	10,105	300%	1,738%	Yes
Alex Gersh	11,036	31,755	30,642	6,064	200%	217%	Yes
Peter Jackson[4]	930						
Jan Bolz	–						
Zillah Byng-Thorne	930						
Michael Cawley	3,600						
Ian Dyson	3,163						
Gary McGann	2,010						
Pádraig Ó Ríordáin	7,200						
Peter Rigby	–						
Emer Timmons	–						

1. Includes shares held by the individual and those held by persons closely associated with them.
2. Includes unvested LTIP awards for which performance has been tested (i.e. 2015 awards).
3. Based on beneficially owned shares, Paddy Power Betfair plc share price of £88.3375 and salaries as at 29 December 2017.
4. Peter Jackson's shareholding requirement commenced on appointment as Chief Executive Officer on 8 January 2018.

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

Executive Directors – Summary of Outstanding Share Awards

The interests of the Executive Directors in the Company's share schemes as at 31 December 2017 are as follows. Note that Peter Jackson held no outstanding share awards as at 31 December 2017.

Executive Director	Date of original award	Date of replacement award[1]	Awards held at 31 Dec 2016	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2017[2]	Exercise price	Market price at date of original award[3]	Performance period	Vest date	Expiry date
Breon Corcoran												
Share Option Agreement	1 Aug 2012	2 Feb 2016	212,700	–	–	–	212,700	–	£18.0565	Performance has been tested	1 Aug 2015	31 Jul 2022
LTIP 2013[4]	23 Jul 2023	2 Feb 2016	78,014	1,759[7]	–	–	79,773	£0.00235	£20.9127	Performance has been tested	23 Jul 2016	22 Jul 2023
LTIP 2014[4]	27 Jun 2014	2 Feb 2016	70,766	1,595[7]	72,361	–	72,361	£0.00235	£22.7198	Performance has been tested	27 Jun 2017	26 Jun 2024
LTIP 2015 Part A[4]	1 Jul 2015	2 Feb 2016	5,797	129[7]	–	–	5,926	£0.00223	£55.2910	Performance has been tested	1 Jul 2018	30 Jun 2025
LTIP 2015 Part B[5]	1 Jul 2015	2 Feb 2016	23,615	532[7]	–	–	24,147	£0.00223	£55.2910	2 Feb 2016 – 31 Dec 2017	1 Jul 2018	30 Jun 2025
LTIP 2016	20 May 2016	n/a	11,871	–	–	–	11,871	€0.09	£87.0225	2 Feb 2016 – 31 Dec 2018	20 May 2019	19 May 2023
LTIP 2017	10 Mar 2017	n/a	–	25,579	–	–	25,579	–	£83.8375	1 Jan 2018 – 31 Dec 2019	10 Mar 2020	10 Mar 2024
DSIP 2013[6]	5 Jul 2013	2 Feb 2016	8,010	180[7]	–	–	8,190	£0.00235	£20.3662	n/a	5 Jul 2014 (50%) and 5 Jul 2015 (50%)	11 Aug 2018
DSIP 2014[6]	27 Jun 2014	2 Feb 2016	10,399	233[7]	–	–	10,632	£0.00235	£22.7198	n/a	27 Jun 2015 (50%) and 2 Feb 2016 (50%)	11 Aug 2018
DSIP 2015[6]	1 Jul 2015	2 Feb 2016	5,868	131[7]	–	–	5,999	£0.00223	£55.2910	n/a	2 Feb 2016	11 Aug 2018
DSIP 2016	21 Jun 2016	n/a	3,643	327	1,853	–	3,675	–	£88.5870	n/a	21 Jun 2017 (50%) and 21 Jun 2018 (50%)	11 Feb 2020
DSIP 2017	10 Mar 2017	n/a	–	2,227	–	–	2,227	–	£83.7375	n/a	10 Mar 2018 (50%) and 10 Mar 2019 (50%)	11 Feb 2020
SAYE 2013	4 Oct 2013	n/a	468	–	–	468[8]	–	£19.1976	£23.2134	n/a	1 Nov 2016	30 Apr 2017
SAYE 2014[6]	7 Nov 2014	n/a	421	–	421	–	421	£21.3469	£29.0165	n/a	1 Dec 2017	31 May 2018
SAYE 2016	21 Oct 2016	n/a	130	–	–	–	130	£69.1947	£86.7000	n/a	1 Dec 2019	11 Aug 2018
Total							**463,631**					

Executive Director	Date of original award	Date of replacement award[1]	Awards held at 31 Dec 2016	Granted during the year	Vested during the year	Exercised during the year	Awards held at 31 Dec 2017[2]	Exercise price	Market price at date of original award[3]	Performance period	Vest date	Expiry date
Alex Gersh												
LTIP 2013[4]	23 Jul 2013	2 Feb 2016	40,395	–	–	40,395[8]	–	£0.00235	£20.9127	Performance has been tested	23 Jul 2016	22 Jul 2023
LTIP 2014[4]	27 Jun 2014	2 Feb 2016	36,641	826[7]	37,467	20,552[8]	16,915	£0.00235	£22.7198	Performance has been tested	27 Jun 2017	26 Jun 2024
LTIP 2015 Part A[4]	1 Jul 2015	2 Feb 2016	2,914	65[7]	–	–	2,979	£0.00223	£55.2910	Performance has been tested	1 Jul 2018	30 Jun 2025
LTIP 2015 Part B[5]	1 Jul 2015	2 Feb 2016	11,871	267[7]	–	–	12,138	£0.00223	£55.2910	2 Feb 2016 – 31 Dec 2017	1 Jul 2018	30 Jun 2025
LTIP 2016	20 May 2016	n/a	6,218	–	–	–	6,218	€0.09	£87.0225	2 Feb 2016 – 31 Dec 2018	20 May 2019	19 May 2023
LTIP 2017	10 Mar 2017	n/a	–	13,399	–	–	13,399	–	£83.7375	1 Jan 2017 – 31 Dec 2019	10 Mar 2020	10 Mar 2024
DSIP 2014[6]	27 Jun 2014	2 Feb 2016	7,490	154[7]	–	605[8]	7,039	£0.00235	£22.7198	n/a	27 Jun 2015 (50%) and 2 Feb 2016 (50%)	26 Jun 2024
DSIP 2015[6]	1 Jul 2015	2 Feb 2016	4,351	97[7]	–	–	4,448	£0.00223	£55.2910	n/a	2 Feb 2016	30 Jun 2025
DSIP 2016	21 Jun 2016	n/a	2,747	24[7]	1,374	–	2,771	–	£87.3502	n/a	21 Jun 2017 (50%) and 21 Jun 2018 (50%)	20 Jun 2023
DSIP 2017	10 Mar 2017	n/a	–	1,400	–	–	1,400	–	£83.7375	n/a	10 Mar 2019 (50%) and 10 Mar 2020 (50%)	10 Mar 2024
SAYE 2014[6]	7 Nov 2014	n/a	843	–	843	–	843	£21.3469	£29.5016	n/a	1 Dec 2017	31 May 2018
SAYE 2017	13 Oct 2017	n/a	–	311	–	–	311	£57.8667	£77.1750	n/a	1 Dec 2020	31 May 2021
Total							**68,461**					

1. Date of completion of the Merger; these are replacement Paddy Power Betfair awards in respect of previously granted Betfair awards.
2. Includes additional dividend equivalent shares to reflect dividends accrued during the vesting period, as appropriate.
3. Betfair Group plc share prices have been converted into Paddy Power Betfair plc share prices where appropriate, by multiplying by a factor of 2.3507 (based on exchange ratio of 1 Betfair Group plc share for 0.4254 Paddy Power Betfair plc share).
4. These Betfair LTIP awards were exchanged on completion of the Merger for equivalent awards over Paddy Power Betfair plc shares. Betfair performance was assessed in the second half of 2015, and targets were deemed to have been met in full by the Betfair Remuneration Committee. Awards will vest in full on their original vest dates subject to continued employment.
5. These Betfair LTIP awards were exchanged on completion of the Merger for equivalent awards over Paddy Power Betfair shares. New targets relating to the performance of Paddy Power Betfair were set for this portion of the LTIP award and are detailed in the Directors' Remuneration Report 2015 (see Annual Report and Accounts 2015).
6. These Betfair awards were rolled over on completion into equivalent Paddy Power Betfair awards. The number of awards and exercise price have been converted into Paddy Power Betfair plc equivalents on completion of the Merger.
7. Dividend shares added during the year in line with the relevant plan rules.
8. The total gain made by Breon Corcoran on the exercise was £30,807.22 based on the market price on the day of exercise of £85.0250. The total gain made by Alex Gersh across the 3 exercises was £5,310,075.73 based on the market price on day of each exercise of £88.0499, £82.7255 and £88.0499 respectively.

REMUNERATION POLICY

This section provides details of the Remuneration Policy to be presented to shareholders for approval at the 2018 AGM on Friday, 18 May 2018 by an advisory, non-binding vote, and applying for up to three years from that date.

The Remuneration Policy is largely unchanged from the previous Remuneration Policy (which was approved by shareholders at the 2015 Extraordinary General Meeting ("EGM"), and was effective from the Merger on 2 February 2016). The Committee regularly considers the alignment of the Remuneration Policy to our internal strategy and any external governance changes. Should a new policy be considered appropriate ahead of the normal expiry date of this policy (18 May 2021), the Committee reserves the right to present a new Remuneration Policy for shareholder approval at that time.

In line with shareholder preference, the remuneration package is weighted towards performance-related pay. In setting the Remuneration Policy for Executive Directors' remuneration, the Committee has taken into account developments in best practice and the pay and employment conditions within the wider Group. The Committee believes the Company's remuneration structure appropriately links pay to strategy and supports shareholder value creation. The Committee has incorporated a level of discretion into the Remuneration Policy, ensuring that it can be applied pragmatically during its period of operation. Where the Committee retains such discretion, this is highlighted in the Remuneration Policy.

Remuneration Policy for Executive Directors

Key changes to the Remuneration Policy

The table below summarises the key changes that have been made to the Remuneration Policy. No other material changes have been made:

Element	Purpose and link to strategy
Long Term Incentive Plan	A two-year post-vest holding period will apply to all future awards made under the LTIP, in line with best practice and the preference of our shareholders. Note: the Committee decided to introduce a holding period to the 2017 LTIP award, although this was not required under the previous approved Remuneration Policy.
Shareholding guidelines	The Chief Executive Officer is required to build up and maintain a minimum holding equivalent to 300% of total salary. Vested but unexercised options, on a net notional tax basis, will be counted towards the shareholding guideline (previously only beneficially owned shares counted). Note: the Committee decided to introduce the 300% shareholding requirement for 2017 although this was not required under the previous approved Policy.

The full remuneration for Executive Directors is as follows:

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Total salary	To attract and retain high-calibre talent in the labour market in which the Executive Director is employed.	Generally reviewed annually but at other times of the year in exceptional circumstances. Total salaries (inclusive of any Director fees) are set with reference to individual skills, experience, responsibilities, Company performance and performance in role. Independent benchmarking is conducted on a periodic basis against companies of a similar size, complexity and operating in the same or similar sectors, although this information is used only as part of a broader review.	Increases (as a percentage of salary) will generally be in line with inflation and consistent with those offered to the wider workforce. Higher increases may be appropriate where an individual changes role, there is a material change in the responsibilities of the role, where an individual is appointed on a below-market salary with the expectation that this salary will increase with experience and performance, where there is a need to retain key individuals, or where salaries, in the opinion of the Committee, have fallen materially below the relevant market rates.
Benefits	To provide market-competitive but cost-effective benefits.	Employment-related benefits may include (but are not limited to) private medical insurance, life assurance, income protection, relocation, travel and accommodation assistance related to fulfilment of duties, tax equalisation, and/or other related expenses as required. Where expenses are necessary for the ordinary conduct of business the Company may meet the cost of tax on benefits.	The value of benefits may vary from year-to-year in line with variances in third-party supplier costs which are outside of the Company's control.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Pension	To provide retirement benefits that are appropriately competitive within the relevant labour market.	Paid as a defined contribution and/or cash supplement.	Contribution of up to 15% of total salary (or an equivalent cash payment in lieu).
Annual bonus and Deferred Share Incentive Plan ("DSIP")	To incentivise and reward the successful delivery of annual performance targets.	The Committee reviews the annual bonus prior to the start of each financial year to ensure that the bonus opportunity, performance measures, targets and weightings are appropriate and in line with the business strategy at the time. Performance is determined by the Committee on an annual basis by reference to Group financial measures. The Committee may also introduce an element of performance against personal / strategic objectives; this element will not be weighted more than 25% of the total in any year. Two-thirds of any annual bonus is paid in cash, with the remaining one-third deferred into shares (under the DSIP). Any deferred element vests 50% after one year and 50% after two years from the date of grant. Malus and clawback provisions apply to the annual bonus and DSIP both prior to vesting and for a period of two years post-vesting. Dividends (or equivalent) accrue and are paid on DSIP awards that vest.	For target performance, the bonus earned is 120% of total salary. Maximum annual opportunity of 180% of total salary. For threshold performance bonus earned is 25% of maximum opportunity.
Long Term Incentive Plan ("LTIP")	To attract, retain and incentivise Executive Directors to deliver the Group's long-term strategy whilst providing strong alignment with shareholders.	Annual grant of shares or nil-cost options, vesting after a minimum of three years, subject to the achievement of performance conditions. The Committee reviews the performance measures, targets and weightings prior to the start of each cycle to ensure they are appropriate. The performance measures and respective weightings may vary year-on-year to reflect strategic priorities. Following vesting, awards are subject to a two year holding period. Directors may sell sufficient shares to satisfy the tax liability on exercise but must retain the net number of shares until the end of this two year period. Malus and clawback provisions apply to the LTIP, which allow the Company to reduce or claw back awards during the holding period for reasons of a miscalculation resulting in higher vesting than should have occurred, material misstatement, or gross misconduct resulting in cessation of employment. Dividends (or equivalent) accrue and are paid on LTIP awards that vest.	The normal Remuneration Policy maximum opportunity is 300% of total salary for the Chief Executive Officer and 250% of total salary for the Chief Financial Officer. The plan rules permit an award up to 400% of total salary but this is only used in very exceptional circumstances (for example, of the case of critical recruitment). Threshold performance will result in no more than 25% vesting.
Save As You Earn ("SAYE")	To facilitate share ownership and provide further alignment with shareholders.	The Committee operates Save As You Earn share plans for all employees (in the UK this is an HMRC-approved and in Ireland this is an Irish Revenue-approved scheme); the Executive Directors may participate in the plan on the same basis as other employees. Participants are invited from time to time to save up to the monthly limit over a three-year period and use these savings to buy shares in the Company at up to the maximum discount allowable in the relevant jurisdiction.	Maximum opportunity is in line with HMRC and Irish Revenue limits (currently £500 and €500 per month, respectively) for UK and Irish employees, respectively. Maximum opportunity for employees in other European countries is €500 per month.
Shareholding Guidelines	To ensure alignment between Executive Director interests and those of shareholders.	The Company requires Executive Directors to build up and maintain a holding of shares in the Company equivalent to a minimum of 300% and 200% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively. Until share ownership guidelines have been met, Executive Directors will be required to retain half of post-tax vested awards. Shareholding guidelines may be met through both beneficially owned shares and vested but unexercised options on a notional net of tax basis.	

The Committee is satisfied that the above Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking. Contractual provisions may require the Committee to make payments to a Director that falls outside of the Policy set out above. This would be limited to situations where the terms of the payment were agreed at a time when the individual concerned was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company.

LTIP awards granted under the previous Remuneration Policy will continue to vest in line with those terms.

Notes to the Remuneration Policy table

Discretions for adjustments

In relation to incentive plans, the Committee retains the right to exercise discretion, to ensure that the level of award payable is appropriate and fair in the context of the Director's individual performance and the Group's underlying performance. Such discretion is important to ensure that outcomes are fair to both shareholders and participants. Where used, the rationale for this discretion will be fully disclosed to shareholders in the relevant directors' remuneration report.

This includes the discretion to amend a performance condition that the Committee no longer deems appropriate, which will only be exercised if reasonable in the circumstances, and the revised condition is neither materially more nor less difficult to satisfy than was originally intended. In particular, the Committee has discretion to adjust the performance conditions to take account of significant changes to the regulatory environment in which the Group operates, e.g. material new and increased taxes and product fees specific to the gambling and/or gaming industry. The Committee has discretion to make adjustments in other special circumstances, including but not limited to rights issues, corporate restructuring, and special dividends.

Selection of performance measures

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

The 2018 annual bonus measures are EBIT and Revenue. The use of revenue aligns with the Group's strategic objectives of widening the range of products and services offered, attracting new customers, increasing the activity of existing customers, and building market share in all regions in which the Group operates. The use of profit alongside revenue helps ensure a balance between growth and profitability.

The 2018 LTIP performance measures are growth in EPS and Revenue. EPS captures the long-term growth in earnings, which is aligned to the overall financial performance expected by shareholders, and revenue helps ensure focus on top line growth is maintained.

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

Remuneration policy for other employees

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

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

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

Pension and benefits arrangements are tailored to local market conditions.

We recognise the UK Government's recent commentary relating to the oversight that remuneration committees hold for the remuneration of employees below the Board. Under its terms of reference the Committee currently holds responsibility for the Group's Executive Committee. The Committee's terms of reference are annually reviewed by the Committee and the Board and the Committee will keep under review its role in relation to employees below the Board in the context of any legislative changes or revisions to the UK Corporate Governance Code.

Recruitment remuneration

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

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

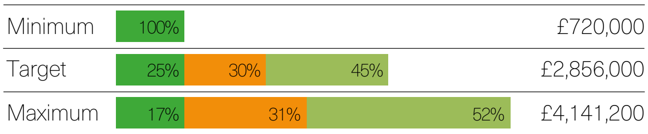
The Committee may also make an award in respect of a new appointment to 'buy out' remuneration forfeited on leaving a previous employer and may exercise the discretion available under the relevant Listing Rules to facilitate this, i.e. in the event that a different structure to those included above would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

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

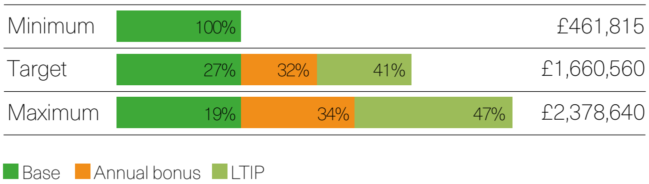
Pay for performance: scenario analysis

The following charts provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of pay under three different performance scenarios: 'Minimum', 'Target' and 'Maximum'. Potential reward opportunities are based on the current Remuneration Policy, applied to 2018 salaries. Note that the projected values exclude the impact of any share price movements.

Chief Executive Officer



Chief Financial Officer



Assumptions underlying the scenarios:

- Total salaries are inclusive of any Directorship fee. As at 1 March 2018 total salaries are £720,000 for the Chief Executive Officer and £461,815 for the Chief Financial Officer.
- Minimum: comprises fixed pay only which includes total salary, individual pension allowances (i.e. 15% of total salary) and the value of benefits (using actual values from the last financial year as a proxy).
- On-target: comprises fixed pay plus 67% of the maximum pay-out under the annual bonus (i.e. 120% of salary for both Executive Directors) and 60% of the LTIP vesting (i.e. 180% and 150% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively).
- Maximum: comprises fixed pay plus 100% of the maximum pay-out under the annual bonus (i.e. 180% of salary for both Executive Directors) and 100% of the LTIP vesting (i.e. 300% and 250% of total salary for the Chief Executive Officer and Chief Financial Officer, respectively).
- SAYE awards have been excluded.

Service agreements, leaver/change-of-control provisions and loss of office policy

Our policy is for service agreements to contain the following terms:

- Agreements are terminable on 12 months' notice given by either party.
- Agreements contain a provision entitling the employer to terminate their employment by payment of a cash sum in lieu of notice equal to the total base salary, contractual benefits and pension contributions that would have been payable during the notice period.
- The payment in lieu of notice can be paid, at the employer's discretion, as a lump sum or in monthly instalments over the notice period. There is a mechanism to reduce the payment in lieu of notice if they commence alternative employment while any instalments remain payable from which they receive an annual salary of at least £50,000.
- Executive Directors may also be entitled to a pro-rata bonus for the year in which termination occurs at the discretion of the Committee.
- All of the share option and incentive schemes which are operated by the Company contain provisions relating to termination of employment, and any share awards held by an Executive Director on termination will be governed by the rules of the relevant plan.
- Executive Directors are subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation and non-hiring restrictive covenants for a period of 12 months after the termination of their employment.

Peter Jackson, Breon Corcoran and Alex Gersh's individual service agreements are in line with the above policy. The service contract of any new appointment would be based on similar terms.

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

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

Treatment of awards in specific circumstances

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

Chairman and Non-Executive Directors

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

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

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

1. Dates of original appointment to Paddy Power plc or Betfair Group plc, as applicable, are shown on pages 52 and 53.

Details of the policy on Non-Executive Directors' fees are set out in the table below. Any future recruitment for a Chairman or a Non-Executive Director would be on the basis of the below.

Purpose and link to strategy	Operation and performance measures	Maximum opportunity
To attract and retain Non-Executive Directors of the highest calibre with experience relevant to the Company	• Remuneration for Non-Executive Directors, other than the Chairman, is determined by the Board, on the recommendation of the Executive Directors in consultation with the Chairman. • The Chairman's fee is determined and recommended to the Board by the Remuneration Committee. • Fees are reviewed from time to time. • Remuneration for Non-Executive Directors, other than the Chairman, comprises a base annual fee for acting as a Non-Executive Director of the Company and additional fees for the Senior Independent Director, and Chairmanship of the Audit, Nomination, Remuneration and Risk Committees.	• The current aggregate annual fee for all Non-Executive Directors, including the Chairman, is €1,087,287. • The maximum aggregate annual fee for all Non-Executive Directors, including the Chairman, allowed by the Company's Articles of Association is €2,000,000.[1] • Fee increases may be greater than those offered to wider employees (in percentage terms), reflecting that they may only be offered on a periodic basis or reflect additional responsibilities and/or time commitments. • Current fee levels are disclosed in the Annual Report on Remuneration[1].

1. The aggregate limit on Non-Executive Directors' remuneration provided for is an absolute upper limit. Anticipated increases in Non-Executive Directors' fees would be in line with independent market benchmarking.

Copies of Directors' service contracts or letters of appointment (as applicable) are available for inspection at the Company's Registered Office during normal business hours and at the AGM at least 15 minutes prior to its commencement until its conclusion.

Considerations of conditions elsewhere in the Group

The Committee considers the pay and employment conditions elsewhere in the Group when determining remuneration for Executive Directors, and the Company seeks to promote good relationships with employee representative bodies as part of its employee engagement strategy. However, the Committee does not consult specifically with employees on the Directors' Remuneration Policy. The Committee receives updates from the Group's HR function on pay and conditions across the Group, and considers these as part of its discussions and decision-making.

We recognise the UK Government's recent commentary in this area, and will ensure that our approach to consideration of employee views and pay and conditions across the Group reflect appropriate legislative and corporate governance requirements.

Considerations of shareholder views

As detailed in the Committee Chairman's Annual Statement, the Committee maintains an open and transparent dialogue with shareholders and takes an active interest in voting outcomes. Feedback received from shareholders, at the AGM and any other meetings during the year, is considered by the Committee on an ongoing basis. In developing the proposed Remuneration Policy we engaged with our shareholders to understand their points of view.

Executive Directors: External directorships

The Board acknowledges that Executive Directors may be invited to become non-executive directors of other companies which have no business relationship with the Group and that these duties can broaden their experience and knowledge to the benefit of the Group. Executive Directors are permitted to accept a maximum of one other external non-executive directorship (but not a chairmanship) of a large publicly listed company (or its equivalent), with the prior approval of the Chairman of the Board. Fees paid for external appointments may be retained by the individual concerned.

DIRECTORS' REPORT

The Directors' Report for the year ended 31 December 2017 should be read in conjunction with the other sections of this Annual Report and Accounts, all of which are incorporated into this Directors' Report by reference for the purposes of sections 325 and 1373 of the Companies Act 2014 and Regulation 21 of SI 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006' and SI 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007' and SI 360/2017 'European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulation 2017' as applicable:

- the Strategic Report, which includes a review of the development and performance of the Group, the external environment, key strategic aims, financial and non-financial disclosure requirements arising from EU and Irish legislation: pages 2 to 49;
- information on employees: pages 28 to 33;
- the Corporate Governance report: pages 50 to 96;
- the Directors' Remuneration Report, which includes information on the annual performance bonus, the long term incentive plan, share schemes, share options, Directors' service contracts, Directors' remuneration and payments for loss of office: pages 72 to 92;
- details of the Audit Committee: pages 62 to 67;
- details of share capital and reserves: Note 16 to the Consolidated Financial Statements on page 133;
- details of earnings per share: Note 9 to the Consolidated Financial Statements on page 123; and
- details of derivative financial instruments: Note 29 to the Consolidated Financial Statements on pages 150 to 152.

Principal activities

Paddy Power Betfair is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions: (i) Online, which includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market-leading brand 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.

Research and development

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

Results

The Group's profit for 2017 before separately disclosed items of £336.0m reflects an increase of 26% on the 2016 profit before separately disclosed items of £266.6m. Overall Group profit for 2017 amounted to £217.7m after separately disclosed items amounting to £118.3m, further information is set out in Note 4 to the Consolidated Financial Statements on page 119. Adjusted diluted earnings per share amounted to £3.941 compared with £3.333 in the previous year, an increase of 18%. The financial results for 2017 are set out in the Consolidated Income Statement on page 103. Total equity attributable to Company equity holders at 31 December 2017 amounted to £4,395.4m (2016: £4,316.6m).

Business review, key performance indicators and principal risks and uncertainties

The Strategic Report on pages 2 to 49, which includes the Chairman's Statement and the Chief Executive Officer's Review, contain a review of the performance and developments of the Group during the year, including the analysis of the key performance indicators. The principal risks and uncertainties facing the Group are on pages 46 to 49.

Annual General Meeting ("AGM") 2018

The Notice of AGM, convening the AGM to be held on 18 May 2018, has been sent out to shareholders together with this Annual Report and Accounts. This contains full details of the resolutions that will be put to shareholders. It is also available on our corporate website.

Directors and Company Secretary

Director changes

Danuta Gray retired as a Non-Executive Director on 17 May 2017 and Emer Timmons and Jan Bolz were appointed as Non-Executive Director effective as of 17 May 2017 and 6 September 2017 respectively. Breon Corcoran ceased being Chief Executive Officer on 7 January 2018 and was succeeded on 8 January 2018 by Peter Jackson. Pádraig Ó Ríordáin retired as a Non-Executive Director on 2 March 2018. Biographies of our current Directors can be found on pages 52 and 53. The Company Secretary is Edward Traynor.

In accordance with the recommendations of the UK Code, we require all Directors seeking re-election to retire and seek re-election at each AGM. Accordingly, all Directors will retire and seek election, in the case of Jan Bolz and Emer Timmons, and re-election, for all other Directors, at our 2018 AGM. The Board believes that all Directors offering themselves for election or re-election continue to be effective and demonstrate commitment to the role.

Directors' and Officers' liability insurance

Throughout 2017, the Group had in place directors' and officers' liability insurance, which covered all Directors and Officers.

Directors' and Company Secretary's shareholdings

The Company has established share ownership guidelines for Executive Directors to ensure that their interests are aligned with those of shareholders. See Directors' Remuneration Report: pages 72 to 92.

As at 6 March 2018 (being the latest practicable date before publication of this Annual Report and Accounts), the Directors and the Company Secretary held the same number of beneficial interests in shares as at 31 December 2017 as set out in the table below. These shareholdings include all beneficial interests and those held by persons closely associated with them. This does not include Executive Directors or the Company Secretary's share awards under the Company's share schemes. The interests of the Executive Directors in the Company's share schemes as at 31 December 2017 are set out on pages 84 and 85. The Company Secretary has no interest in the Company's share schemes that require disclosure.

	Number of ordinary shares of €0.09 each	
	31 December 2017	31 December 2016 (or date of appointment to the Company if later)
Jan Bolz	**–**	–
Zillah Byng-Thorne	**930**	930
Michael Cawley	**3,600**	3,600
Breon Corcoran[1]	**140,465**	139,997
Ian Dyson	**3,163**	3,163
Alex Gersh	**11,036**	10,000
Peter Jackson	**930**	930
Gary McGann	**2,010**	2,010
Pádraig Ó Ríordáin[2]	**7,200**	7,200
Peter Rigby	**–**	–
Emer Timmons	**–**	–
Edward Traynor (Company Secretary)	**–**	–

1. Breon Corcoran used 32,731 ordinary shares beneficially held by him as collateral for a portfolio finance facility with Barclays Bank Plc UK (London) Platform and 69,556 ordinary shares beneficially held by him as collateral for a portfolio reserve facility with Barclays Private International Limited Jersey Platform. This did not result in any change in Breon's legal or beneficial shareholding in such shares and he continued to have an interest and voting rights in 140,465 shares up until he resigned as a Director of the Company on 7 January 2018.
2. Pádraig Ó Ríordáin retired as a Director of the Company on 2 March 2018.

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

Shares

Share capital, rights and obligations

As at 6 March 2018 (being the latest practicable date before publication of this Annual Report and Accounts), the Company's total issued share capital was 86,573,915 shares, comprising:

- 84,608,315 ordinary shares in issue each with a nominal value of €0.09, all of which are of the same class and carry the same rights and obligations. Ordinary shares carry the right to the profits of the Company available for distribution and to the return of capital on the winding up of the Company. Ordinary shares carry the right to attend and speak at extraordinary general meetings of the Company and each share has the right to one vote. With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which a Company share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights; and
- 1,965,600 treasury shares, which have no voting rights and no entitlement to dividends. This represents 2.27% of the Company's total issued share capital (including treasury shares).

As far as known to the Directors, the Company is not directly or indirectly owned or controlled by another company or any government. Further information on the Company's share capital is set out in Note 16 to the Consolidated Financial Statements on page 133.

At the Company's Annual General Meeting ("AGM") in 2017, shareholders authorised the Directors, by way of passing a special resolution, to be able to allot shares for cash up to 5% of the Company's total issued share capital (excluding treasury shares) without first being required to offer them to existing shareholders of the Company. At the 2018 AGM, shareholders will be requested to renew this authority. Save for the allotment of shares in respect of the Group's employee share schemes, the Directors have no current intention to exercise this authority.

At the Company's AGM in 2017, the shareholders authorised the Company and/or any of its subsidiaries, by way of passing a special resolution, to be able to make market purchases of a maximum of 10% of the Company's total issued share capital (excluding treasury shares). At the 2018 AGM, shareholders will be requested to renew this authority. No purchases were made during 2017.

Substantial shareholdings

As at 31 December 2017 and 6 March 2018 (being the latest practicable date before publication of this Annual Report and Accounts), the Company had been notified of the following details of interests of over 3% in the Company's ordinary share capital (excluding treasury shares):

	Notified holding 31 December 2017	**Notified holding 6 March 2018**	**Notified % holding 6 March 2018**
The Capital Group Companies, Inc.[1]	11,954,076	**11,954,076**	**14.16%**
Massachusetts Financial Services Company	6,279,580	**6,279,580**	**7.47%**
Parvus Asset Management Europe Limited[2]	5,918,511	**5,792,975**	**6.85%**
BlackRock Inc.	4,962,342	**4,962,342**	**5.88%**
David Power	3,472,822	**3,472,822**	**4.15%**
Royal Bank of Canada	2,536,342	**2,536,342**	**3.01%**
Vontobel Asset Management, Inc.	2,568,504	**2,529,763**	**2.99%**

1. EuroPacific Growth Fund ("EUPAC") is a mutual fund registered in the United States and has notified the Company that it is interested in 7.01% of the then Company's ordinary share capital carrying voting rights, and that its voting rights have been delegated to Capital Research and Management Company ("CRMC"). CRMC's holdings under management are reported in aggregate by The Capital Group Companies, Inc. Accordingly, EUPAC's interests are included in the 14.16% interest which was notified by The Capital Group Companies, Inc.
2. Parvus Asset Management Europe Limited holds a derivative position via equity swap.

Own shares held

During 2017, The Paddy Power Betfair plc Employee Benefit Trust (the "EBT") transferred 306,761 (2016: 396,498) ordinary shares to employees under the Company's share schemes. At 31 December 2017, the EBT held 200,973 (2016: 478,392) ordinary shares in the Company, representing 0.24% (2016: 0.57%) of the total issued share capital of the Company (excluding treasury shares) as at that date. 29,342 shares were purchased at current market value into the EBT during the year ended 31 December 2017 (2016: Nil). Further information is set out in Note 16 to the Consolidated Financial Statements on page 133.

Outstanding options

592,708 (2016: 617,372) awards or grants over shares were made during 2017 that would be dilutive of the Company's issued share capital. We settle outstanding awards or grants under the Company's share schemes with shares purchased in the market and through issuing new shares. The Board continues to review this as appropriate. As at 31 December 2017, there were 1,767,952 (2016: 1,949,232) options outstanding.

Dividends

Details of the Company's dividends for the financial years ended 31 December 2017 and 2016:

	Payment date	Dividend per share		Dividend total	
		pence	cents	£	€
2017 Final Dividend[1]	29 May 2018	135.00	–	–	–
2017 Interim Dividend	22 Sept 2017	65.00	71.61	54.7m	–
2016 Final Dividend	24 May 2017	113.00	133.59	94.7m	–
2016 Interim Dividend	30 Sept 2016	40.00	46.78	33.5m	–
2016 Closing Dividend[2]	2 Mar 2016	–	18.00	–	7.9m

1. Subject to shareholders' approval at the AGM 2018.
2. The pre-Merger Paddy Power plc closing dividend as paid to Paddy Power plc shareholders for the period from 1 January 2016 to 1 February 2016 (inclusive). The pre-Merger Betfair Group plc closing dividend as paid to Betfair Group plc shareholders for the period from 1 May 2015 to 1 February 2016 (inclusive) was 24.3p per Betfair Group plc share.

Employees

The Group employed 7,640 people as at 31 December 2017. The responsibility for formulating, implementing and ensuring adherence to employment policies and relevant legislation falls under the remit of our Human Resources function. The Group fully supports the principle of equal opportunity for all employees and opposes all forms of discrimination and has policies to ensure that it meets its legal obligations. It is also Group policy to give full and fair consideration to the recruitment of disabled persons, and to provide such persons with the same training, career development and promotion opportunities as other employees. In the event of employees becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is provided.

The Group believes in open and continuous communications as an important part of the employee engagement process. The Group has an intranet and various internal communication channels for informing employees about financial results, business development and other news concerning the Group and its people. Our Code of Conduct applies to all employees across the Group. As part of enabling our employees to participate in the Group's performance and align with shareholder value, employees are also able to join our all employee save as you earn scheme (subject to local juridictional requirements) (see Note 18 of the Consolidated Financial Statements on pages 134 to 140).

Our people and culture: pages 28 to 33

Events after the reporting date

Disposal of LMAX Limited

In February 2018, the Group disposed of its 31.4% non-controlling interest in LMAX Limited for cash consideration amounting to £21.9m to the existing majority LMAX Limited 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.

Other

Greenhouse gas emissions: page 25

Political donations

No political donations were made by the Group during 2017 that require disclosure in accordance with the Electoral Acts 1997 to 2002 and the Electoral Political Funding Act 2012.

Articles of Association

The Company's Articles of Association may only be amended by way of a special resolution approved by the shareholders. They were last amended, effective as of 2 February 2016, by way of a special resolution passed at the Extraordinary General Meeting held on 21 December 2015.

Available on our website at:
paddypowerbetfair.com/investor-relations

Significant agreements – change of control provisions

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

Contractual arrangements

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

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's length basis and are disclosed in the Financial Statements. Transactions with Directors and parties related to them have been disclosed in Note 31 to the Consolidated Financial Statements on page 154.

Funding and liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also spreads its cash reserves across several highly rated banks and investments to mitigate counterparty risks. The Group performs regular cash flow projections to ensure that it has sufficient cash on demand to meet expected operational expenses for a period of at least 90 days. The Group has a committed revolving credit facility of €300m provided by a syndicate of banks which expires in May 2020. At 31 December 2017, €70m of this facility was drawn down.

Viability Statement

In accordance with the UK Code provision C2.2, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years to December 2020. This three-year timeframe was selected as it corresponds with the Board's strategic planning horizon. Also the possible impact of future regulatory change and the pace of technological change limits the Directors' ability to reliably predict the longer term. This is based on long term plans prepared in 2017 with sensitivity analysis performed on key financial metrics such as sportsbook net revenue % and amounts staked.

The Directors' assessment has been made with reference to the strong cash generation capabilities of the Group, its committed debt facilities and in particular its €300m revolving credit facility which expires in May 2020, the Board's risk appetite and the principal risks and uncertainties and how they are managed, as detailed in pages 46 to 49 of this Annual Report and Accounts.

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

Going concern, responsibilities and disclosure

The current activities of the Group and those factors likely to affect its future development, together with a description of its financial position, are described in the Strategic Report. Principal risks and uncertainties affecting the Group, and the steps taken to mitigate these risks are described in the Understanding and Managing our Principal Risks section of the Strategic Report on pages 46 to 49. Critical accounting estimates affecting the carrying values of assets and liabilities of the Group are discussed in Note 2 to the Consolidated Financial Statements.

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

Compliance Policy Statement

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

(i) comply with its relevant obligations;

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

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

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

External Auditor

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

Disclosure of information to the External Auditor

Each of the Directors who held office at the date of approval of the Directors' Report confirms that:

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

Books of account

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

Listing Rule 9.8.4R

For the purposes of compliance with LR 9.8.4R, LR 9.8.4R (4) – Details of any long-term incentive schemes, are included in the Directors' Remuneration Report on pages 72 to 92, and included by reference within this Directors' Report. The remaining LR9.8.4R sections are not applicable.

On behalf of the Board of Directors

Peter Jackson
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2018

Paddy Power Betfair plc
Registered in Ireland, Company number 16956

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Report

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

- the Group Financial Statements, prepared in accordance with IFRS as adopted by the EU and the parent Company Financial Statements prepared in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 2014, give a true and fair view of the assets, liabilities, financial position of the Group and Company at 31 December 2017 and of the profit or loss of the Group for the year then ended;
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, provides the information necessary to assess the Group's position and performance, business model and strategy, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Peter Jackson
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PADDY POWER BETFAIR PLC

1. Our opinion is unmodified

We have audited the financial statements of Paddy Power Betfair plc (the "Company") for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the company statement of financial position, the company statement of cash flows, the company statement of changes in equity, and related notes, including the accounting policies in Note 2 beginning on page 109. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017 and of its profit for the year then ended;
- the Company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor for Paddy Power Betfair plc by the Directors in April 2016. The period of total uninterrupted engagement is for the two financial years ended 31 December 2017. Prior to April 2016, KPMG Ireland was the auditor for Paddy Power plc (subsequently renamed to Paddy Power Betfair plc) for 14 uninterrupted financial years, and we were the auditor for Betfair Group plc for five uninterrupted financial years (prior to acquisition by Paddy Power plc). We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with ethical requirements in Ireland including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ("IAASA") as applied to listed public entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Revenue recognition (2017: £1,745 million) (2016: £1,501 million)

Risk vs 2016: ◄► (Risk unchanged)

The Audit Committee Report Page 64
Accounting policy Page 111
Note 3 to the Group financial statements Page 117

The risk

Data capture and processing:

The Group has a number of income streams across its online and retail operations, and the accuracy and completeness of the amounts recognised from these income streams is largely dependent on the effectiveness of the operational and fraud-related controls in place. The Group's IT systems aim to correctly calculate commission revenues and appropriate wins and losses, as applicable, alongside customer funds and core finance processes and controls accurately reporting on and reconciling these transactions. Revenue streams for the vast majority of the Group's products are computed on highly-complex IT systems, with a number of different bases for calculating revenue. There is a risk that a system may not be configured correctly from the outset such that commissions or winning and losing bets are calculated incorrectly, that the systems do not interface correctly from the customer facing systems through to the financial information systems and that unauthorised changes may be made to any of these systems, which may result in the misstatement of revenue.

Additionally, the calculation of revenue from the IT systems reconciles directly to the transfer of funds from the customer accounts to the corporate accounts, and as such; customer funds must be appropriately managed and safeguarded. There is a risk that commissions or winning and losing bets are not calculated correctly and consequently a risk that the cash to be transferred from the customer accounts in the ring-fenced trust to the Group's corporate accounts could be misstated.

Our response

Our procedures included:

Control operation and reperformance:

- We utilised our own IT specialists to critically assess the general IT controls related to access to programs and data, program change and development and computer operations by evaluating account set-up and termination for users, password restrictions, access reviews, users with super-user access, program change and development process controls and integration monitoring, and tested whether any unauthorised changes had been made to the system. We critically assessed the overall IT environment, including: security policies and procedures, IT organisational structure, strategy and reporting, disaster recovery and back-up testing.
- We also tested the configuration of the system which monitors the information transfer between key IT systems. In addition, we utilised our own IT specialists, to test the effectiveness of the IT controls of the online betting environment by observing bets placed from the customer-facing systems and tracing the transactions to the data centre, and then from the data warehouse to the financial information systems to assess whether that information is passed appropriately from one system to another. We also tested the effectiveness of the controls related to the capture of initial bets, their allocation between different products and their processing through the system to recognition as revenue or in the appropriate customer account, as well as the effectiveness of controls over customer account set-up and cash deposits and withdrawals from customer accounts.

Test of details:

- We assessed the appropriateness of revenue recognised by tracing a sample of betting transactions through both the retail and online betting systems, and verified that they were appropriately recorded within the financial information systems at the transaction level.
- We then assessed the appropriateness of cash transferred from the client trust to corporate cash by reconciling the total revenue amounts reported by key IT systems to the amount transferred from the client trust to corporate cash; and tested a sample of these settlements by agreeing the amounts to the relevant bank information.
- We obtained external confirmation of client funds held in the client trust and reconciled the obtained bank balance confirmations to the customers' betting accounts.

Our results:

- The results of our testing were satisfactory and we considered the amount of revenue recognised and customer account balances to be acceptable.

Tax provisioning

Risk vs 2016: ◄► (Risk unchanged)

The Audit Committee Report Page 64
Accounting policy Page 115
Note 8 to the Group financial statements Page 122

The risk

Tax provisioning:

For some markets in which the Group now operates or operated in the past, the tax regulations dealing specifically with online gaming businesses might not yet be formed, are unclear or continue to evolve. The Directors are therefore required to exercise a level of judgement surrounding the interpretation and application of the tax laws which may differ from that of relevant tax authorities. The amounts involved are potentially significant, and determining the amount, if any, to be provided as a liability, is inherently subjective.

Directors are also required to make judgements and estimates in relation to international tax issues and exposures given that the Group operates in a number of tax jurisdictions, and the complexities of transfer pricing and other international tax legislation, including point of consumption tax and controlled foreign companies.

Our response

Our procedures included:

Control design and operation:

- We evaluated, including assessing the operating effectiveness, the controls and processes in place across the Group that consist of the calculation of income tax provisions and the review of assumptions used in the estimation of such liabilities.

Enquiry of lawyers:

- For any significant tax exposures, we assessed correspondence with the Group's external counsel accompanied by formal confirmations from that counsel.

Our tax expertise:

- We utilised our own international and local tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities, and to evaluate and challenge the assumptions and methodologies used by the Group in relation to the recognition of direct and indirect tax liabilities and in assessing the reasonableness of the assumptions underpinning the measurement and recognition of such amounts.

Assessing transparency:

- We assessed the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

Our results:

- The results of our testing were satisfactory and we consider the Group's application of the relevant tax regulations and the respective amounts recorded to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £12.8 million (2016: £12.0 million), determined with reference to a benchmark of Group profit before tax, of which it represents 5.0% (2016: 5.0% of normalised Group profit before tax with the addback of amortisation expense related to acquired intangible assets).

Materiality for the parent company financial statements as a whole was set at £9.6 million (2016: £6.5 million), determined with reference to a benchmark of total assets and chosen to be lower than materiality for the group financial statements as a whole. It represents 0.2% (2016: 0.1%) of total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £640,000 (2016: £595,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 11 (2016: 11) reporting components, we subjected five (2016: seven) to full scope audits for Group purposes. The decrease in components subject to full scope audits is attributable to Malta being disaggregated into three distinct components in the prior year. These Maltese components were consolidated into a single component in the current year, thereby reducing the number of components subject to full scope audits.

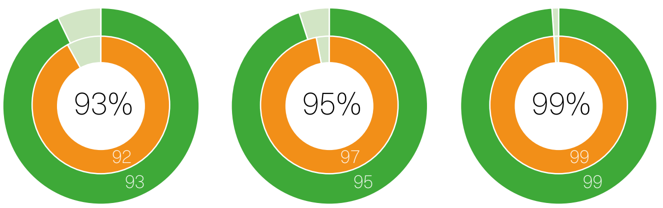
The components within the scope of our work accounted for the percentages illustrated below.

The remaining 7% of total Group revenue and 5% of Group profit before tax is represented by six reporting components, none of which individually represented more than 6% of any of total Group revenue, or 3% of Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £4.1 million to £7.9 million, having regard to the mix of size and risk profile of the Group across the components. The work on one of the five in-scope components was performed by component auditors in Australia and the rest, including the audit of the parent company, was performed by the Group team (2016: five of the 11 components – Ireland, Malta [three components], and Australia were audited by component auditors).

The Group team held teleconference meetings with the Australian component to assess the audit risk and strategy. The Group team also visited this component at the conclusion of their fieldwork to review the work performed and to discuss the findings reported to the Group team in more detail.

GROUP REVENUE | GROUP PROFIT BEFORE TAXATION | GROUP NET ASSETS



Full scope for Group audit purposes 2017
Full scope for Group audit purposes 2016
Desktop review

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or the related statement under the Listing Rules set out on page 96 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on that work, we report that:

- we have not identified material misstatements in the Directors' Report or other accompanying information;
- in our opinion the information given in the Directors' Report is consistent with the financial statements; and
- in our opinion the Directors' Report has been prepared in accordance with the Companies Act 2014.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Directors' Report on page 96 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Understanding and Managing our Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Directors' Report of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement on page 96. We have nothing to report in this respect.

Corporate governance disclosures

We are required to address the following items and report to you in the following circumstances:

- **Fair, balanced and understandable:** if we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- **Report of the Audit Committee:** if the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Statement of compliance with UK Corporate Governance Code:** if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Statement on pages 50 to 51, that:

- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements and has been prepared in accordance with the Companies Act 2014; and
- based on our knowledge and understanding of the company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information.

We also report that, based on work undertaken for our audit, other information required by the Companies Act 2014 is contained in the Corporate Governance Statement.

Directors' Remuneration Report

In addition to our audit of the Financial Statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the UK Companies Act 2006, as if those requirements were to apply to the Company.

6. Our opinions on other matters prescribed the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's statement of financial position and the profit and loss account is in agreement with the accounting records.

7. We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by sections 305 to 312 of the Companies Act 2014 are not made.

The Listing Rules of the Irish Stock Exchange and the UK Listing Authority require us to review:

- the Directors' statement, set out on page 96, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Statement on page 51 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Remuneration Committee.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 97, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

Irregularities – Ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory, licensing and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of gaming, licensing, anti-bribery, corruption and money laundering recognising the financial and regulated nature of the Group's activities.

With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management, and inspection of regulatory, licensing and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non- detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Harper
for and on behalf of KPMG LLP, Statutory Audit Firm

Chartered Accountants
15 Canada Square
London E14 5GL

7 March 2018

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	6	**1.7**	**–**	**1.7**	1.5	–	1.5
Financial expense	6	**(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	8	**(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	9			**£2.579**			(£0.072)
Diluted[2]	9			**£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 33 on pages 109 to 155 form an integral part of these consolidated financial statements.

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	6	**–**	7.6
Fair value of foreign exchange cash flow hedges transferred to income statement	6	**–**	(9.3)
Foreign exchange (loss)/gain on translation of the net assets of foreign currency denominated entities	6	**(43.3)**	49.7
Net change in fair value of available-for-sale financial assets	6	**13.7**	–
Deferred tax on fair value of cash flow hedges	19	**–**	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 33 on pages 109 to 155 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	31 December 2017 £m	31 December 2016 £m
Assets			
Property, plant and equipment	10	**136.3**	134.0
Intangible assets	11	**445.2**	581.2
Goodwill	12	**3,885.2**	3,891.1
Deferred tax assets	19	**11.7**	8.6
Investments		**0.1**	0.1
Available-for-sale financial assets	14	**15.0**	1.3
Trade and other receivables	14	**4.2**	5.8
Total non-current assets		**4,497.7**	4,622.1
Trade and other receivables	14	**48.8**	55.2
Financial assets – restricted cash	15	**75.4**	64.8
Cash and cash equivalents	15	**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	16	**(40.7)**	(40.7)
Shares held by employee benefit trust	16	**(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	20	**334.7**	320.6
Derivative financial liabilities	20	**7.8**	8.6
Provisions	21	**3.2**	4.6
Current tax payable		**38.0**	38.8
Borrowings	22	**–**	0.2
Total current liabilities		**383.7**	372.8
Trade and other payables	20	**34.5**	26.9
Derivative financial liabilities	20	**2.3**	–
Provisions	21	**1.2**	1.1
Deferred tax liabilities	19	**49.2**	61.0
Borrowings	22	**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 33 on pages 109 to 155 form an integral part of these consolidated financial statements.

On behalf of the Board

Peter Jackson
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2018

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	6	**(1.7)**	(1.5)
Financial expense	6	**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	18	**26.0**	20.8
Foreign currency exchange loss/(gain)	7	**0.9**	(2.5)
Loss on disposal of property, plant and equipment and intangible assets	7	**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	10	**(39.2)**	(40.8)
Purchase of intangible assets	11	**(25.6)**	(32.3)
Purchase of businesses, net of cash acquired	13	**(14.9)**	(0.2)
Cash acquired from merger with Betfair Group plc	13	**–**	147.5
Capitalised internal development expenditure	11	**(20.0)**	(7.0)
Payment of contingent deferred consideration	13	**(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	16	**5.8**	2.5
Purchase of shares by employee benefit trust	16	**(2.5)**	–
Dividends paid	17	**(149.4)**	(142.3)
Net amounts (repaid)/drawn down on borrowings facility	22	**(157.6)**	44.1
Interest paid		**(1.8)**	(2.9)
Betfair Group plc closing dividend	17	**–**	(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	15	**306.6**	249.9

Notes 1 to 33 on pages 109 to 155 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of the Company (see Note 16)								
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	*86.0*	417.2	29.5	1.7	(40.7)	(30.9)	141.8	3,798.0	4,316.6
Total comprehensive income/(loss) for the year									
Profit for the year	–	–	–	–	–	–	–	217.7	217.7
Foreign exchange translation (Note 6)	–	–	(43.3)	–	–	–	–	–	(43.3)
Net change in fair value of available-for-sale financial assets (Note 6)	–	–	–	13.7	–	–	–	–	13.7
Total comprehensive (loss)/income for the year	–	–	(43.3)	13.7	–	–	–	217.7	188.1
Transactions with owners of the Company, recognised directly in equity									
Shares issued (Note 16)	*0.5*	5.8	–	–	–	–	–	–	5.8
Own shares acquired by employee benefit trust	–	–	–	–	–	(2.5)	–	–	(2.5)
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	26.0	–	26.0
Equity-settled transactions – vestings	–	–	–	–	–	17.8	(16.0)	1.3	3.1
Tax on share-based payments	–	–	–	–	–	–	–	0.3	0.3
Transfer to retained earnings on exercise of share options (Note 16)	–	–	–	–	–	–	(46.3)	46.3	–
Dividends to shareholders (Note 17)	–	–	–	–	–	–	–	(149.4)	(149.4)
Replacement share options – expense recorded in income statement (Note 4)	–	–	–	–	–	–	7.4	–	7.4
Total contributions by and distributions to owners of the Company	*0.5*	5.8	–	–	–	15.3	(28.9)	(101.5)	(109.3)
Balance at 31 December 2017	*86.5*	423.0	(13.8)	15.4	(40.7)	(15.6)	112.9	3,914.2	4,395.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company (see Note 16)									
	Number of ordinary shares in issue millions	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Cash flow hedge reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016	*46.0*	8.7	(20.2)	1.5	1.7	(40.7)	(49.2)	25.5	123.6	50.9
Total comprehensive income/(loss) for the year										
Loss for the year	–	–	–	–	–	–	–	–	(5.7)	(5.7)
Foreign exchange translation (Note 6)	–	–	49.7	–	–	–	–	–	–	49.7
Net change in fair value of cash flow hedge reserve (Note 6)	–	–	–	(1.7)	–	–	–	–	–	(1.7)
Deferred tax on cash flow hedges (Note 19)	–	–	–	0.2	–	–	–	–	–	0.2
Total comprehensive income/(loss) for the year	–	–	49.7	(1.5)	–	–	–	–	(5.7)	42.5
Transactions with owners of the Company, recognised directly in equity										
Shares issued (Note 16)	*0.4*	2.5	–	–	–	–	–	–	–	2.5
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	–	28.4	–	28.4
Equity-settled transactions – vestings	–	–	–	–	–	–	18.3	(19.8)	2.0	0.5
Tax on share-based payments	–	–	–	–	–	–	–	–	(1.5)	(1.5)
Transfer to retained earnings on exercise of share options (Note 16)	–	–	–	–	–	–	–	(25.6)	25.6	–
Shares issued as consideration for acquisition of Betfair Group plc (Note 13)	*39.6*	4,202.3	–	–	–	–	–	–	–	4,202.3
Capital reduction – share premium cancellation (Note 16)	–	(3,796.3)	–	–	–	–	–	–	3,796.3	–
Dividends to shareholders (Note 17)	–	–	–	–	–	–	–	–	(142.3)	(142.3)
Issue of replacement share options (Note 13)	–	–	–	–	–	–	–	111.4	–	111.4
Replacement share options – expense 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 33 on pages 109 to 155 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Paddy Power Betfair plc (the "Company") and its subsidiaries (together referred to as the "Group") is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions; (i) Online, which includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market leader in the fast-growing Australian online betting market; (iii) Retail, which operates over 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 13 for further information on the Merger. The results of Betfair Group plc prior to completion of the Merger are not included in these consolidated financial statements.

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange. The address of its registered office is set out on page 179 of this Annual Report.

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 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 consolidated financial statements are presented in pounds sterling and are rounded to the nearest million.

Further to IAS Regulation (EC1606/2002, 'Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU"). The consolidated financial statements have been prepared on the basis of IFRS adopted by the EU and effective for accounting periods ending on or after 1 January 2017.

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

Recent accounting pronouncements

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

Adopted IFRS not yet applied

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

- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018)
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date 1 January 2018)
- Amendments to IAS 40: Transfers of Investment Property (effective date 1 January 2018)
- Annual Improvements to IFRSs 2014–2016 Cycle – Amendments to IFRS 1 and IAS 28 (effective date 1 January 2018)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (effective date 1 January 2018)
- IFRIC 23 *Uncertainty over Income Tax Treatments* (effective date 1 January 2019)
- IFRS 17 *Insurance Contracts* (effective date 1 January 2021)
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture (effective date to be confirmed)

The following Adopted IFRS have been issued but have not been applied in these financial statements:

- IFRS 9 *Financial Instruments* (effective date 1 January 2018)
- IFRS 16 *Leases* (effective date 1 January 2019)

IFRS 9 *Financial instruments* addresses the classification, measurement and recognition of financial assets and liabilities and was issued in July 2015. IFRS 9 retains and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through Profit and Loss ('P&L'). The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at the date of initial application to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39 *Financial Instruments: Recognition and Measurement*. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018. This standard is not expected to the impact the Group other than how the Group presents movements in investments in equity instruments. Under IAS 39, these instruments are categorised

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

as available-for-sale and the movement in fair value is booked to OCI. Per IFRS 9, such instruments are required to be measured at fair value through profit or loss unless the irrevocable option at initial application to present changes in fair value in OCI is chosen. This designation is made on an instrument by instrument basis.

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. IFRS 16 introduces a single on-balance sheet lease accounting model for leases. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. The standard replaces IAS 17 Leases and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The impact of this standard on the financial statements is expected to be significant given the operating lease commitments outlined in Note 30 to the Consolidated Financial Statements and is set out in more detail below.

Income statement

The nature of the expense relating to leases will change as IFRS 16 replaces the straight line operating expense with a depreciation charge for right-of-use assets and interest expense on these liabilities. EBITDA will increase as the Group currently recognises operating lease expenses in operating costs. The Group's lease expense for 2017 was £33.8m and is disclosed in Note 7 to the Consolidated Financial Statements. Depreciation and Amortisation costs and Finance expense as currently reported in the Consolidated Income Statement will increase as under the new standard, the right-of-use asset will be capitalised and depreciated over the term of the lease with an associated finance expense applied annually to the lease liability. Based on our initial impact assessment, we do not expect the implementation of IFRS 16 to have a material impact on profit before tax.

Balance Sheet

The recognition of the lease liability and the 'right-of-use' asset will result in a material grossing up of the balance sheet.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 at the date of initial application will depend on the transition option chosen, the discount rates applied, the expected terms of leases including renewal options and the extent to which the Group choses to use exemptions for short-term leases and low value items.

Basis of consolidation

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

Critical accounting estimates and judgements

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

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

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimation (as described below), that have a significant effect on the amounts recognised in the financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment to the carrying amount of assets and liabilities within the next financial year is set out below.

Valuation of tax provisions and liabilities

Judgement and estimation is required to interpret international tax laws relating to gaming, transfer pricing as well as point of consumption tax and the way these taxes interact within each jurisdiction, in order to identify and value provisions in relation to gaming and other taxes as applicable. The total uncertain tax provisions and liabilities for the year ended 31 December 2017 is comprised of a number of individual immaterial uncertain tax positions relating to the risks assessed in various jurisdictions by management. While complex judgment is involved to assess each individual uncertain tax position, management do not expect a material change to arise in the next financial year. For that reason management have not provided a sensitivity for the tax provision and liabilities.

Note 29 – Determination of fair value of contingent consideration

Contingent consideration is initially recognised at fair value and subsequently reassessed at each reporting date to reflect changes in estimates and assumptions. Fair value is determined with reference to forecast performance for the acquired businesses during the relevant time periods and the amounts to be paid in such scenarios. The fair value was estimated by assigning probabilities to the potential payout scenarios. The significant unobservable inputs are forecast performance for the acquired businesses. Based on the performance of the acquired businesses, a range of possible outcomes is disclosed in Note 29.

Note 12 – Measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets

An impairment review has been performed of all goodwill and intangible assets held by the Group. The impairment review is performed on a "value-in-use" basis, which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and an appropriate growth rate. Certain of these estimates and assumptions are subjective in nature. However, there are no estimates or assumptions used in assessing the recoverable amount of cash generating units which are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Significant unobservable inputs and valuation adjustments are monitored on an on-going basis.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in the different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Revenue

The services provided by the Group comprise sports betting (sportsbook, the exchange sports betting product and pari-mutuel betting products), fixed odds games betting, online games and casino, peer-to-peer games including online bingo, online poker and daily fantasy sports products, and business-to-business services. Revenue is stated exclusive of value-added tax.

The Group's betting and gaming activities are classified as derivative financial instruments, with the exception of the exchange sports betting product and pari-mutuel betting products on which commission income is earned, peer-to-peer games on which commission income and tournament fees are earned (including daily fantasy sports), and business-to-business services on which fees are earned.

Revenue from sportsbook betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period. These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the revenue line as this represents the Group's principal activity. Customer promotions (including free bets) and bonuses are deducted from sportsbook betting revenue.

Revenue from the exchange sports betting product represents commission earned on betting activity and is recognised on the date the outcome for an event is settled.

Revenue from pari-mutuel betting products represents a percentage of stake and is recognised on settlement of the event, and is stated net of customer promotions and bonuses in the period.

Revenue from fixed odds games and the online casinos represents net winnings ("customer drop"), being amounts staked net of customer winnings, and is stated net of customer promotions and bonuses incurred in the period.

Revenue from peer-to-peer games represents commission income ("rake") and tournament fees earned from games completed by the period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

Revenue from business-to-business services represents fees charged for the services provided in the period.

Cost of sales

Cost of sales principally comprises betting and gaming taxes, software supplier costs, customer payment transaction fees, sporting levies and other data rights charges.

Research and development

Expenditure on research activities is recognised in the income statement as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an internally generated intangible asset only when the necessary criteria are met; including demonstrating the technical feasibility of the product and having sufficient certainty over future revenue or cost savings that will be generated from the product. The qualifying expenditure capitalised represents costs directly attributable to the development of the asset. This expenditure is capitalised from the date when they first meet the recognition criteria and until the date at which the asset is available for use. If the criteria are not met the expenditure is recognised in profit or loss as an expense in the period in which it is incurred. Capitalised development expenditure assets are amortised on a straight-line basis from the date they are available for use over their useful economic life.

Financial income

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest. Financial income includes changes in the fair value of financial assets at fair value through profit or loss.

Financial expense

Financial expense comprises interest expense on borrowings (except in respect of borrowing costs relating to qualifying assets), interest on guarantee contracts entered into with third parties, and the unwinding of the discount on provisions and other non-current liabilities.

Bank and credit card charges

Bank and credit card charges and fees that are considered integral to the operations of the Group's business are recognised in 'cost of sales' in the consolidated income statement. Bank charges and fees that are related to the Group's financing activities are recognised in 'financial expense' in the consolidated income statement.

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

Operating segment reporting

Operating segments are distinguishable components of the Group that have been established based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker (the Board of Directors) in order to assess each segment's performance and to allocate resources to them. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its operating segments of Online, Australia, Retail and US are its reportable segments. See Note 3 for further information on operating segments.

Functional and presentation currency

Pounds sterling represents the primary currency for transactions and as such the Group has chosen to present its financial statements in pounds sterling. The Company's functional currency is euro. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which are primarily pounds sterling, euro, Australian dollar and US dollar.

Foreign currency transactions

Transactions in foreign currencies are translated at the relevant foreign exchange rate ruling at the date of the transaction. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currencies at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within 'operating costs excluding depreciation and amortisation' in the income statement rather than as financial income or expense, as the Directors consider that the gains or losses arising relate to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

Foreign currency translation of foreign operations

To the extent that the Group's foreign operations are considered to have functional currencies which are different from the Group's presentation currency, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and long term intra-group loans that are part of the net investment because repayment is not planned or foreseen, are translated to GBP at the foreign exchange rates ruling at the reporting date. The revenues and expenses of these foreign operations are translated to GBP at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the consolidated statement of other comprehensive income and presented in the foreign currency translation reserve within equity.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The value of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS 3 Business Combinations, is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the fair values of the relevant net assets acquired is dealt with through retained earnings.

Costs relating to the acquisition of businesses that occurred since 1 January 2010 are expensed to the income statement when incurred. Costs related to the acquisition of non-controlling interests are recognised directly in retained earnings.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Previously, the Group would have immediately recognised all borrowing costs as an expense.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net in the income statement.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight-line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 10 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.

Intangible assets

Intangible assets, principally comprising brands, customer relations, computer software and technology, development expenditure, licences and broadcasting and wagering rights are capitalised and amortised over their estimated useful economic lives on a straight-line basis, with the exception of customer relations which is amortised on a reducing balance basis.

Brands represent the fair value of brands and trade-mark assets acquired in business combinations.

Customer relations represent the fair value of customer relations acquired in business combinations.

Computer software and technology includes the costs incurred in acquiring and bringing specific software programs into use and the fair value of software and technology acquired in business combinations. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

Development expenditure represents internally generated costs incurred on development activities. These costs have been capitalised in accordance with the requirements of IAS 38 *Intangible Assets*.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences), licences for electronic point-of-sale ("EPOS") system software, and gambling licences across a number of jurisdictions globally.

Broadcasting and wagering rights represent assets acquired as part of the Merger and in particular relate to the US segment.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Brands	8 years
Customer relations	4 years reducing balance, based on estimated customer lifecycle
Computer software and technology	2 – 5 years
Development expenditure	3 years
Licences	2 – 20 years
Broadcasting and wagering rights	6 years

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business in 2008, the acquisition of an additional betting shop in Northern Ireland in 2011 and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited in 2009 are not amortised for the reasons set out in Note 11.

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An impairment loss in respect of available-for-sale financial assets is calculated as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. Losses are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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

Non-financial assets (continued)

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Other non-derivative financial instruments

Other non-derivative financial instruments comprise cash and cash equivalents, restricted cash, deposits, available-for-sale financial assets, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

Restricted cash represents cash held by the Group but which is ring fenced, or used as security for specific arrangements (such as cash held on the balance sheet in designated client fund accounts where certain jurisdictions require the Group to do so, or as collateral for a bank guarantee), and to which the Group has restricted access for a period of time. It includes funds held to cover monies owed to customers, as per the terms of the Australian corporate sports book making licenses issued to Sportsbet. Restricted cash is classified as held to maturity and carried at amortised cost. Restricted cash balances are further classified as current or non-current depending on when the restriction first ends.

Neither cash and cash equivalents or restricted cash include certain customer funds deposited in a stakeholder account held by The Sporting Exchange (Clients) Limited, a wholly-owned subsidiary of the Group, on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7 *Statement of Cash Flows*, these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Subsequent to initial recognition, cash and cash equivalents, deposits and trade and other payables are measured at amortised cost.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses, are recognised in the consolidated statement of other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss in equity is reclassified to profit or loss. Fair value is determined using a discounted cash flow which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and discounts for lack of marketability and lack of control that pertains to the minority stake.

Derivative financial instruments

The Group holds certain derivative financial instruments which are initially recognised at fair value.

Sports betting open positions

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

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is considered probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Long service leave

The provision for long service leave (that arises under the provisions of Australian state legislation) is measured per the requirements of IAS 19. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Lease reinstatement

Where there exists a legal obligation for properties held under operating leases to be reinstated to their original condition on expiry of the lease, a provision is established to recognise the estimated cost of such reinstatement work on a straight-line basis over the term of the lease.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract by the Group are less than the unavoidable costs of meeting its obligations under the terms of the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Gaming tax

Gaming tax provisions relate to amounts provided for taxes in certain jurisdictions where the interpretation of tax legislation is uncertain. Judgement and estimation is required to interpret international tax laws and the way that they interact within each jurisdiction, in order to identify and value provisions in relation to gaming taxes as applicable.

Tax

Tax in the income statement comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

In determining the current and deferred tax the Group considers the impact of uncertain tax positions and whether additional taxes or interest may be due. Uncertainties reviewed by the Group including those regarding transfer pricing policies in place and interpretation of tax laws internationally have been measured using the best estimate of the likely outcome. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks and the Group believes that the accrual for tax liabilities at 31 December 2017 is adequate for all uncertain tax positions based on its assessment of the range of factors outlined above.

Borrowings

Borrowings are recorded at the fair value of the proceeds received, net of any directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Employee benefits

Pensions

The Group operates a number of defined contribution schemes under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the obligation falls due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Long-term incentive bonus plans

The Group accounts for obligations relating to long term incentive bonus plans for employees at the present value of the defined benefit obligation at the reporting date. The service cost relating to such plans is allocated to the financial years over which service under the plan is rendered by the employee. The income statement expense represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period, in addition to any associated finance costs where material.

Share-based payments

The Group operates equity-settled long term and medium term incentive plans for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and/or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve in equity. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Group also currently operates a deferred share incentive plan (DSIP) whereby one-third of any annual incentive payment (determined under the Annual Cash Incentive Plan) may be paid in deferred shares. Any such deferred element granted under the DSIP will vest 50% after 1 year and 50% after 2 years from the date of grant and will be fair valued using the same methodology as other long and medium term incentive plans. The two-thirds cash portion is measured on an undiscounted basis and expensed as the related service is provided.

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

Share-based payments (continued)

A liability is recognised for the amount expected to be paid under this cash portion if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates an equity-settled share save scheme ("SAYE") for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group has operated equity-settled share option schemes for employees under which employees acquired options over Company shares. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Shares held by employee benefit trust

The costs of purchases of the Company's shares by the Employee Benefit Trust, which have been conditionally awarded to executives under the terms of the share award schemes, are shown separately as deductions from equity in the consolidated statement of financial position.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Transaction costs relating to the purchase by the Company of its own shares are recognised directly in retained earnings. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is recognised in retained earnings.

Where the Company purchases its own shares and subsequently cancels those shares, the cost of the shares cancelled is written off directly to retained earnings. The nominal value of the shares cancelled is transferred from share capital to the capital redemption reserve fund.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 33.

Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include awards under share award schemes and share options granted to employees.

Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

Separately disclosed items

Separately disclosed items are those that in management's judgement need to be disclosed by virtue of their size, incidence or if not part of the Group's normal trading activities. The separate reporting of these items helps provide a better understanding of the Group's underlying performance.

Such items may include the amortisation of merger related intangibles, the incremental fair value uplift for share options under the terms of the Merger, significant restructuring costs, material fees in respect of acquisitions and the significant impairment of property, plant and equipment and intangible assets.

In the majority of cases, it is the material impact that these items have on the financial statements that determines whether they should be separately disclosed. Materiality is determined by assessing whether disclosing such items separately would present a reader with a better understanding of the performance of the Group. If such items were deemed to be less than material, they would not be separately disclosed.

These items usually due to their size and nature tend to be non-recurring items and would not arise on an annual basis. However, in other cases, items such as for example, the amortisation of merger related intangibles may occur over several years but are disclosed separately due to their finite life and the significantly changing amortisation profile of the assets in question in the related years. The separate disclosure of such items helps the reader better understand underlying business performance.

The tax related impact of such items is also disclosed separately.

Going concern

The Group has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore they continue to adopt the going concern basis in the consolidated financial statements. Further detail is contained in the Directors' Report on page 96.

3. Operating segments

Revenue

Income for the years ended 31 December 2017 and 2016 is analysed as follows:

	2017 £m	2016 £m
Revenue in respect of sportsbook and gaming activities	1,358.6	1,161.0
Other commission and fee revenue (included in Online, Australia and US revenue)	386.8	339.8
Revenue	1,745.4	1,500.8

As more fully described in the basis of preparation and summary of significant accounting policies, betting activities are considered to be derivative financial instruments as set out in IAS 39 *Financial Instruments: Recognition and Measurement*. Other commission and fee revenue is earned from the exchange sports betting product and pari-mutuel betting products, peer-to-peer gaming, and business-to-business services and, as these activities do not involve customers taking a direct position against the Group, such revenue is not classified as income from derivative financial instruments.

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

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.

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

3. Operating segments (continued)

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

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	809.4	311.5	295.3	84.6	–	1,500.8
Cost of sales	(183.4)	(80.5)	(62.8)	(19.8)	–	(346.5)
Gross profit	626.0	231.0	232.5	64.8	–	1,154.3
Operating costs excluding depreciation and amortisation	(352.1)	(137.4)	(170.2)	(53.4)	(54.2)	(767.3)
EBITDA [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.

Reconciliation of reportable segments to Group totals:

	2017 £m	2016 £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 amount:		
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 £m	2016 £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 £m	31 December 2016 £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 item

	2017 £m	2016 £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.

4. Separately disclosed item (continued)

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 consolidated income statement within operating costs excluding depreciation and amortisation. Amortisation of merger related intangible assets and impairment of property, plant and equipment and intangible assets are included in the consolidated income statement within depreciation and amortisation.

5. Employee expenses and numbers

Employee expenses excluding separately disclosed items (see Note 4) are:

	2017 £m	2016 £m
Wages and salaries	**285.4**	272.1
Social security costs	**33.1**	26.4
Defined contribution pension and life assurance costs	**11.8**	11.4
Share-based payment costs	**26.0**	20.8
Other staff costs	**22.8**	21.5
Total	**379.1**	352.2
The average number of persons employed by the Group (including Executive Directors), all of whom were involved in the provision of sports betting and gaming services, during the year was	**7,503**	7,557

Details on the remuneration of Directors as per the requirement of the Companies Act 2014 are set below.

	2017 £m	2016 £m
Emoluments	**3.5**	3.7
Amounts receivable under long term incentive plans	**–**	3.8
Pension costs	**0.2**	0.2
Compensation for loss of office	**–**	3.0
Total	**3.7**	10.7

The gain on the exercise of share options by Directors in 2017 was £5.3m (2016: £4.5m). Further detail in respect of Directors remuneration is set out on pages 72 to 92 of the Directors Remuneration Report.

6. Financial income and expense

	2017 £m	2016 £m
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost		
Interest income on short term bank deposits	**1.7**	1.5
Financial expense:		
On financial liabilities at amortised cost		
Interest on borrowings, bank guarantees and bank facilities, and other interest payable	**2.1**	2.8
Unwinding of the discount on provisions and other non-current liabilities	**3.0**	2.2
Total	**5.1**	5.0

	2017 £m	2016 £m
Recognised in other comprehensive income/(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)
Net change in fair value of cash flow hedge reserve	–	(1.7)
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**	–
Total	**(29.6)**	48.0

No amounts were recorded in the income statement in respect of ineffective cash flow hedges in the year ended 31 December 2017 (2016: £Nil).

7. Statutory and other information

	2017 £m	2016 £m
Auditor's remuneration for audit and other assurance services	**0.8**	1.1
Depreciation and impairment of property, plant and equipment	**39.0**	33.3
Amortisation and impairment of intangible assets	**164.1**	205.0
Amortisation of capitalised development costs	**12.7**	10.2
Loss on disposal of property, plant and equipment and intangible assets	**0.1**	0.3
Foreign currency exchange loss/(gain) – monetary items	**0.9**	(2.5)
Operating lease rentals, principally premises	**33.8**	32.8
Research and development	**20.8**	16.3
Operating lease income (representing sub-lease income)	**(0.5)**	(0.4)

Remuneration to Group external auditor (KPMG LLP)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the auditor's remuneration figures presented below represent fees paid to KPMG LLP only and are exclusive of value-added tax.

	2017 £m	2016 £m
Audit	**0.3**	0.4
Other assurance services – audit of subsidiaries	**0.1**	0.1
Other assurance services – miscellaneous	**0.1**	0.1
Tax advisory services	–	0.1
Other non-audit services	–	0.1
Total	**0.5**	0.8

Further analysis of the total fees paid to the Group external auditor, KPMG, worldwide for audit and non-audit services is presented below:

Analysis of total auditor's remuneration for audit and other assurance services

	2017 £m	2016 £m
Audit of Group (KPMG LLP)	**0.3**	0.4
Audit of subsidiaries (KPMG LLP)	**0.1**	0.1
Audit of subsidiaries (other KPMG offices)	**0.3**	0.5
Other assurance services – miscellaneous (KPMG LLP)	**0.1**	0.1
Total	**0.8**	1.1

Analysis of amounts paid to the auditor in respect of non-audit services

	2017 £m	2016 £m
Tax advisory services (KPMG LLP)	–	0.1
Tax advisory services (other KPMG offices)	**0.4**	0.6
Other non-audit services	–	0.1
Total	**0.4**	0.8

8. 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 (Note 19)	(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 in income statement	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.

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.

9. Earnings per share

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

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

The calculation of basic and diluted EPS is as follows:

	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.

10. Property, plant and equipment

	Land, buildings and leasehold improvements £m	Fixtures and fittings £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
Balance at 1 January 2016	69.0	116.4	52.4	0.2	238.0
Additions	5.8	15.4	19.6	–	40.8
Additions – business combinations (Note 13)	3.4	5.1	10.3	–	18.8
Disposals	(0.6)	(6.3)	(0.7)	(0.1)	(7.7)
Foreign currency translation adjustment	12.3	21.3	11.5	–	45.1
Balance at 31 December 2016	**89.9**	**151.9**	**93.1**	**0.1**	**335.0**
Additions	**2.9**	**10.6**	**25.7**	**–**	**39.2**
Disposals	**(0.1)**	**(0.2)**	**(1.1)**	**(0.1)**	**(1.5)**
Foreign currency translation adjustment	**2.5**	**3.8**	**0.3**	**–**	**6.6**
Balance at 31 December 2017	**95.2**	**166.1**	**118.0**	**–**	**379.3**
Depreciation and impairment					
Balance at 1 January 2016	27.4	78.4	40.0	0.2	146.0
Depreciation and impairment charges	6.6	12.6	14.1	–	33.3
Disposals	(0.3)	(6.2)	(0.6)	(0.1)	(7.2)
Foreign currency translation adjustment	5.2	14.6	9.1	–	28.9
Balance at 31 December 2016	**38.9**	**99.4**	**62.6**	**0.1**	**201.0**
Depreciation and impairment charges	**5.1**	**10.5**	**23.4**	**–**	**39.0**
Disposals	**(0.1)**	**(0.2)**	**(1.1)**	**(0.1)**	**(1.5)**
Foreign currency translation adjustment	**1.2**	**3.0**	**0.3**	**–**	**4.5**
Balance at 31 December 2017	**45.1**	**112.7**	**85.2**	**–**	**243.0**
Net book value					
At 31 December 2017	**50.1**	**53.4**	**32.8**	**–**	**136.3**
At 31 December 2016	51.0	52.5	30.5	–	134.0

The net book value of land, buildings and leasehold improvements at 31 December 2017 includes £46.2m (2016: £47.0m) in respect of leasehold improvements.

The Directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

11. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise computer software and technology, licences, development expenditure, brands, customer relations, and broadcasting and wagering rights, were as follows:

	Computer software and technology £m	Licences £m	Development expenditure £m	Brands £m	Customer relations £m	Broadcasting and wagering rights £m	Total £m
Cost							
Balance at 1 January 2016	100.0	22.8	–	11.6	–	–	134.4
Additions	32.2	0.1	–	–	–	–	32.3
Additions – internally developed	–	–	7.0	–	–	–	7.0
Additions – business combinations (Note 13)	43.2	4.8	18.0	332.4	252.9	29.2	680.5
Disposals	(5.2)	–	–	–	–	–	(5.2)
Foreign currency translation adjustment	18.7	1.4	0.6	6.4	1.4	5.4	33.9
Balance at 31 December 2016	**188.9**	**29.1**	**25.6**	**350.4**	**254.3**	**34.6**	**882.9**
Additions	**24.3**	**1.2**	**0.1**	**–**	**–**	**–**	**25.6**
Additions – internally developed	**–**	**–**	**20.0**	**–**	**–**	**–**	**20.0**
Disposals	**(16.3)**	**(1.2)**	**–**	**–**	**–**	**–**	**(17.5)**
Foreign currency translation adjustment	**2.6**	**0.1**	**(0.3)**	**(3.1)**	**(0.9)**	**(3.5)**	**(5.1)**
Balance at 31 December 2017	**199.5**	**29.2**	**45.4**	**347.3**	**253.4**	**31.1**	**905.9**
Amortisation and impairment							
Balance at 1 January 2016	67.1	3.6	–	3.4	–	–	74.1
Amortisation and impairment charges	43.8	2.4	10.2	38.1	116.0	4.7	215.2
Disposals	(5.2)	–	–	–	–	–	(5.2)
Foreign currency translation adjustment	12.2	1.2	0.1	2.2	0.7	1.2	17.6
Balance at 31 December 2016	**117.9**	**7.2**	**10.3**	**43.7**	**116.7**	**5.9**	**301.7**
Amortisation and impairment charges	**43.3**	**4.3**	**12.7**	**41.6**	**69.6**	**5.3**	**176.8**
Disposals	**(16.3)**	**(1.1)**	**–**	**–**	**–**	**–**	**(17.4)**
Foreign currency translation adjustment	**2.5**	**–**	**(0.1)**	**(1.3)**	**(0.3)**	**(1.2)**	**(0.4)**
Balance at 31 December 2017	**147.4**	**10.4**	**22.9**	**84.0**	**186.0**	**10.0**	**460.7**
Net book value							
At 31 December 2017	**52.1**	**18.8**	**22.5**	**263.3**	**67.4**	**21.1**	**445.2**
At 31 December 2016	71.0	21.9	15.3	306.7	137.6	28.7	581.2

The value of betting shop licences of £18.1m (2016: £18.1m) acquired as a result of the purchase of D McGranaghan Limited in 2008 and an additional betting shop in Northern Ireland in 2011 are not being amortised as the Directors consider these licences to have an indefinite life because:

- existing law in Northern Ireland restricts entry of new competitors;
- there exists a proven and future expected demand for bookmaking services and products; and
- the Group has a track record of renewing its betting permits and licences at minimal cost.

The value of brand intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to £13.7m at 31 December 2017 (2016: £13.9m)) are not being amortised as the Directors consider that the relevant brands have indefinite lives because:

- the Directors intend to utilise the brands in the businesses for the foreseeable future (with the exception of the IAS brand – see below); and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

The Group reviews the carrying value of licences and brands for impairment annually (or more frequently if there are indications that the value of the licences and brands may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value-in-use and fair value less costs to sell).

In 2011, the Directors reviewed the carrying value of the IAS brand of AUD6.9m and determined, on the basis of future plans, that an impairment provision was required against the value of that brand at 31 December 2011. A similar review was performed at 31 December 2016 and at 31 December 2017 (when the GBP equivalent value of the brand was £4.0m on both occasions) which indicated that there had been no changes in the circumstances that gave rise to the impairment provision and that continued provision was appropriate.

12. Goodwill

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

	Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2016	9.8	38.0	–	16.2	15.9	79.9
Arising on acquisitions during the year (Note 13)	3,420.9	–	324.5	0.1	0.1	3,745.6
Foreign currency translation adjustment	1.6	7.2	52.5	1.6	2.7	65.6
Balance at 31 December 2016	**3,432.3**	**45.2**	**377.0**	**17.9**	**18.7**	**3,891.1**
Arising on acquisitions during the year (Note 13)	**–**	**–**	**27.3**	**0.4**	**0.2**	**27.9**
Foreign currency translation adjustment	**0.3**	**(0.6)**	**(34.8)**	**0.4**	**0.9**	**(33.8)**
Balance at 31 December 2017	**3,432.6**	**44.6**	**369.5**	**18.7**	**19.8**	**3,885.2**

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 13).

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 13).

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 13).

Goodwill in Irish Retail arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, and the acquisition of a number of retail bookmaking shop properties since 2007 (see Note 13).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets

In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2017.

For the purpose of impairment testing, the Group's cash generating units include amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and a shop acquisition in 2011, and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Note 11).

The details of the impairment reviews in respect of the cash generating units as of 31 December 2017 are presented below:

	31 December 2017 £m	31 December 2016 £m
Online – goodwill	**3,432.6**	3,432.3

The recoverable amount of the Online operating segment underlying cash generating unit was estimated based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 3% (2016: 3%) per annum and is based on a weighted average income growth rate of 3% (2016: 3%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. A pre-tax discount rate of 9% (2016: 9%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2017 £m	31 December 2016 £m
Australia – goodwill and brands	**58.3**	59.1
Less: IAS brand impairment provision	**(4.0)**	(4.0)
Australia – goodwill and brands net of impairment provision	**54.3**	55.1

The recoverable amount of the Australia operating segment underlying cash generating unit was estimated based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 3% (2016: 3%) per annum and is based on a weighted average income growth rate of 3% (2016: 3%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 15% (2016: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Australia operating segment goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts (with the exception of the IAS brand amounting to £4.0m at 31 December 2017 (2016: £4.0m) – see Note 11).

	31 December 2017 £m	31 December 2016 £m
US – goodwill	**369.5**	377.0

The recoverable amount of the US operating segment underlying cash generating unit was estimated based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Projections for a further two years are based on the assumptions underlying the management approved projections, and include a projected growth rate of 12% (2016: 12%). The terminal growth rate for the extrapolated period (following the initial five year period) is projected to be approximately 5% (2016: 5%) per annum and is based on a weighted average income growth rate of 5% (2016: 5%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumptions are considered realistic by management in light of the recent performance of the segment and the Group's targeted performance over the next three years. A pre-tax discount rate of 9% (2016: 9%) which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the US segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2017 £m	31 December 2016 £m
UK Retail – goodwill and licences	**36.8**	36.0

The recoverable amount of the UK Retail underlying cash generating unit was estimated based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2016: 2%) per annum and is based on a weighted average income growth rate of 2% (2016: 2%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the cash generating unit and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating unit for the foreseeable future. A pre-tax discount rate of 10% (2016: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK Retail cash generating unit goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

12. Goodwill (continued)

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets (continued)

	31 December 2017 £m	31 December 2016 £m
Irish Retail – goodwill	**19.8**	18.7

The recoverable amount of the Irish Retail underlying cash generating unit was estimated based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. The terminal growth rate for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2016: 2%) per annum and is based on a weighted average income growth rate of 2% (2016: 2%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the cash generating unit and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating unit for the foreseeable future. A pre-tax discount rate of 10% (2016: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish Retail cash generating unit goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The discount rates applied to each cash generating unit's cash flows represents a post-tax rate that reflects the Group's weighted average cost of capital (WACC) adjusted for any risks specific to that cash generating unit.

Based on the reviews as described above, with the exception of the IAS brand impairment of AUD6.9m initially provided for in 2011 (see Note 11), no impairment has arisen.

13. Business combinations

Year ended 31 December 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**

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.

13. Business combinations (continued)

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

	As at 2 February 2016 £m
Assets	
Property, plant and equipment	18.8
Intangible assets	680.5
Available-for-sale financial asset and Investments	1.4
Total non-current assets	700.7
Trade and other receivables	22.9
Financial assets – restricted cash	17.1
Cash and cash equivalents	147.5
Total current assets	187.5
Total assets	888.2
Liabilities	
Trade and other payables	184.9
Provisions	4.3
Current tax payable	33.2
Total current liabilities	222.4
Trade and other payables	20.9
Deferred tax liabilities	76.6
Total non-current liabilities	97.5
Total liabilities	319.9
Net assets acquired	568.3
Goodwill	3,745.4
Consideration	4,313.7

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.

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.

14. 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

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 consolidated statement of other comprehensive income. See Note 29 for further detail on the basis of fair value measurement and Note 33 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 are non-interest bearing.

15. 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

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.

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

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.

16. 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.

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 (see Note 18). 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 (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 14.

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) – see also Note 19. 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).

As permitted by section 304 of the Companies Act 2014, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €28.1m (2016: €63.1m), which includes dividends receivable from subsidiary companies amounting to €Nil (2016: €73.8m).

17. 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.

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.

18. Share-based payments

Summary of equity-settled share-based payments

The Group had the following share-based payment schemes brought forward from before the Merger:

- The Paddy Power plc November 2000 Share Option Scheme;
- The Paddy Power plc Sharesave Scheme; and
- The Paddy Power Long Term Incentive Plan.

In addition, a number of schemes were acquired at the Merger date:

- The Betfair Sharesave Scheme;
- The Betfair Restricted Share Scheme; and
- The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan.

Subsequent to the Merger, the Group has issued new awards under the following schemes:

- The Paddy Power Betfair plc Sharesave Scheme;
- The Paddy Power Betfair plc Long Term Incentive Plan, Medium Term Incentive Plan and Deferred Share Incentive Plan; and
- The Paddy Power Betfair plc Restricted Share Plan.

The above schemes are settled via a mixture of the allotment of shares from the Paddy Power Betfair plc EBT and the issue of new shares. As a result, all schemes are accounted for as equity-settled in the financial statements. Going forward, no new awards will be granted under any pre-Merger schemes.

The equity-settled share-based payments expense recognised in the income statement in respect of all schemes is as follows:

	2017 £m	2016 £m
Underlying		
The Paddy Power plc Sharesave Scheme	**0.3**	0.6
The Paddy Power Long Term Incentive Plan ("LTIP")	**3.0**	6.7
The Betfair Sharesave Scheme	**0.3**	0.7
The Betfair Restricted Share Scheme	**0.1**	0.2
The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan	**4.2**	6.8
The Paddy Power Betfair plc Sharesave Scheme	**1.4**	0.5
The Paddy Power Betfair plc Long Term, Medium Term and Deferred Share Incentive Plans ("LTIP", "MTIP" & "DSIP")	**16.5**	5.3
The Paddy Power Betfair plc Restricted Share Plan	**0.2**	–
	26.0	20.8
Separately disclosed items (see Note 4 – included within integration and restructuring costs)	**–**	7.6
Replacement share options (see Note 4)	**7.4**	21.9
Total	**33.4**	50.3

General

The aggregate number of shares which may be utilised under the employee share schemes in any ten year period may not exceed ten per cent of the Company's issued ordinary share capital. The percentage of share capital which can be utilised under these schemes comply with guidelines issued by the Irish Association of Investment Managers in relation to such schemes.

Summary of options outstanding

At 31 December 2017, 1,869,843 awards and options (31 December 2016: 2,365,410) in the capital of the Group remain outstanding and are exercisable up to 2027 as follows:

	2017	2016
The Paddy Power plc Share Option Scheme	**–**	2,000
The Paddy Power plc Sharesave Scheme	**57,720**	158,258
The Paddy Power Long Term Incentive Plan ("LTIP")	**101,891**	416,178
The Betfair Sharesave Scheme	**31,019**	137,149
The Betfair Restricted Share Scheme	**400**	467
The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan	**681,646**	1,046,237
The Paddy Power Betfair plc Sharesave Scheme	**390,454**	270,101
The Paddy Power Betfair plc Long Term, Medium Term and Deferred Share Incentive Plans ("LTIP", "MTIP" & "DSIP")	**589,082**	335,020
The Paddy Power Betfair plc Restricted Share Plan	**17,631**	–
Total	**1,869,843**	2,365,410

18. Share-based payments (continued)

The Paddy Power plc November 2000 Share Option Scheme

The Paddy Power Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme was open to Directors, other than Non-Executive Directors, and employees. Options could be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. No further options can or have been granted under this scheme since 7 December 2010. Share Options lapse ten years after the date of grant.

Movements in the share options under this scheme during the year were as follows:

Outstanding at 1 January 2017	Exercised during year	Outstanding at 31 December 2017	Earliest exercise date	Latest exercise date	Exercise price
2,000	**(2,000)**	**–**	September 2010	September 2017	€24.17

No options were outstanding at 31 December 2017 (2016: 2,000).

The weighted average exercise price for share options exercised during the year is €24.17 (31 December 2016: €21.93).

The Paddy Power plc Sharesave Scheme

The Paddy Power plc Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including Executive Directors) who have not less than six months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme could be invited to apply for options to acquire shares. The purchase price for each ordinary share in respect of which an option is granted could not be less than 75 per cent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme is €500 / £500.

Movements in the share options under this scheme during the year were as follows:

Outstanding at 1 January 2017	Granted during year	Lapsed during year	Exercised during year	Outstanding at 31 December 2017	Earliest exercise date*	Exercise price
4,895	**–**	**(798)**	**(4,097)**	**–**	2014 and 2017	€27.79
346	**–**	**(346)**	**–**	**–**	2014 and 2017	£25.99
9,519	**–**	**(288)**	**(4,531)**	**4,700**	2015 and 2017	€41.36
713	**–**	**(14)**	**(699)**	**–**	2015 and 2017	£35.61
30,943	**–**	**(2,905)**	**(14,321)**	**13,717**	2016 and 2018	€45.52
3,337	**–**	**(267)**	**(2,997)**	**73**	2016 and 2018	£40.79
91,411	**–**	**(7,100)**	**(52,073)**	**32,238**	2017 and 2019	€39.60
17,094	**–**	**(1,198)**	**(8,904)**	**6,992**	2017 and 2019	£33.76
158,258	**–**	**(12,916)**	**(87,622)**	**57,720**		

* Share options lapse 3.5 and 5.5 years after date of grant.

The weighted average exercise price for share options exercised during the year is £35.60 (31 December 2016: £34.22).

The fair value of options granted under the Sharesave Scheme was determined using a Black-Scholes model and is expensed over the vesting period. The following assumptions were used in the Black-Scholes pricing model for the above options:

	2011 - 2014
Share price at date of grant	€37.05 – €60.70
Exercise price (€)	€27.79 – €45.52
Exercise price (£)	£25.99 – £40.79
Expected volatility	19% – 30%
Expected term until exercised	3.5 – 5.5 years
Risk-free interest rate	-0.06% – 1.34%

The Paddy Power Long Term Incentive Plan

The total number of share awards outstanding under the Paddy Power Long Term Incentive Plan at 31 December 2017 was 101,891 (2016: 416,178). The movements in share awards during the year ended 31 December 2017 (excluding related dividends awarded as shares) were as follows:

Outstanding at 1 January 2017	Granted during year	Lapsed during year	Vested during year	Outstanding at 31 December 2017
416,178	**–**	**(24,642)**	**(289,645)**	**101,891**

2013 Long Term Incentive Plan

On 14 May 2013, the shareholders adopted the 2013 Long Term Incentive Plan ("LTIP") for senior executives, under which the Remuneration Committee can also make conditional awards of a number of Company shares to executives. LTIP awards made from 2013 onwards are subject to the rules of this scheme. In accordance with the rules, the awards vest proportionately to the achievement of an EPS compound growth target of between 7% and 15% over the vesting period of three years. Full vesting of the awards will only occur if EPS growth of at least 15% per annum is achieved over the vesting period. A minimum annual compound EPS growth target of 7% over the vesting period must be achieved to trigger 25% award vesting, with vesting occurring on a sliding scale ranging from 25% of awards (if the minimum EPS compound growth target of 7% per annum is met) to 100% of awards (if the EPS compound growth target of 15% per annum is met). Under the terms of the Merger of Paddy Power plc with Betfair Group plc, awards made in 2013 and 2014 vested in their entirety on the normal scheduled vesting dates in 2016 and 2017, respectively, and are not subject to the EPS growth target testing as outlined above. Awards made in 2015 will vest based on (1) 100% as applied to the awards balance calculated based on the time pro-rata proportion of the three year vesting period (from date of grant) that has elapsed at the date of Merger completion (2 February 2016) (the "Paddy Power Fixed Vesting Level") and (2) the balance of the awards not reflected in the Paddy Power Fixed Vesting Level will remain outstanding and will be capable of vesting in 2018 according to the extent to which specified performance conditions relating to the performance of the combined Paddy Power Betfair Group are satisfied. Through 2016 and 2017, earnings and revenue growth have been very strong and as such the maximum target was exceeded and this award will vest in full.

Until the vesting of the award in accordance with the rules of the schemes, the award holder will have no rights over or in respect of the shares subject to the award and, on vesting, the award holder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the schemes. The awards are not transferable. Upon the vesting of a share award, as part of the award holders' rights they also receive a small number of additional shares in respect of dividends on those shares between the grant date and vesting date, regarded as a de facto part of the original share award.

The Betfair Sharesave Scheme

Similar to the Paddy Power Group prior to the Merger, the Betfair Group offered an HMRC approved SAYE share option scheme in which all UK employees and some international employees can participate. Participants save a fixed amount of up to £500 per month for three years and are then able to use these savings to buy shares in Betfair Group plc at a price fixed at a 20% discount to the market value at the start of the savings period. There are no market conditions associated with the SAYE option grants.

Options previously granted under the Betfair Sharesave Plan were exercisable for a period of six months following the Court Sanction Date (1 February 2016). These options were exercisable over Betfair Shares to the extent of savings made under the related savings contracts at the time of exercise. As part of the Merger, participants in the Betfair Sharesave Plan were also offered the opportunity (as an alternative to exercise) to exchange their options over Betfair Shares for equivalent options over the Company's shares which will be eligible to vest at the normal maturity dates.

Outstanding at 1 January 2017	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2017
137,149	**–**	**(10,163)**	**(95,967)**	**31,019**

The options are exercisable up to 2018.

The weighted average exercise price for share options exercised during the year is £21.30 (31 December 2016: £20.24) at a weighted average share price at the date of exercise of £84.66 (31 December 2016: £87.56).

18. Share-based payments (continued)

The fair value of the options is expensed over the period that the options vest. The following assumptions were used in the Black-Scholes pricing model for the original options:

	2013 - 2014
Share price at date of grant	£23.81 – £31.75
Exercise price	£19.20 – £21.35
Expected volatility	30.67% – 33.36%
Expected term until exercised	3.25 years
Expected dividend yield	1.29% – 1.48%
Risk-free interest rate	0.89% – 0.94%

The Betfair Restricted Share Scheme

On Merger, the Group acquired a restricted share scheme. The movements in this scheme during the year ended 31 December 2017 were as follows:

Outstanding at 1 January 2017	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2017
467	**–**	**–**	**(67)**	**400**

Restricted shares are valued with reference to the market value of the shares on the date of grant. As part of the Merger, participants holding such options were offered the opportunity (as an alternative to exercise) to exchange such options for equivalent vested options over PPB Shares (calculated by reference to the Exchange Ratio). These replacement options are exercisable until the normal lapse dates that would have applied to the original options over Betfair Shares had the Merger not occurred (being not later than the tenth anniversary of the grant date of the original option).

Unvested options granted over the Betfair Restricted Share Scheme which were outstanding at the date of the Court Order vested in full in accordance with the applicable rules on the date of the Court Order.

The weighted average exercise price for share options exercised during the year was £0.001 (31 December 2016: £0.001) at a weighted average share price at the date of exercise of £86.17 (31 December 2016: £86.55).

The Betfair Long Term Incentive Plan and Deferred Share Incentive Plan

The following share plans were acquired on the Merger completion date ("Completion") and were originally introduced in the Betfair Group to incentivise and reward for the successful delivery of the short-term and long-term business strategy:

- The Betfair Long Term Incentive Plan ("LTIP") which consists of restricted share awards; and
- The Betfair Deferred Share Incentive Plan ("DSIP") which consists of cash and restricted share awards.

The schemes have awards in the form of cash and restricted shares. The level of award granted in each of the schemes were based on a mixture of the individual performance of the employee and Group-wide performance over the term of the award which was between one and three years.

Prior to the Merger, Paddy Power and Betfair agreed that outstanding unvested awards granted under the Betfair Long Term Incentive Plan ("Betfair LTIP Awards") in 2013/14, 2014/15 and 2015/16 would not vest on Completion but would be replaced by awards over an equivalent number of the Company's Shares (calculated by reference to the Exchange Ratio) which would have the same normal vesting dates as the original awards but be subject to certain absolute vesting levels.

The vesting levels of the replacement awards would crystalise on grant reflecting the extent to which the Betfair Remuneration Committee considered that the performance conditions applying to the relevant awards would have been satisfied at the end of the original vesting periods (the "Betfair Fixed Vesting Level"). The Betfair Fixed Vesting Levels for each of the awards were agreed to be as follows:

- 2013/14 Betfair LTIP Awards – 100% of the underlying shares to vest in full on the normal vesting dates between July 2016 and April 2017;
- 2014/15 Betfair LTIP Awards – 100% of the underlying shares to vest in full on the normal vesting dates between June 2017 and March 2018; and
- 2015/16 Betfair LTIP Awards – a proportion of the underlying shares to vest in full on the normal vesting date in July 2018 or, if later, three years after the applicable date of grant. This proportion would be the time-pro rata proportion of the three year vesting period (from the date of grant) elapsed at the later of the date of Completion and the date on which the 2015 Performance Based Award (as defined below) became effective.

In the case of the 2015/16 Betfair LTIP Awards, an additional replacement award was granted in respect of the balance of the awards not reflected in the Betfair Fixed Vesting Level which would be capable of vesting on the third anniversary of the date of grant according to the extent to which specified performance conditions relating to the performance of the Group are satisfied (the "2015 Performance Based Award"). These performance conditions were set out in the Directors' Remuneration Report in the 2015 Annual Report of Paddy Power Betfair plc, as were agreed post-Completion by the Remuneration Committee. Through 2016 and 2017, earnings and revenue growth has been very strong and as such the maximum target under both measures was exceeded and this award will vest in full.

As part of the Merger, participants holding vested DSIP options were offered the opportunity (as an alternative to exercise) to exchange such options for equivalent vested options over the Company's shares (calculated by reference to the Exchange Ratio). These replacement options are exercisable until the normal lapse dates that would have applied to the original options over Betfair Shares had the Merger not occurred (being not later than the tenth anniversary of the grant date of the original option).

Unvested options granted over the Betfair DSIP which were outstanding at the date of the Court Order vested in full in accordance with the applicable rules on the date of the Court Order.

Outstanding at 1 January 2017	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2017
1,046,237	**13,353**	**(15,116)**	**(362,828)**	**681,646**

The outstanding shares on these schemes are exercisable up to 2025.

The weighted average exercise price for share options exercised during the year was £0.001 (31 December 2016: £0.001) at a weighted average share price at the date of exercise of £83.26 (31 December 2016: £91.85).

The options granted in the year represent dividend roll-ups, in line with documented scheme rules.

The fair value of the share options in the LTIP scheme is expensed over the three year period that the options vest.

The Paddy Power Betfair plc Sharesave Scheme

During the year, 267,057 options were granted under the new Paddy Power Betfair plc Sharesave Scheme. These SAYE options must ordinarily be exercised within six months of completing the relevant savings period. In line with market practice, the exercise of these options is not subject to any performance conditions.

Similar to the schemes offered prior to the Merger, all employees (including Executive Directors) who have not less than six months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 per cent of the closing price of the shares on the Irish and London Stock Exchanges on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with all Sharesave related schemes is €500 / £500.

	Outstanding at 1 January 2017	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2017
2016	**270,101**	**–**	**(137,881)**	**(3,129)**	**129,091**
2017	**–**	**267,057**	**(5,694)**	**–**	**261,363**
Total	**270,101**	**267,057**	**(143,575)**	**(3,129)**	**390,454**

Year granted	Exercise price £	Exercisable before
2016	69.19	2020
2017	57.87	2021

The fair value of the options is expensed over the period that the options vest. The following assumptions were used in the Black-Scholes pricing model for the above options:

	2016 - 2017
Share price at date of grant	£77.25 - £85.70
Exercise price	£57.87 - £69.19
Expected volatility	26.71% - 30.56%
Expected term until exercised	3.25 years
Expected dividend yield	2.18% - 2.30%
Risk-free interest rate	0.28% - 0.86%

18. Share-based payments (continued)

The Paddy Power Betfair plc Long Term Incentive Plan, Medium Term Incentive Plan and Deferred Share Incentive Plan

The following share plans were introduced post-Merger to incentivise and reward for the successful delivery of the short, medium and long-term business strategy:

- Long Term Incentive Plan ("LTIP") which consists of restricted share awards;
- Medium Term Incentive Plan ("MTIP") which consists of restricted share awards; and
- Deferred Share Incentive Plan ("DSIP") which consists of cash and restricted share awards.

The level of award granted in each of the schemes is based on a mixture of the individual performance of the employee and the Group wide performance over the term of the award which is between one and three years.

The DSIP has cash elements which are fixed in value and are paid and expensed in the first year that the awards are issued. The cash award represents two-thirds of the total award. There is no option given to elect to have these issued in shares. The cash element issued is classified as a cash bonus in the income statement and not a 'cash-settled share-based payment' on the basis that the employee does not have the option to choose whether they receive cash or shares, and the award value is fixed and not based on share price movements.

The restricted share portion of the DSIP award will vest over the second and third year of the scheme.

	Outstanding at 1 January 2017	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2017
2016	**335,020**	**202**	**(38,713)**	**(9,119)**	**287,390**
2017	**–**	**312,096**	**(10,404)**	**–**	**301,692**
Total	**335,020**	**312,298**	**(49,117)**	**(9,119)**	**589,082**

Year granted	Exercise price £	Exercisable before
2016	–	2026
2017	–	2027

The weighted average exercise price for share options exercised during the year was £Nil at a weighted average share price at the date of exercise of £83.32. No options were exercised in 2016.

The value of each award was calculated at the grant date and expensed over a period of up to three years in which the awards vest.

The Paddy Power Betfair plc Restricted Share Plan

During the year, 17,631 options were granted under a new Paddy Power Betfair plc Restricted Share plan. The movements in this plan during the year ended 31 December 2017 were as follows:

Outstanding at 1 January 2017	Granted during year	Lapsed/cancelled during year	Exercised during year	Outstanding at 31 December 2017
–	**17,631**	**–**	**–**	**17,631**

The level of award granted on this plan is based on a mixture of individual performance of the employee and Group-wide performance over the term of the award which is between one and three years. Restricted shares are valued with reference to the market value of the shares on the date of grant. The value of each award was calculated at the grant date and expensed over a period of up to three years in which the awards vest.

The Paddy Power Betfair plc Employee Benefit Trust

Prior to the Merger awards under the Paddy Power plc Long Term Incentive Plan were satisfied from the Paddy Power Betfair plc Employee Benefit Trust (the "EBT"). Post-Merger, certain other awards may also be satisfied from the EBT. Purchases of Paddy Power Betfair plc ordinary shares from 1 January 2016 to 31 December 2017 and shares vested from the EBT during that period, are shown below:

	Number of Paddy Power Betfair plc ordinary shares	Cost of purchase £m
Shares held by the EBT at 1 January 2016	874,890	49.2
Vested from the EBT in 2016	(396,498)	(18.3)
Shares held by the EBT at 31 December 2016	**478,392**	**30.9**
Purchased in 2017	**29,342**	**2.5**
Vested from the EBT in 2017	**(306,761)**	**(17.8)**
Shares held by the EBT at 31 December 2017	**200,973**	**15.6**

The results of the EBT are included in the Paddy Power Betfair plc Company financial statements. The shares held by the EBT at the reporting date are shown as a deduction from equity in the consolidated statement of financial position in accordance with the Group's accounting policy (see Note 16).

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2017			31 December 2016		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Property, plant and equipment	**6.8**	**–**	**6.8**	4.5	–	4.5
Intangible assets	**–**	**(57.3)**	**(57.3)**	–	(76.0)	(76.0)
Employee benefits	**14.8**	**–**	**14.8**	17.7	–	17.7
Other	**–**	**(1.8)**	**(1.8)**	1.4	–	1.4
Net assets/(liabilities)	**21.6**	**(59.1)**	**(37.5)**	23.6	(76.0)	(52.4)

Deferred tax assets and liabilities have been offset at 31 December 2017 and 2016 where there is a legally enforceable right to such set-off in each jurisdiction. Included in the statement of financial position is a deferred tax asset of £11.7m (2016: £8.6m) and a deferred tax liability of £49.2m (2016: £61.0m).

The deferred tax liability in relation to intangible assets disclosed above primarily relates to the deferred tax liability arising on the Betfair Group plc intangible assets acquired in 2016. This deferred tax liability continues to unwind as the intangible assets are amortised over their useful economic life.

The deferred tax asset arising on employee benefits relates to future tax deductions the Group expects to receive in relation to share based payments operated by the Group to reward its employees. The asset is recognised at the tax rate at which it is expected to unwind.

Movement in temporary differences during the year

	Property plant and equipment £m	Business combinations – intangible assets £m	Employee benefits £m	Derivative financial assets £m	Other £m	Total £m
Balance at 1 January 2016	1.7	(3.4)	5.2	(0.2)	0.5	3.8
Acquired on Merger	4.9	(97.5)	15.2	–	0.8	(76.6)
Recognised in income	(2.3)	24.4	2.2	–	0.2	24.5
Recognised in other comprehensive income	–	–	–	0.2	–	0.2
Recognised directly in equity	–	–	(5.9)	–	–	(5.9)
Foreign currency translation adjustment	0.2	0.5	1.0	–	(0.1)	1.6
Balance at 31 December 2016	**4.5**	**(76.0)**	**17.7**	**–**	**1.4**	**(52.4)**
Recognised in income	**2.3**	**19.4**	**(0.7)**	**–**	**(3.3)**	**17.7**
Recognised directly in equity	**–**	**–**	**(2.1)**	**–**	**–**	**(2.1)**
Foreign currency translation adjustment	**–**	**(0.7)**	**(0.1)**	**–**	**0.1**	**(0.7)**
Balance at 31 December 2017	**6.8**	**(57.3)**	**14.8**	**–**	**(1.8)**	**(37.5)**

Unrecognised deferred tax assets

The Group has unrecognised deferred tax assets in respect of losses of £16.8m (2016: £15.6m), and unrecognised deferred tax assets in respect of depreciation in excess of capital allowances of £0.7m (2016: £0.7m). These have not been recognised on the basis that there is insufficient certainty of there being future taxable profits in the relevant jurisdictions, and therefore the assets will not be realisable.

20. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 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 (Note 29)	**3.8**	3.7
Accruals and other liabilities	**164.5**	151.6
Total	**334.7**	320.6
Derivative financial liabilities		
Sports betting open positions (Note 29)	**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 (Note 29)	**30.0**	20.4
Accruals and other liabilities	**4.2**	1.3
Total	**34.5**	26.9
Derivative financial liabilities		
Sports betting open positions (Note 29)	**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.

21. Provisions

Current

	31 December 2017 £m	31 December 2016 £m
Employee benefits (long service leave)	**0.5**	0.5
Betting duty, data rights, and product and racefield fees (gaming tax)	**2.6**	2.6
Accruals and other liabilities (onerous contracts)	**0.1**	1.5
Total	**3.2**	4.6

Non-current

	31 December 2017 £m	31 December 2016 £m
Employee benefits (long service leave)	**0.8**	0.6
Accruals and other liabilities (lease reinstatement and onerous contracts)	**0.4**	0.5
Total	**1.2**	1.1

The movements in provisions during 2016 and 2017 were as follows:

Current

	Long service leave £m	Gaming tax £m	Onerous contracts £m	Total £m
Balance at 1 January 2016	0.3	–	0.1	0.4
Acquired on Merger	–	4.3	–	4.3
Charged to the income statement:				
– Additional provisions recognised	0.1	–	3.7	3.8
Amounts used during the year	–	(2.4)	(2.3)	(4.7)
Foreign currency translation adjustment	0.1	0.7	–	0.8
Balance at 31 December 2016	**0.5**	**2.6**	**1.5**	**4.6**
Amounts used during the year	**–**	**–**	**(1.5)**	**(1.5)**
Transfers from current liabilities	**–**	**–**	**0.1**	**0.1**
Balance at 31 December 2017	**0.5**	**2.6**	**0.1**	**3.2**

Non-current

	Long service leave £m	Lease reinstatement £m	Onerous contracts £m	Total £m
Balance at 1 January 2016	0.5	0.1	0.4	1.0
Charged to the income statement:				
– Additional provisions recognised	0.1	-	-	0.1
Balance at 31 December 2016	**0.6**	**0.1**	**0.4**	**1.1**
Transfers to current liabilities	**–**	**–**	**(0.1)**	**(0.1)**
Charged to the income statement:				
– Additional provisions recognised	**0.2**	**–**	**–**	**0.2**
Balance at 31 December 2017	**0.8**	**0.1**	**0.3**	**1.2**

Long service leave

The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the balance sheet date avail of their entitlement to leave and their expected salaries at that time. As of 31 December 2017, it was expected that cash outflows would occur primarily within the following five years (2016: within the following five years).

21. Provisions (continued)

Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the expected term of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. The cash outflows are expected to occur at various stages over the next 23 years as longer term leases are not renewed (2016: the next 24 years).

Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of these net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over a period of up to 14 years (2016: 15 years).

Gaming tax

Gaming tax provisions relate to amounts provided for taxes in certain jurisdictions where the interpretation of tax legislation is uncertain.
When the group disagrees with the application of unclear tax legislation, for example when it is applied retrospectively and/or results in a one-off disproportionate tax equivalent to many times the profit derived by the Group from its historic activities in that jurisdiction, the Group continues to challenge these interpretations.

Whilst the maximum potential obligation for all ongoing cases could be greater than the recognised provision, and the outcomes may not be known for some time, a liability has been recorded for the Directors' best estimate of the cash outflows that will ultimately be required in respect of each claim. Management have not provided a sensitivity for this provision as the range is not considered to be material. Management note this is a key estimate, however it is not a key judgement that will have a material impact in the coming year.

22. Borrowings

Current liabilities

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

Non-current liabilities

	31 December 2017 £m	31 December 2016 £m
Revolving credit facility	**62.2**	214.0
Less: expenses relating to revolving credit facility	**–**	(0.4)
Total	**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)
Total changes from financing cash flows	(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

23. Financial risk management

The Group has the following risk exposures in relation to its use of financial instruments:

- Market risk;
- Credit risk;
- Liquidity risk;
- Foreign currency risk; and
- Interest rate risk.

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 24 to 27.

General

The Board of Directors has overall responsibility for the management of the Group's risks. This responsibility is delegated to a number of committees over which the Board has oversight. The primary Board committees set up to manage risks are the Risk Committee and the Audit Committee. Both these Committees report regularly to the Board on their activities. The oversight of the Group's treasury operations is performed by an Investment Committee, chaired by the Chief Financial Officer, which reports annually to the Audit Committee on its activities.

Market risk

Market risk relates to the risk that changes in prices, including sports betting prices/odds, foreign currency exchange rates and interest rates (see also 'Interest rate risk' section below), will impact the Group's income or the value of its financial instruments. Market risk management has the function of managing and controlling the Group's exposures to market risk to within acceptable limits, while at the same time ensuring that returns are optimised.

The management of market risk is performed by the Group under the supervision of the Risk Committee and the Investment Committee and according to the guidelines approved by them. The Group will utilise hedges where there is an identified requirement to manage profit or loss volatility.

Sports betting prices/odds

Managing the risks associated with sportsbook bets is a fundamental part of the Group's business. The Group has a separate Risk Department which has responsibility for the compilation of bookmaking odds and for sportsbook risk management. The Risk Department is responsible for the creation and pricing of all betting markets and the trading of those markets through their lives. A mix of traditional bookmaking approaches married with risk management techniques from other industries is applied, and extensive use is made of mathematical models and information technology. The Group has set predefined limits for the acceptance of sportsbook bet risks. Stake and loss limits are set by reference to individual sports, events and bet types. These limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged with third parties in certain circumstances to minimise potential losses. The profits and losses recorded on sportsbook hedging activities are recorded in 'revenue' in the income statement.

24. Credit risk

The Group's credit risk represents the risk that a financial loss may result in the event that a counterparty to a financial instrument, a trading partner or customers fail to meet their contractual obligations.

Trade and other receivables

The Group's sports betting and gaming businesses are predominantly cash and credit card/debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. The impairment allowance also includes a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. There is no material concentration of sales with individual customers.

Cash investments and foreign exchange forward contracts

It is Group treasury policy to limit investments in cash deposits and foreign exchange forward contracts to counterparties that have a Moody's (or equivalent) long term credit rating of A3 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved by the Investment Committee.

A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with any individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the reporting date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

The Group continues to carefully measure counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and to take action to mitigate such risks as are identified. The Group has accordingly restricted its cash deposit investments to counterparties that had higher credit ratings and has, when required, shortened the maturities of deposits placed.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2017 £m	31 December 2016 £m
Restricted cash	**75.4**	64.8
Trade receivables	**4.8**	10.3
Other receivables	**3.1**	3.7
Cash and cash equivalents	**306.6**	249.9
Total	**389.9**	328.7

The maximum exposure to credit risk for trade and other receivables by geographic region at 31 December was:

	31 December 2017 £m	31 December 2016 £m
United Kingdom and Ireland	**3.1**	5.3
Australia	**1.1**	3.4
US	**2.0**	4.6
Other	**1.7**	0.7
Total	**7.9**	14.0

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 31 December was:

	31 December 2017 £m	31 December 2016 £m
Trade receivables – credit betting customers	**0.3**	3.5
Trade receivables – other sports betting counterparties	**4.5**	6.8
Other receivables	**3.1**	3.7
Total	**7.9**	14.0

Significant customers

There were no individual customers at 31 December 2017 or 31 December 2016 that represented over ten per cent of trade receivables.

Impairment losses

The ageing of trade receivables (stated net of impairment provisions) at 31 December was as follows:

	31 December 2017 £m	31 December 2016 £m
Not past due	**2.0**	6.3
Past due 0 days to 30 days	**1.7**	2.0
Past due 31 days to 120 days	**0.7**	1.5
Past due 121 days to 365 days	**0.4**	0.4
More than one year	**–**	0.1
Total	**4.8**	10.3

The gross trade receivable balance is £8.6m (2016: £12.0m) with an allowance for impairment in respect of these receivables of £3.8m (2016: £1.7m). Impairment losses of £1.3m (2016: £Nil) were written off during the year.

25. Liquidity risk

This represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for liquidity management is to ensure that there is sufficient liquidity in place to meet its liabilities as they fall due, both under normal or potential adverse conditions, and without resulting in undue loss or damage to the Group.

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of up to 12 months. Information on the overall maturity of deposits at 31 December 2017 and 2016 is set out in Note 15. It is the Directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- A committed revolving credit bank loan facility ("RCF") of €300m obtained from a syndicate of banks in 2015 which expires in May 2020. At 31 December 2017, €70m (£62.2m) of this facility was drawn down. Borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries. Borrowings under the RCF incur interest at EURIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling £4.4m (€5.0m). Interest is payable thereon at the bank's prime overdraft rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power Betfair plc in favour of Allied Irish Banks p.l.c.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling £6.1m. Interest is payable thereon at the bank's sterling base rate plus 3.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power Betfair plc in favour of AIB Group (UK) p.l.c.

At 31 December 2017 and 31 December 2016, none of the bank overdraft facilities were being utilised.

25. Liquidity risk (continued)

The following are the contractual maturities of financial liabilities as at 31 December:

	31 December 2017						
	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 years and over £m
Non-derivative financial liabilities							
Trade and other payables	**335.4**	**335.4**	**330.0**	**0.9**	**3.3**	**0.1**	**1.1**
Contingent deferred consideration	**33.8**	**43.0**	**1.5**	**2.3**	**5.0**	**14.4**	**19.8**
Borrowings	**62.2**	**63.7**	**0.3**	**0.4**	**0.7**	**62.3**	**–**
	431.4	**442.1**	**331.8**	**3.6**	**9.0**	**76.8**	**20.9**
Derivative financial liabilities							
Sports betting open positions	**10.1**	**10.1**	**7.7**	**0.1**	**0.5**	**–**	**1.8**
Total	**441.5**	**452.2**	**339.5**	**3.7**	**9.5**	**76.8**	**22.7**

	31 December 2016						
	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 to 12 months £m	1 to 2 years £m	2 to 3 years £m	3 years and over £m
Non-derivative financial liabilities							
Trade and other payables	323.4	324.3	316.4	0.5	5.1	1.3	1.0
Contingent deferred consideration	24.1	33.0	1.4	2.3	3.7	4.5	21.1
Borrowings	214.2	225.6	1.6	1.7	3.4	3.4	215.5
	561.7	582.9	319.4	4.5	12.2	9.2	237.6
Derivative financial liabilities							
Sports betting open positions	8.6	8.6	8.5	0.1	–	–	–
Total	570.3	591.5	327.9	4.6	12.2	9.2	237.6

26. Currency risk

The Group is exposed to currency risk in respect of revenue, expenses, receivables, cash and cash equivalents, and other financial assets and financial liabilities (primarily trade payables, accruals and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are pound sterling ("GBP"), euro ("EUR"), Australian dollar ("AUD") and US dollar ("USD").

It is Group policy to ensure that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into the subsidiaries' functional currency at spot rates. Foreign exchange impacts therefore arise on the retranslation of their income and expense into their functional currency for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and other derivatives to manage foreign currency exposures on expected future cash flows.

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, it remains exposed to exchange rate risk in respect of its expected future foreign currency denominated income and expenses in its foreign operations.

Currency risk exposure

As of 31 December 2017 and 2016, the Group's foreign currency risk exposure, based on the functional currencies of its operations, was as follows:

	31 December 2017					31 December 2016				
	EUR £m	**GBP £m**	**AUD £m**	**USD £m**	**Other £m**	EUR £m	GBP £m	AUD £m	USD £m	Other £m
Trade and other receivables	**0.1**	**–**	**0.8**	**0.2**	**–**	–	2.1	–	–	–
Financial assets – restricted cash, and cash and cash equivalents	**16.9**	**60.4**	**1.4**	**3.3**	**0.6**	0.6	74.0	0.1	1.2	0.7
Non-derivative financial liabilities	**(12.4)**	**(60.6)**	**(6.5)**	**1.3**	**(0.3)**	(8.1)	(57.6)	12.8	(3.1)	(0.3)
Derivative financial liabilities	**–**	**(2.1)**	**(0.1)**	**–**	**–**	–	(2.0)	–	–	–
Gross statement of financial position exposure	**4.6**	**(2.3)**	**(4.4)**	**4.8**	**0.3**	(7.5)	16.5	12.9	(1.9)	0.4

The following are the significant exchange rates that applied during the year:

	Average rate		31 December (mid-spot rate)	
	2017	2016	**2017**	2016
To 1 GBP:				
EUR	**1.141**	1.220	**1.127**	1.168
AUD	**1.681**	1.816	**1.730**	1.705
USD	**1.289**	1.351	**1.352**	1.231

Sensitivity analysis

A ten per cent increase and decrease in the value of pound sterling against the following currencies at 31 December 2017 and 2016 would have increased/(decreased) profit and equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Equity	
	10% increase £m	10% decrease £m	10% increase £m	10% decrease £m
31 December 2017				
EUR	**(0.7)**	**0.7**	**0.6**	**(1.4)**
AUD	**0.4**	**(0.4)**	**(20.5)**	**20.5**
USD	**(0.5)**	**0.5**	**(43.2)**	**43.2**
31 December 2016				
EUR	0.5	(0.6)	(2.6)	3.2
AUD	(1.0)	1.3	(8.4)	13.5
USD	0.2	(0.2)	(34.8)	34.8

27. Interest rate risk

Interest rate risk arises primarily from the Group's borrowings which are at a floating rate. The Group may manage this risk through the use of interest rate derivatives as appropriate. At 31 December 2017, the Group was not party to any such derivative. Excess cash funds are invested in interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit.

Profile

At 31 December 2017 and 31 December 2016 the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2017 £m	31 December 2016 £m
Variable rate instruments		
Financial assets – restricted cash	**75.4**	64.8
Financial assets – cash	**306.6**	249.9
Borrowings	**(62.2)**	(214.0)
	319.8	100.7

27. Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ("bps") in interest rates at 31 December 2017 and at 31 December 2016 would have (decreased)/increased profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Equity	
	50 bps increase £m	50 bps decrease £m	50 bps increase £m	50 bps decrease £m
31 December 2017				
Variable rate instruments	**(0.3)**	**0.3**	**–**	**–**
31 December 2016				
Variable rate instruments	(0.3)	0.3	–	–

28. Capital management

The capital structure of the group consists of cash and cash equivalents, debt finance, issued capital, reserves and retained earnings. The efficiency of the Group's capital structure is kept under regular review by the Board.

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 maintaining strategic flexibility, by adopting a medium term leverage target of between 1x and 2x net debt to EBITDA. The Board is considering the appropriate path towards this leverage target, including enhanced shareholder returns and strategic investments. The Group has significant capacity in respect of its ability to pay dividends with no material restrictions.

The Group has the authority to buy back up to ten per cent of the Company's issued share capital between the dates of its Annual General Meetings ("AGM"s), subject to the annual approval of its shareholders at the Company's AGM. Shares bought back may either be cancelled or held in treasury. The Company's ordinary shares are also acquired on the market periodically by the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") to meet the EBT's obligations under share award schemes. These shares are held by the EBT and ownership is transferred to the EBT's beneficiaries if and when the related share awards vest.

At 31 December 2017 and 31 December 2016, neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements.

29. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities carried at amortised cost in the statement of financial position:

	31 December 2017		31 December 2016	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Assets				
Trade receivables	**4.8**	**4.8**	10.3	10.3
Other receivables	**3.1**	**3.1**	3.7	3.7
Restricted cash	**75.4**	**75.4**	64.8	64.8
Cash and cash equivalents	**306.6**	**306.6**	249.9	249.9
Total	**389.9**	**389.9**	328.7	328.7
Liabilities				
Trade and other payables	**(335.4)**	**(335.4)**	(323.4)	(323.4)
Borrowings	**(62.2)**	**(62.2)**	(214.2)	(214.2)
Total	**(397.6)**	**(397.6)**	(537.6)	(537.6)
Net	**(7.7)**	**(7.7)**	(208.9)	(208.9)

Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2017			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Available-for-sale financial assets	**–**	**–**	**15.0**	**15.0**
Derivative financial liabilities	**–**	**–**	**(10.1)**	**(10.1)**
Non-derivative financial liabilities	**–**	**–**	**(33.8)**	**(33.8)**
Total	**–**	**–**	**(43.9)**	**(43.9)**

	31 December 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets	–	–	1.3	1.3
Derivative financial liabilities	–	–	(8.6)	(8.6)
Non-derivative financial liabilities	–	–	(24.1)	(24.1)
Total	–	–	(32.7)	(32.7)

Basis for determining fair values

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Financial instruments carried at amortised cost

Trade and other receivables (Level 2)

The fair value of trade and other receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Financial assets and cash and cash equivalents (Level 2)

The fair values of restricted cash and cash and cash equivalents are based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

Trade and other payables (Level 2)

The fair value of trade and other payables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Borrowings (Level 2)

The fair value of borrowings is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Financial instruments carried at fair value

Available-for-sale financial assets (Level 3)

The fair value of available-for-sale financial assets is based on a discounted cash flow model. The significant unobservable inputs are the future cash flows of the business including a terminal growth rate, the discount rate and also discounts for lack of marketability and lack of control that pertains to the minority stake held by the Group.

Derivative financial instruments (Level 3)

Derivative financial instruments comprise sports betting open positions. The fair value of open sports bets at the year-end has been calculated using the latest available prices on relevant sporting events.

29. Fair values (continued)

Non-derivative financial liabilities (Level 3)

Non-derivative financial liabilities includes contingent consideration. The contingent consideration payable is determined with reference to forecast performance for the acquired businesses during the relevant time periods and the amounts to be paid in such scenarios. The fair value was estimated by assigning probabilities to the potential payout scenarios. The significant unobservable inputs are forecast performance for the acquired businesses.

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value

The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2017 and 2016:

Sports betting open positions

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. There are no reasonably probable changes to assumptions and inputs that would lead to material changes in the fair value methodology although final value will be determined by future sporting results.

Contingent consideration

The fair value of contingent consideration is primarily dependent on forecast performance for the acquired businesses against predetermined targets. An increase and decrease of 10% in forecast performance for the acquired businesses during the relevant time periods would increase and decrease the value of contingent consideration at 31 December 2017 by £1.9m and £3.3m respectively (2016: £0.8m and £0.8m).

Available-for-sale financial assets

See Note 33 for further detail relating to the sale of the Group's primary available-for-sale financial asset in 2018.

Movements in the year in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the years to 31 December are as follows:

	Sports betting open positions £m	Contingent deferred consideration £m	Available-for-sale financial assets £m	Total £m
Balance at 1 January 2016	(12.5)	(0.8)	–	(13.3)
Arising on Retail acquisitions (Note 13)	–	(0.1)	–	(0.1)
Acquired as part of Merger	(0.3)	(22.0)	1.3	(21.0)
Recognised in the income statement	1,161.0	(1.7)	–	1,159.3
Settlements	(1,156.8)	3.8	–	(1,153.0)
Foreign currency translation adjustment	–	(3.3)	–	(3.3)
Balance at 31 December 2016	**(8.6)**	**(24.1)**	**1.3**	**(31.4)**
Arising on acquisitions (Note 13)	**–**	**(13.0)**	**–**	**(13.0)**
Recognised in the income statement	**1,358.6**	**(2.9)**	**–**	**1,355.7**
Change in fair value booked to OCI	**–**	**–**	**13.7**	**13.7**
Settlements	**(1,360.1)**	**3.5**	**–**	**(1,356.6)**
Foreign currency translation adjustment	**–**	**2.7**	**–**	**2.7**
Balance at 31 December 2017	**(10.1)**	**(33.8)**	**15.0**	**(28.9)**

30. 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 22, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

(b) Contingent liabilities

The Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements.

The Board monitors legal and regulatory developments and their potential impact on the business, however given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted.

(c) Capital commitments

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

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

(d) Operating leases

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

At 31 December 2017 and 2016, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

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

31. Related parties

The principal related party transactions requiring disclosure under IAS 24 *Related Party Transactions* relate to the existence of subsidiaries and transactions with these entities entered into by the Group, transactions with Directors and the identification and compensation of key management personnel.

Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. A listing of the material subsidiaries is provided in Note 32. Transactions to and from subsidiaries have been eliminated in the preparation of the consolidated financial statements.

Transactions with Directors

There were no loans outstanding to any Director at any time during the year. Details of Directors' remuneration, interests in share awards and share options are set out on pages 72 to 92. Other related party transactions between the Group and the Directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

- Pádraig Ó Ríordáin is a Partner in Arthur Cox. During the year ended 31 December 2017, the Group incurred fees of €86,300 (2016: €2,149,699) relating to legal and taxation advice received from Arthur Cox.

Transactions with key management personnel, comprising Executive Directors, Non-Executive Directors and other members of the Group's Executive Committee

Key management personnel compensation is as follows:

	2017 £m	2016 £m
Short-term employee benefits	5.9	6.3
Non-Executive Directors' fees	1.0	0.9
Post-employment benefits	0.4	0.3
Payments for loss of office	–	3.0
Share-based payments costs	7.2	7.6
Total	14.5	18.1

32. Group entities

The Company had the following 100% subsidiary undertakings carrying on businesses which materially affect the profits and assets of the Group at 31 December 2017:

Name	Equity interest at 31 December 2017	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited[1]	100%	England and Wales	Bookmaker and provision of support services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Betfair Group Limited[1]	100%	England and Wales	Holding company	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Betfair Limited	100%	England and Wales	Provision of support services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
TSE Holdings Limited	100%	England and Wales	Holding company	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
Tradefair Spreads Limited[2]	99.8%	England and Wales	Spread betting services	Waterfront, Hammersmith Embankment, Chancellors Road, London, W6 9HP
TSE Data Processing Limited	100%	Ireland	Provision of support services	Power Tower, Belfield Office Park, Beechill Road, Dublin 4, D04V972
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Victoria House, Gloucester Street, Belfast, BT1 4LS
CT Networks Limited	100%	Isle of Man	Games developer	Merchants House, 24 North Quay, Douglas, Isle of Man, IM1 4LE
Paddy Power Services Limited	100%	Alderney	Online gaming	Inchalla, Le Val, Alderney, Channel Islands, GY9 3UL
Paddy Power Holdings Limited[1]	100%	Isle of Man	Holding company	Merchants House, 24 North Quay, Douglas, Isle of Man, IM1 4LE
Sportsbet Pty Limited	100%	Australia	Online sports betting	Level 17, 367 Collins Street, Melbourne, Victoria 3000
Paddy Power Australia Pty Limited	100%	Australia	Holding company	Level 17, 367 Collins Street, Melbourne, Victoria 3000

Name	Equity interest at 31 December 2017	Country of incorporation	Activity	Registered office
Betfair Italia S.R.L.	100%	Italy	Online sports betting and gaming	Palazzo Cova, Via Carducci 36, 20123, Milan
TSED Unipessoal LDA	100%	Portugal	R&D activities	Avenida de Camilo 72, 4300-095 Porto
Betfair Casino Limited	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
PPB Entertainment Limited	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
PPB Counterparty Services Limited	100%	Malta	Online sports betting	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Betfair International Plc	100%	Malta	Online sports betting and gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Betfair Holding (Malta) Limited	100%	Malta	Holding company	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Polco Limited	100%	Malta	Online sports betting	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
TSE (Malta) LP	100%	Gibraltar	Online sports betting	57/63 Line Wall Road
PPB Games Limited	100%	Malta	Online gaming	Triq il-Kappillan Mifsud, Santa Venera, SVR1851
Betfair Romania Development S.R.L.	100%	Romania	R&D activities	Cladirea The Office, B-dul 21 Decembrie 1989, Nr.77, Corp A, Etaj 4, Cluj-Napoca, 400604
Betfair Interactive US LLC	100%	USA	Online gaming	Suite 2650, 525 Washington Boulevard, Jersey City, NJ 07310
ODS Technologies LP	100%	USA	Horse racing broadcaster and betting network	2711 Centerville Road, Suite 400, Wilmington, DE 19808
HRTV LLC	100%	USA	Horse racing broadcaster and betting network	2711 Centerville Road, Suite 400, Wilmington, DE 19808
Betfair US LLC	100%	USA	Online sports betting	2711 Centerville Road, Suite 400, Wilmington, DE 19808
StarStreet, LLC	100%	USA	Fantasy sports betting	40 West 28th Street, Floor 2, New York, NY 10001

1. These companies are held directly by Paddy Power Betfair plc.
2. Non-controlling interest of 0.2% exists in relation to Tradefair Spreads Limited. The value of the non-controlling interest was less than £0.1m at 31 December 2017.

All subsidiary undertakings have been included in the Group consolidated financial statements.

In addition to the above subsidiary undertakings, the Group utilises an employee trust, The Paddy Power Betfair plc Employee Benefit Trust, with a registered address at 12 Castle Street, St Helier, Jersey, JE2 3RT, and which holds shares under the share award schemes.

33. Events after the reporting date

Dividend

In respect of the current year, the Directors propose that a final dividend of 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.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	31 December 2017 €m	31 December 2016 €m
Assets			
Property, plant and equipment	5	**40.3**	40.0
Intangible assets	6	**0.5**	0.7
Goodwill	7	**19.2**	18.9
Financial assets	8	**5,646.2**	5,620.9
Trade and other receivables	10	**213.4**	204.3
Deferred tax assets	12	**0.1**	0.2
Total non-current assets		**5,919.7**	5,885.0
Current assets			
Trade and other receivables	10	**326.3**	328.6
Cash and cash equivalents	11	**27.2**	14.1
Total current assets		**353.5**	342.7
Total assets		**6,273.2**	6,227.7
Equity			
Issued share capital and share premium		**627.0**	620.5
Capital redemption reserve fund	13	**1.8**	1.8
Capital conversion reserve fund	13	**0.3**	0.3
Treasury shares	13	**(5.4)**	(5.4)
Shares held by employee benefit trust	13	**(20.8)**	(40.9)
Share-based payment reserve		**52.3**	42.3
Retained earnings		**4,921.3**	5,064.7
Shareholders' funds – all equity interests		**5,576.5**	5,683.3
Liabilities			
Trade and other payables	15	**621.8**	288.4
Derivative financial liabilities	15	**1.9**	3.2
Borrowings	16	**–**	0.2
Total current liabilities		**623.7**	291.8
Trade and other payables	15	**0.4**	3.1
Derivative financial liabilities	15	**2.6**	–
Borrowings	16	**70.0**	249.5
Total non-current liabilities		**73.0**	252.6
Total liabilities		**696.7**	544.4
Total equity and liabilities		**6,273.2**	6,227.7

Notes 1 to 25 on pages 160 to 176 form an integral part of these financial statements.

On behalf of the Board

Peter Jackson
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2018

COMPANY STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Note	2017 €m	2016 €m
Cash flows from operating activities			
Profit for the year – all attributable to equity holders of the Company		**28.1**	63.1
Tax expense		**6.5**	5.1
Dividends from subsidiaries		**–**	(73.8)
Financial income		**–**	(0.2)
Financial expense		**2.4**	3.6
Depreciation and amortisation		**8.0**	7.3
Employee equity-settled share-based payments expense		**0.4**	1.9
Foreign currency exchange loss/(gain)		**19.1**	(13.2)
Cash from operations before changes in working capital		**64.5**	(6.2)
(Increase)/decrease in trade and other receivables		**(5.6)**	47.5
Increase in trade, other payables and provisions		**320.3**	17.4
Cash generated from operations		**379.2**	58.7
Tax paid		**(7.4)**	(6.7)
Net cash from operating activities		**371.8**	52.0
Purchase of property, plant and equipment	5	**(8.1)**	(8.6)
Purchase of intangible assets	6	**–**	(0.4)
Purchase of businesses, net of cash acquired	9	**(0.2)**	(0.2)
Payment of contingent deferred consideration	9	**–**	(0.5)
Dividends from subsidiaries		**–**	73.8
Interest received		**–**	0.2
Net cash (used in)/from investing activities		**(8.3)**	64.3
Proceeds from the issue of new shares		**6.5**	3.0
Purchase of shares by employee benefit trust		**(2.8)**	–
Dividends paid	14	**(171.4)**	(179.6)
Net amounts (repaid)/drawn down on borrowings facility	16	**(180.0)**	55.0
Interest paid		**(2.4)**	(3.4)
Net cash used in financing activities		**(350.1)**	(125.0)
Net increase/(decrease) in cash and cash equivalents		**13.4**	(8.7)
Cash and cash equivalents at start of year		**14.1**	20.7
Foreign currency exchange (loss)/gain on cash and cash equivalents		**(0.3)**	2.1
Cash and cash equivalents at end of year	11	**27.2**	14.1

Notes 1 to 25 on pages 160 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of the Company (see Note 13)								
	Number of ordinary shares in issue millions	Issued share capital and share premium €m	Capital redemption reserve fund €m	Capital conversion reserve fund €m	Treasury shares €m	Shares held by employee benefit trust €m	Share-based payment reserve €m	Retained earnings €m	Total equity €m
Balance at 1 January 2017	*86.0*	620.5	1.8	0.3	(5.4)	(40.9)	42.3	5,064.7	5,683.3
Profit for the year	–	–	–	–	–	–	–	28.1	28.1
Shares issued (Note 13)	*0.5*	6.5	–	–	–	–	–	–	6.5
Own shares acquired by employee benefit trust (Note 13)	–	–	–	–	–	(2.8)	–	–	(2.8)
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	29.4	–	29.4
Equity-settled transactions – vestings	–	–	–	–	–	22.9	(18.4)	(1.1)	3.4
Transfer to retained earnings on exercise of share options (Note 13)	–	–	–	–	–	–	(1.0)	1.0	–
Dividends to shareholders (Note 14)	–	–	–	–	–	–	–	(171.4)	(171.4)
Total contributions by and distributions to owners of the Company	*0.5*	6.5	–	–	–	20.1	10.0	(171.5)	(134.9)
Balance at 31 December 2017	*86.5*	627.0	1.8	0.3	(5.4)	(20.8)	52.3	4,921.3	5,576.5

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company (see Note 13)								
	Number of ordinary shares in issue millions	Issued share capital and share premium €m	Capital redemption reserve fund €m	Capital conversion reserve fund €m	Treasury shares €m	Shares held by employee benefit trust €m	Share-based payment reserve €m	Retained earnings €m	Total equity €m
Balance at 1 January 2016	*46.0*	6.8	1.8	0.3	(5.4)	(63.1)	32.7	277.6	250.7
Profit for the year	–	–	–	–	–	–	–	63.1	63.1
Shares issued (Note 13)	*0.4*	3.0	–	–	–	–	–	–	3.0
Shares issued as consideration for acquisition of Betfair Group plc (Note 13)	*39.6*	5,510.7	–	–	–	–	–	–	5,510.7
Equity-settled transactions – expense recorded in income statement	–	–	–	–	–	–	34.7	–	34.7
Equity-settled transactions – vestings	–	–	–	–	–	22.2	(23.7)	2.4	0.9
Transfer to retained earnings on exercise of share options (Note 13)	–	–	–	–	–	–	(1.4)	1.4	–
Tax on share-based payments	–	–	–	–	–	–	–	(0.2)	(0.2)
Dividends to shareholders (Note 14)	–	–	–	–	–	–	–	(179.6)	(179.6)
Share premium cancellation (Note 13)	–	(4,900.0)	–	–	–	–	–	4,900.0	–
Total contributions by and distributions to owners of the Company	*40.0*	613.7	–	–	–	22.2	9.6	4,724.0	5,369.5
Balance at 31 December 2016	*86.0*	620.5	1.8	0.3	(5.4)	(40.9)	42.3	5,064.7	5,683.3

Notes 1 to 25 on pages 160 to 176 form an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Basis of preparation and summary of significant accounting policies

The financial statements of the Company for the financial year ending 31 December 2017 have been prepared in euro, the Company's functional currency, rounded to the nearest million. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

As permitted by section 304 of the Companies Act 2014, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €28.1m (2016: €63.1m), which includes dividends receivable from subsidiary companies amounting to €Nil (2016: €73.8m).

Revenue

The services provided by the Company comprise sports betting and business-to-business services as well as services provided to other group companies. Revenue is stated exclusive of value-added tax. The costs of customer promotions (including free bets) and bonuses are deducted from revenue.

The Company's activities, with the exception of business-to-business services and services to other group companies on which fees are earned, are classified as derivative financial instruments.

Revenue from betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the income line as this represents the Company's principal activity. Commission and other fee income earned is also recorded within revenue.

Revenue from business-to-business services and services to other group companies represents fees charged for the services provided in the period.

Financial assets

Interests in subsidiary undertakings are stated in the Company statement of financial position as financial assets, at cost less, where necessary, provisions for impairment.

Included within financial assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within the income statement.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 – 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.

Intangible assets

Intangible assets, principally comprising licences and computer software, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences) and licences for electronic point of sale ("EPOS") system software.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Licences	2 – 20 years
Computer software	2 – 5 years

Goodwill

Acquisitions of subsidiaries are accounted for using the acquisition method. The value of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised under Irish Generally Accepted Accounting Practice ("GAAP") prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2014, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS, is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the fair values of the relevant net assets acquired is dealt with through retained earnings.

Costs relating to the acquisition of businesses that occurred since 1 January 2014 are expensed to the income statement when incurred. Costs relating to the acquisition of non-controlling interests are recognised directly in retained earnings.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit", or "CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Other non-derivative financial instruments

Other non-derivative financial instruments comprise cash and cash equivalents, deposits, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual right to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7, 'Statement of Cash Flows', these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Subsequent to initial recognition, cash and cash equivalents, deposits and trade and other payables are measured at amortised cost.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Derivative financial instruments

The Company holds certain derivative financial instruments which are initially recognised at fair value.

Sports betting open positions

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

Borrowings

Borrowings are recorded at the fair value of the proceeds received, net of any directly attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Leases

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

Employee benefits

Pensions

The Company operates a number of defined contribution schemes under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the obligation falls due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Share-based payments

The Company operates equity-settled long term and medium term incentive plans for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and / or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve in equity. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Company operates an equity-settled share save scheme ("SAYE") for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Company has operated equity-settled share option schemes for employees under which employees acquired options over Company shares. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Tax

Tax in the income statement comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to apply to temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

In determining the current and deferred tax the Company considers the impact of uncertain tax positions and whether additional taxes or interest may be due. Uncertainties reviewed by the Company including those regarding transfer pricing policies in place and interpretation of tax laws internationally have been measured using the best estimate of the likely outcome. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. Management uses in-house tax experts, professional firms and previous experience when assessing tax risks and the Company believes that the accrual for tax liabilities at 31 December 2017 is adequate for all uncertain tax positions based on its assessment of the range of factors outlined above.

Foreign currency transactions

Transactions in foreign currencies are translated at the relevant foreign exchange rate ruling at the date of the transaction. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into euro at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 33 to the consolidated financial statements.

2. Employee expenses and numbers

	2017 €m	2016 €m
Wages and salaries	**37.0**	39.5
Social security costs	**3.8**	4.5
Defined contribution pension and life assurance costs	**0.4**	0.4
Share-based payments expense (see below)	**0.4**	1.9
Other staff costs	**1.3**	1.3
Total	**42.9**	47.6
The average number of persons employed by the Company (including Executive Directors), all of whom were involved in the provision of betting services, during the year was	**1,401**	1,378

Details of the remuneration of Directors are set out on pages 72 to 92 of the Directors' Remuneration Report.

Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2017 €m	2016 €m
The Paddy Power plc Sharesave Scheme	**0.1**	0.2
The Paddy Power Long Term Incentive Plan ("LTIP")	**–**	1.7
The Paddy Power Betfair plc Sharesave Scheme	**0.3**	–
Total	**0.4**	1.9

2. Employee expenses and numbers (continued)

Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2017 was 69,767 (2016: 81,008). These options had exercise prices ranging from €27.79 to €75.21 (2016: €19.87 to €75.21).

For the year ended 31 December 2017:	**Options outstanding at 1 January 2017**	**Options granted during year**	**Options lapsed during year**	**Options exercised during year**	**Options outstanding at 31 December 2017**
The Paddy Power plc Sharesave Scheme	**53,314**	**–**	**(2,318)**	**(30,340)**	**20,656**
The Paddy Power Betfair plc Sharesave Scheme	**27,694**	**31,707**	**(10,290)**	**–**	**49,111**
Total	**81,008**	**31,707**	**(12,608)**	**(30,340)**	**69,767**

For the year ended 31 December 2016:	Options outstanding at 1 January 2016	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2016
The Paddy Power plc Sharesave Scheme	66,123	–	(2,513)	(10,296)	53,314
The Paddy Power Betfair plc Sharesave Scheme	–	27,694	–	–	27,694
Total	66,123	27,694	(2,513)	(10,296)	81,008

Summary of share awards outstanding under the Paddy Power Long Term Incentive Plan

The total number of share awards outstanding at 31 December 2017 was 4,753 (2016: 50,640). The movements in share awards during the years ended 31 December 2017 and 2016 (excluding related dividends awarded as shares) were as follows:

For the year ended 31 December 2017:	**Share awards outstanding at 1 January 2017**	**Share awards granted during year**	**Share awards lapsed during year**	**Share awards vested during year**	**Share awards outstanding at 31 December 2017**
2013 LTIP scheme	**50,640**	**–**	**–**	**(45,887)**	**4,753**

For the year ended 31 December 2016:	Share awards outstanding at 1 January 2016	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2016
2004 LTIP scheme	21,475	–	(15,174)	(6,301)	–
2013 LTIP scheme	172,228	–	(8,802)	(112,786)	50,640
Total	193,703	–	(23,976)	(119,087)	50,640

3. Financial income and expense

	2017 €m	2016 €m
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost		
Interest income on short term bank deposits	**–**	0.2
Financial expense:		
On financial liabilities at amortised cost		
Interest on borrowings, bank guarantees and bank facilities, and other interest payable	**2.4**	3.6

4. Statutory information

	2017 €m	2016 €m
Auditor's remuneration	**0.5**	0.6
Depreciation of property, plant and equipment	**7.8**	7.1
Amortisation of intangible assets	**0.2**	0.4
Foreign currency exchange loss/(gain) – monetary items	**19.1**	(13.2)
Operating lease rentals, principally premises	**10.1**	10.1
Operating lease income (representing sub lease income)	**0.2**	0.1

The Auditor's remuneration of €0.5m (2016: €0.6m) relates to the audit of Group and subsidiary financial statements. It comprises €0.1m (2016: €0.1m) for the audit of the Company. Further details on Auditor's remuneration is disclosed in Note 7 to the consolidated financial statements.

Auditor remuneration to Company External Auditor (KPMG LLP)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the Auditor's remuneration figures presented below represent fees paid to KPMG LLP only and are exclusive of value-added tax. Audit relates to the audit of the Company financial statements only. Audit fees borne by the Company in relation to the audit by KPMG LLP of the Group and subsidiary companies are classified as other assurance services.

	2017 €m	2016 €m
Audit	**0.1**	0.1
Other assurance services	**0.4**	0.6
Tax advisory services	**–**	0.2
Total	**0.5**	0.9

Other assurance services includes €0.3m (2016: €0.4m) in respect of fees incurred by the Company for the audit of the Group financial statements, €0.1m (2016: €0.1m) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company and €Nil (2016: €0.1m) in respect of fees for other miscellaneous assurance work.

5. Property, plant and equipment

	Land, buildings and leasehold improvements €m	Fixtures and fittings €m	Computer equipment €m	Total €m
Cost				
Balance at 1 January 2016	43.1	71.1	9.3	123.5
Additions (including business combinations)	0.4	6.7	1.5	8.6
Disposals	–	(1.0)	–	(1.0)
Balance at 31 December 2016	**43.5**	**76.8**	**10.8**	**131.1**
Additions (including business combinations)	**0.3**	**5.7**	**2.1**	**8.1**
Disposals	**(0.1)**	**–**	**–**	**(0.1)**
Balance at 31 December 2017	**43.7**	**82.5**	**12.9**	**139.1**
Depreciation				
Balance at 1 January 2016	22.6	55.4	7.0	85.0
Depreciation charges	1.7	4.3	1.1	7.1
Disposals	–	(1.0)	–	(1.0)
Balance at 31 December 2016	**24.3**	**58.7**	**8.1**	**91.1**
Depreciation charges	**1.7**	**4.9**	**1.2**	**7.8**
Disposals	**(0.1)**	**–**	**–**	**(0.1)**
Balance at 31 December 2017	**25.9**	**63.6**	**9.3**	**98.8**
Net book value				
At 31 December 2017	**17.8**	**18.9**	**3.6**	**40.3**
At 31 December 2016	19.2	18.1	2.7	40.0

5. Property, plant and equipment (continued)

The net book value of land, buildings and leasehold improvements at 31 December 2017 includes €13.2m (2016: €14.5m) in respect of leasehold improvements.

The Directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

6. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise licences and computer software, were as follows:

	Licences €m	Computer software €m	Total €m
Cost			
Balance at 1 January 2016	1.5	4.2	5.7
Additions	–	0.4	0.4
Balance at 31 December 2016	**1.5**	**4.6**	**6.1**
Balance at 31 December 2017	**1.5**	**4.6**	**6.1**
Amortisation			
Balance at 1 January 2016	1.5	3.5	5.0
Amortisation charges	–	0.4	0.4
Balance at 31 December 2016	**1.5**	**3.9**	**5.4**
Amortisation charges	**–**	**0.2**	**0.2**
Balance at 31 December 2017	**1.5**	**4.1**	**5.6**
Net book value			
At 31 December 2017	**–**	**0.5**	**0.5**
At 31 December 2016	–	0.7	0.7

7. Goodwill

	€m
Balance at 1 January 2016	18.7
Arising on acquisitions during the year (Note 9)	0.2
Balance at 31 December 2016	**18.9**
Arising on acquisitions during the year (Note 9)	**0.3**
Balance at 31 December 2017	**19.2**

The goodwill balance as at 1 January 2017 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and subsequent acquisitions of licenced bookmaking shops in Ireland. Additional goodwill in 2017 arose on the acquisition of three licenced bookmaking shops in Ireland. The goodwill balance as at 31 December 2017 is attributable to the Irish Retail cash generating unit, being the lowest level of asset for which there are separately identifiable cash flows (see Note 12 to the consolidated financial statements).

The accumulated amortisation balance at 31 December 2017 is €4.6m (2016: €4.6m). Under IFRS, goodwill is not amortised but is instead tested for impairment annually. The most recent test for impairment was performed at 31 December 2017 and is detailed in Note 12 to the consolidated financial statements.

8. Financial assets

	Unlisted investments in subsidiary companies €m	Capital contributions €m	Total €m
Balance at 1 January 2016	0.3	78.3	78.6
Share-based payments	–	31.6	31.6
Investment in Betfair Group Limited	5,510.7	–	5,510.7
Balance at 31 December 2016	**5,511.0**	**109.9**	**5,620.9**
Share-based payments	**–**	**25.3**	**25.3**
Balance at 31 December 2017	**5,511.0**	**135.2**	**5,646.2**

As described in Note 13 to the consolidated financial statements, on 2 February 2016, the Company completed an all-share merger with Betfair Group plc (the "Merger") resulting in Paddy Power plc shareholders owning 52% and Betfair Group plc shareholders owning 48% of Paddy Power Betfair plc (previously Paddy Power plc) (the "Company", together with its subsidiaries, the "Group"), on a fully diluted basis taking into account existing share options and award schemes for both companies as at the date of the Rule 2.7 announcement in relation to the agreement of the terms of the Merger (8 September 2015). Post-merger, the Company is the Ultimate Parent of Betfair Group Limited (previously Betfair Group plc).

In the opinion of the Directors, the value to the Company of the unlisted investments in and capital contributions to subsidiary companies at 31 December 2017 is not less than the carrying amount of €5,646.2m (2016: €5,620.9m). The Company's principal subsidiaries are listed in Note 32 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve relating to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

9. Business combinations

Year ended 31 December 2017

Shop property business acquisitions

In 2017, the Company, in the absence of available comparable sites for organic shop openings, acquired three licensed bookmaking shops in Ireland.

Goodwill arising on the acquisitions amounted to €0.3m. Property, plant and equipment acquired amounted to €0.1m. The consideration was comprised of €0.2m cash consideration and €0.2m contingent deferred consideration.

The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Paddy Power Betfair group.

Information in respect of revenue, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the year ended 31 December 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.

During 2017, the Company did not settle any deferred consideration liabilities in relation to prior years' acquisitions.

Year ended 31 December 2016

Shop property business acquisitions

In 2016, the Company, in the absence of available comparable sites for organic shop openings, acquired one licensed bookmaking shop in Ireland.

Goodwill arising on the acquisition amounted to €0.2m. Property, plant and equipment acquired amounted to €0.1m. The consideration was comprised of €0.2m cash consideration and €0.1m contingent deferred consideration.

The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Paddy Power Betfair group.

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

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

During 2016, the Company settled deferred consideration liabilities of €0.5m in relation to prior years' acquisitions.

10. Trade and other receivables and derivative financial assets

Non-current assets

	31 December 2017 €m	31 December 2016 €m
Trade and other receivables		
Amounts owed by fellow Group companies	213.4	204.3

The Company has provided a long term loan to a subsidiary company.

Current assets

	31 December 2017 €m	31 December 2016 €m
Trade and other receivables		
Prepayments and accrued income	5.3	5.4
Amounts owed by fellow Group companies	319.9	323.2
Corporation tax receivable	1.1	–
Total	326.3	328.6

Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

11. Cash and cash equivalents

There was no cash on deposit at 31 December 2017 and 31 December 2016.

Cash and cash equivalents are analysed by currency as follows:

	31 December 2017 €m	31 December 2016 €m
GBP	1.0	2.2
EUR	25.2	11.2
AUD	0.5	0.1
USD	0.1	0.2
Other	0.4	0.4
Total	27.2	14.1

12. Deferred tax assets

Deferred tax is attributable to the following:

	31 December 2017 €m	31 December 2016 €m
Property, plant and equipment	0.1	0.1
Employee benefits	–	0.1
Net asset	0.1	0.2

Movement in temporary differences during the year

	2017 €m	2016 €m
Balance at 1 January	0.2	0.4
Recognised in income	(0.1)	–
Recognised directly in equity	–	(0.2)
Balance at 31 December	0.1	0.2

All of the above deferred tax balances are in respect of Irish corporation tax.

13. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (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 €6.5m (2016 €3.0m).

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

Under the terms of the Merger, holders of Betfair Group plc shares received 0.4254 ordinary shares of €0.09 each ("ordinary shares") in the Company in exchange for each Betfair Group plc ordinary share of 0.095 pence each. The Company issued 39,590,574 ordinary shares in exchange for 93,066,700 shares in Betfair Group plc giving rise to a share premium of €5.5bn.

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 €4.9bn to the retained earnings account within reserves.

A total of 225,000 ordinary shares were held in treasury as of 31 December 2017 (31 December 2016: 225,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5.4m as of 31 December 2017 (31 December 2016: €5.4m).

At 31 December 2017, the Company held a further 200,973 (2016: 478,392) of its own shares, which were acquired at a total cost of €20.8m (2016: €40.9m), in respect of potential future awards relating to the Group's employee share plans (see Note 18 to the consolidated financial statements). The Company's distributable reserves at 31 December 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 €2.8m. In 2017, 306,761 shares with an original cost of €22.9m (2016: 396,498 shares with an original cost of €22.2m) were transferred from the EBT to the beneficiaries of the EBT.

The capital redemption reserve fund of €1.8m (2016: €1.8m) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled, and the nominal value of shares in the Company cancelled as part of the return of capital to shareholders. The capital conversion reserve fund of €0.3m (2016: €0.3m) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2017, an amount of €1.0m (2016: €1.4m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of €Nil (2016: €0.2m) of deferred tax relating to the Company's share-based payments was charged to retained earnings in 2017 – see Note 12.

14. Dividends paid on ordinary shares

	2017 €m	2016 €m
Ordinary shares:		
– special dividend of €1.814 per share	**–**	80.0
– Paddy Power plc closing dividend of €0.18 per share	**–**	7.9
– final dividend of £1.13 (€1.34) per share for the year ended 31 December 2016 (31 December 2015: €1.20)	**110.2**	52.9
– interim dividend of £0.65 (€0.72) per share for the year ended 31 December 2017 (31 December 2016: £0.40 (€0.47))	**61.2**	38.8
Amounts recognised as distributions to equity holders in the year	**171.4**	179.6

The Directors have proposed a final dividend of 135.0 pence (152.0 cents) 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 (€128m), has not been included as a liability at 31 December 2017.

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).

15. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2017 €m	31 December 2016 €m
Trade and other payables		
Trade payables	1.7	1.6
PAYE and social welfare	1.0	1.1
Value-added tax	0.5	0.4
Betting duty	3.0	3.1
Corporation tax payable	–	0.7
Amounts owed to fellow Group companies	599.8	267.3
Contingent deferred consideration - business combinations (Note 22)	0.4	0.2
Accruals and other liabilities	15.4	14.0
Total	621.8	288.4
Derivative financial liabilities		
Sports betting open positions (Note 22)	1.9	3.2

Non-current liabilities

	31 December 2017 €m	31 December 2016 €m
Trade and other payables		
Accruals and other liabilities	0.4	3.1
Derivative financial liabilities		
Sports betting open positions (Note 22)	2.6	–

16. Borrowings

Current liabilities

	31 December 2017 €m	31 December 2016 €m
Accrued interest on borrowings	–	0.2

Non-current liabilities

	31 December 2017 €m	31 December 2016 €m
Revolving credit facility	70.0	250.0
Less: expenses relating to revolving credit facility	–	(0.5)
Total	70.0	249.5

See Note 22 to the consolidated financial statements for further information on the terms of the borrowings.

17. Financial risk management

The Company's risk exposures, and what its objectives, policies and processes are for managing those risks, are set out in Notes 18 to 21, and Note 23 to the consolidated financial statements.

18. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2017 €m	31 December 2016 €m
Cash and cash equivalents	**27.2**	14.1

19. Liquidity risk

The following are the contractual maturities of financial liabilities as at 31 December:

	31 December 2017						
	Carrying amount €m	**Contractual cash flows €m**	**6 months or less €m**	**6 to 12 months €m**	**1 to 2 years €m**	**2 to 3 years €m**	**3 years and over €m**
Non-derivative financial liabilities							
Trade and other payables	**621.8**	**621.8**	**621.4**	**–**	**0.4**	**–**	**–**
Contingent deferred consideration	**0.4**	**0.4**	**0.2**	**0.2**	**–**	**–**	**–**
Borrowings	**70.0**	**71.7**	**0.3**	**0.4**	**0.8**	**70.2**	**–**
	692.2	**693.9**	**621.9**	**0.6**	**1.2**	**70.2**	**–**
Derivative financial liabilities							
Sports betting open positions	**4.5**	**4.5**	**1.8**	**0.1**	**0.5**	**–**	**2.1**
Total	**696.7**	**698.4**	**623.7**	**0.7**	**1.7**	**70.2**	**2.1**

	31 December 2016						
	Carrying amount €m	Contractual cash flows €m	6 months or less €m	6 to 12 months €m	1 to 2 years €m	2 to 3 years €m	3 years and over €m
Non-derivative financial liabilities							
Trade and other payables	291.3	291.3	287.4	0.8	1.4	1.3	0.4
Contingent deferred consideration	0.2	0.2	0.1	0.1	–	–	–
Borrowings	250.2	263.5	1.9	2.0	3.9	4.0	251.7
	541.7	555.0	289.4	2.9	5.3	5.3	252.1
Derivative financial liabilities							
Sports betting open positions	3.2	3.2	3.2	–	–	–	–
Total	544.9	558.2	292.6	2.9	5.3	5.3	252.1

20. Currency risk

Currency risk exposure

As of 31 December 2017 and 2016, the Company's foreign currency risk exposure was as follows:

	31 December 2017				31 December 2016			
	GBP €m	AUD €m	USD €m	Other €m	GBP €m	AUD €m	USD €m	Other €m
Cash and cash equivalents	**1.0**	**0.5**	**0.1**	**0.4**	2.2	0.1	0.2	0.3
Non-derivative financial liabilities	**(1.0)**	**–**	**(0.1)**	**–**	0.3	–	0.1	–
Gross statement of financial position exposure	**–**	**0.5**	**–**	**0.4**	2.5	0.1	0.3	0.3

The following are the significant exchange rates that applied during the year:

	Average rate		31 December (mid-spot rate)	
To 1 Euro:	**2017**	2016	**2017**	2016
GBP	**0.876**	0.819	**0.887**	0.856
AUD	**1.473**	1.488	**1.535**	1.460

Sensitivity analysis

A ten per cent increase and decrease in the value of euro against the following currencies at 31 December 2017 and 2016 would have increased / (decreased) profit by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	10% increase €m	10% decrease €m
31 December 2017		
GBP	**–**	**–**
31 December 2016		
GBP	(0.2)	0.2

21. Interest rate risk

Profile

At 31 December 2017 and 31 December 2016 the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2017 €m	31 December 2016 €m
Variable rate instruments		
Financial assets – cash	**27.2**	14.1
Borrowings	**(70.0)**	(250.0)
Total	**(42.8)**	(235.9)

Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ("bps") in interest rates at 31 December 2017 and at 31 December 2016 would have (decreased) / increased profit for a full year by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	50 bps increase €m	50 bps decrease €m
31 December 2017		
Variable rate instruments	**(0.3)**	**0.3**
31 December 2016		
Variable rate instruments	(0.9)	0.9

22. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities carried at amortised cost in the statement of financial position:

	31 December 2017		31 December 2016	
	Carrying amount €m	**Fair value €m**	Carrying amount €m	Fair value €m
Assets				
Amounts owed by fellow group companies	**533.3**	**533.3**	527.5	527.5
Cash and cash equivalents	**27.2**	**27.2**	14.1	14.1
Total	**560.5**	**560.5**	541.6	541.6
Liabilities				
Trade and other payables	**(621.8)**	**(621.8)**	(291.3)	(291.3)
Borrowings	**(70.0)**	**(70.0)**	(250.2)	(250.2)
Total	**(691.8)**	**(691.8)**	(541.5)	(541.5)
Net	**(131.3)**	**(131.3)**	0.1	0.1

Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2017			
	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**
Derivative financial liabilities	**–**	**–**	**(4.5)**	**(4.5)**
Non-derivative financial liabilities	**–**	**–**	**(0.4)**	**(0.4)**
Total	**–**	**–**	**(4.9)**	**(4.9)**

	31 December 2016			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Derivative financial liabilities	–	–	(3.2)	(3.2)
Non-derivative financial liabilities	–	–	(0.2)	(0.2)
Total	–	–	(3.4)	(3.4)

22. Fair values (continued)

Basis for determining fair values

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Financial instruments carried at amortised cost

Cash and cash equivalents (Level 2)

The fair value of cash and cash equivalents is based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

Trade and other payables and amounts owed by fellow group companies (Level 2)

The fair value of trade and other payables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Borrowings (Level 2)

The fair value of borrowings is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Financial instruments carried at fair value

Derivative financial instruments (Level 3)

Derivative financial instruments comprise sports betting open positions. The fair value of open sports bets at the year-end has been calculated using the latest available prices on relevant sporting events.

Non-derivative financial liabilities (Level 3)

Non-derivative financial liabilities includes contingent consideration. The contingent consideration payable is determined with reference to forecast performance for the acquired businesses during the relevant time periods and the amounts to be paid in such scenarios. The fair value was estimated by assigning probabilities to the potential payout scenarios. The significant unobservable inputs are forecast performance for the acquired businesses.

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value

The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2017 and 2016:

Sports betting open positions

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. There are no reasonably probable changes to assumptions and inputs that would lead to material changes in the fair value methodology although final value will be determined by future sporting results.

Contingent consideration

The fair value of contingent consideration is primarily dependent on forecast performance of the acquired businesses against predetermined targets. There are no reasonably probable changes to assumptions and inputs that would lead to a material change in the fair value of the total amount payable.

Movements in the year in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	Sports betting open positions €m	Contingent deferred consideration €m	Total €m
Balance at 1 January 2016	(2.1)	(1.0)	(3.1)
Arising on acquisition	–	(0.1)	(0.1)
Recognised in the income statement	154.4	0.4	154.8
Settlements	(155.5)	0.5	(155.0)
Balance at 31 December 2016	**(3.2)**	**(0.2)**	**(3.4)**
Arising on acquisitions	**–**	**(0.2)**	**(0.2)**
Recognised in the income statement	**159.3**	**–**	**159.3**
Settlements	**(160.6)**	**–**	**(160.6)**
Balance at 31 December 2017	**(4.5)**	**(0.4)**	**(4.9)**

23. Pension arrangements

The Company operates defined contribution pension schemes for certain employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €0.4m (2016: €0.4m) and the amount due to the schemes at 31 December 2017 amounted to €0.1m (2016: €0.1m).

24. Commitments and contingencies

(a) Guarantees

The Company has uncommitted working capital overdraft facilities of €5.0m (2016: €7.0m) with Allied Irish Banks p.l.c. These facilities are secured by cross-guarantees within the Group.

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

As mentioned in Note 22 to the consolidated financial statements, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

(b) Capital commitments

There was no capital expenditure contracted for but not yet incurred at 31 December 2017 or 31 December 2016.

24. Commitments and contingencies (continued)

(c) Operating lease commitments

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

At 31 December 2017 and 2016, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2017 €m	31 December 2016 €m
Within one year	**10.0**	10.1
Between two and five years	**26.3**	28.1
After five years	**21.7**	26.4
Total	**58.0**	64.6

The Group has a small number of shop properties that are sublet. Sublease payments of €0.2m (2016: €0.1m) are expected to be received during the year ended 31 December 2018.

During 2017, an amount of €10.8m was recognised in profit or loss in respect of operating leases (2016: €10.8m). Contingent rent expense in profit or loss amounted to a credit of €0.7m (2016: credit of €0.7m). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €0.2m in 2017 (2016: €0.1m).

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

(d) Section 357 guarantees

Pursuant to the provisions of Section 357 of the Companies Act 2014, the Company has guaranteed the liabilities and commitments of its wholly owned subsidiary undertakings in the Republic of Ireland for the financial year ended 31 December 2017 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of the Companies Act 2014.

25. Approval of Financial Statements

The Financial Statements of the Company for the year ended 31 December 2017 were approved by the Board of Directors on 7 March 2018.

FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group for the five years ended 31 December 2017 is set out below:

	Statutory 2017[1] £m	Proforma 2016[2] £m	Proforma 2015[2] £m	Statutory 2016[1] £m	Statutory 2015[1] £m	Statutory 2014[3] £m	Statutory 2013[3] £m
Revenue	**1,745.4**	1,550.8	1,318.1	1,500.8	794.3	710.7	632.9
EBITDA (before separately disclosed items)	**473.2**	400.2	295.7	387.0	170.9	170.7	150.2
EBITDA: Separately disclosed items – restructuring and merger related costs	**(7.4)**	(137.4)	(9.1)	(123.1)	(7.4)	–	–
EBITDA (after separately disclosed items)	**465.8**	262.8	286.6	263.9	163.5	170.7	150.2
Operating profit (before separately disclosed items)	**391.9**	330.3	228.6	319.1	132.5	132.0	116.7
Operating profit: Separately disclosed items – restructuring and merger related costs	**(141.9)**	(318.0)	(9.1)	(303.7)	(7.4)	–	–
Operating profit (after separately disclosed items)	**250.0**	12.3	219.5	15.4	125.1	132.0	116.7
Profit before tax	**246.6**	8.6	217.3	11.9	124.5	134.3	119.8
Profit/(loss) for the year	**217.7**	(10.7)	184.5	(5.7)	108.2	116.8	104.6

1. Statutory numbers reported.
2. Proforma numbers represent the results of the Group as if the Merger had occurred on 1 January 2015. A reconciliation between the proforma numbers and statutory numbers for 2016 is provided on page 43 of this Annual Report. A reconciliation between the proforma numbers and statutory numbers for 2015 is provided on page 52 of the 2016 Annual Report.
3. As reported in previous Annual Reports and translated into GBP using the below average exchange rates:

2014	1.2405
2013	1.1775

SHAREHOLDER INFORMATION

Paddy Power Betfair plc is a public limited company incorporated and domiciled in the Republic of Ireland. It has a primary listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange

Corporate website

The Company's corporate website provides shareholders with a broad range of information including investor information such as the Annual Report and Accounts, current and historic share prices, AGM materials, events and governance information:

paddypowerbetfair.com

Dividends

Dividend payments

Details of the Company's dividends for the financial years ended 31 December 2017 and 31 December 2016 can be found on page 95 and at:

paddypowerbetfair.com/investor-relations

Dividend withholding tax ("DWT")

As an Irish resident company, all dividends paid by the Company are subject to DWT, currently at the rate of 20% unless a shareholder is entitled to an exemption. Shareholders entitled to the exemption must have submitted a properly completed exemption form to the Company's Registrar by the relevant record date for the dividend. Non-Irish resident shareholders and certain Irish companies, trusts, pension schemes, investment undertakings, companies resident in any member state of the European Union and charities may be entitled to claim exemption from DWT. If you require any further assistance or information on the relevant form to be completed, please contact the Registrar. Forms are available on the Irish Tax & Customs Revenue website:

www.revenue.ie/en/companies-and-charities/dividend-withholding-tax/exemptions-for-non-residents.aspx

Shareholders should note that DWT will be deducted from dividends where a properly completed form has not been received by the relevant record date for a dividend.

Dividend mandates

We encourage shareholders to have their dividends paid directly into their bank account to ensure efficiency of payment on the payment date and reduce the instances of lost or out-of-date unclaimed cheques. Please contact the Registrar to avail of this.

Out-of-date/unclaimed dividends

If you have out-of-date dividend cheques or unclaimed dividends, please contact the Registrar.

FINANCIAL CALENDAR

	2017
2016 Final Dividend: Record date	7 April
2016 Final Dividend: Payment date	24 May
2017 Interim Dividend: Record date	25 August
2017 Interim Dividend: Payment date	22 September
Financial year end	31 December

	2018
2017 Preliminary Results	7 March
2017 Final Dividend of 135p per share: Ex-dividend date	12 April
2017 Final Dividend: Record date	13 April
2018 Q1 Trading Update	May
2018 Annual General Meeting	18 May
2017 Final Dividend: Payment date	29 May
2018 Interim Results announcement	August
2018 Q3 Trading Update	November
Financial year end	31 December

Electronic shareholder communications

We encourage you to be notified by email or letter when shareholder communications such as the Annual Report or Notice of Annual General Meeting are available to be viewed online on our website at:

www.paddypowerbetfair.com

This allows the Company to have a positive effect on the environment by significantly reducing the volume of paper used in the production of shareholder mailings, save substantial printing and postal costs in addition to speeding up the provision of information to you as a shareholder. You can elect to receive email notifications by contacting the Registrar.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name should contact the Registrar to request their accounts be amalgamated.

Shareportal

Shareholders may access their accounts online at:

paddypowerbetfairshares.com

This facility allows shareholders to check their shareholdings and dividend payments, change address, change dividend instructions, register email addresses, appoint proxies electronically and also download standard forms and documents to initiate other changes in details held by the Registrar.

Shareholder security

Please be aware that organisations, typically from overseas, sometimes make unsolicited contact with shareholders offering to buy their shares or to sell shares on their behalf at prices which can be significantly higher than the market price of the shares.

If you are in receipt of an unsolicited call from someone offering to buy your shares, you should remain vigilant; take a note of the name of the person and organisation that has contacted you; not respond to high pressure tactics to provide bank details or arrange to transfer money if you are unsure of the bona fide nature of the caller; check if the company or individual is appropriately authorised to operate as an investment firm with your local regulatory authority (Central Bank of Ireland for shareholders resident in Ireland and the Financial Services Authority (FSA) for shareholders resident in the UK); and obtain independent advice from a qualified advisor or stockbroker.

Share dealing

If you wish to buy or sell shares in the Company you can do this by using the services of a stockbroker or high street bank.

You can also use Link Share Dealing Services: on lo-call 1890 946 375 or if calling from the UK, 0871 664 0445 (calls cost 10p per minute plus network extras. Lines are open 8.00am – 4.30pm: Mon - Fri) or visit:

www.linksharedeal.com

Please note the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt you should contact an independent financial adviser.

Contacts

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www.paddypowerbetfair.com

General

To contact the Investor Relations team email:

investor.relations@paddypowerbetfair.com

To contact the Company Secretariat team email:

cosec@paddypowerbetfair.com

Our brands

More information on each of our brands is available at:

Paddy Power: www.paddypower.com
Betfair: www.betfair.com
Sportsbet: www.sportsbet.com.au
TVG: www.tvg.com and us.betfair.com

Registrar

Shareholders with queries concerning their holdings, dividend information or administrative matters should contact the Company's Registrar:

Link Asset Services
Link Registrars Limited, Grand Canal Square, Dublin 2
D02 A342, Ireland
Tel: +353 1 553 0050
Fax: +353 1 224 0700
Email: enquiries@linkgroup.ie

Other information

Directors and Company Secretary

Biographies of our current Directors can be found on pages 52 and 53. The Company Secretary is Edward Traynor.

Company Number

16956

Brokers

Goldman Sachs International
Goodbody Stockbrokers

Legal advisers

Arthur Cox, Earlsfort Centre,
Earlsfort Terrace, Dublin 2

Freshfields Bruckhaus Deringer LLP,
65 Fleet Street, London EC4Y 1HS

External Auditor

KPMG LLP, 15 Canada Square,
London E14 5GL

Principal bankers

Allied Irish Banks p.l.c.
Barclays Bank PLC
Lloyds TSB Bank plc
National Australia Bank Limited
The Royal Bank of Scotland Group plc

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