8 August 2018

Paddy Power Betfair plc - 2018 Interim Results

Paddy Power Betfair plc (the "Group") announces interim results for the six months ended 30 June 2018.

	H1 2018 £m	H1 2017 £m	YoY %	Constant currency[3] YoY %
Revenue	867	827	+5%	+7%
Underlying[1] EBITDA[2]	217	220	-1%	+1%
Underlying[1] earnings per share	173.6p	181.1p	-4%	-2%
Profit before tax	106	102	+4%	
Earnings per share	103.7p	102.9p	+1%	
Dividends per share	67p	65p	+3%	

Financial highlights (in constant currency[3]):

- H1 revenue up 7%, with Q1 flat and Q2 up 13% (up 9% in period pre-World Cup)
- Good Q2 revenue growth in all operating divisions:
  - Online: revenue up 13% with sports +12% and gaming +14%
  - Australia: revenue up 19%
  - Retail: revenue up 6%
  - USA: revenue up 20%
- H1 underlying[1] EBITDA[2] up 1% to £217m, or up 6% excluding changes in betting taxes & levies and losses in DRAFT (Q1 flat, Q2 up 13%)
- Net cash of £148m at 30 June; £201m returned to shareholders via dividends & share buybacks in H1

Strategic and operational highlights:

- Good progress on returning the Paddy Power brand to growth
- Sportsbet using scale advantage to increase investment in marketing and customer value to further enhance its leadership position ahead of potentially disruptive tax changes
- Combination of Betfair US with FanDuel completed in July, creating a unique platform to address the nascent US sports betting market opportunity

Outlook:

- Full year 2018 underlying EBITDA, pre-US sports betting, now expected to be between £460m and £480m, reflecting recent trading momentum, the introduction of additional taxes in Australia and the inclusion of losses from the FanDuel daily fantasy sports business

Peter Jackson, Chief Executive, commented:

"It has been a busy and successful few months for Paddy Power Betfair. We have made substantial progress against our strategic priorities and trading in Q2 was good, with all brands and operating divisions contributing to the Group's double-digit revenue growth.

In Europe, product enhancements and improved cross sell rates have led to stronger gaming revenue growth over the past few months for both brands, whilst customer satisfaction with the Paddy Power sports app has stepped up. Recent marketing campaigns have also been successful with the Betfair brand increasingly identified as having the best odds. The World Cup was a showcase event for Paddy Power, with a series of successfully *executed marketing campaigns leading to it being one of the UK's most talked about brands in social media conversations around the tournament.*

In Australia, despite significant upcoming tax headwinds, Sportsbet continues to target further market share gains by using its scale to increase investment in marketing, product and its value proposition.

In the USA, we were delighted to add FanDuel to the Group's portfolio of leading sports brands, creating the industry's largest online business, with a large sports-focused customer base and an extensive nationwide footprint. Our FanDuel sportsbook is now available in New Jersey and with our recent partnership with Boyd Gaming we're looking forward to launching in further states as the legislation progresses.

We now have much better visibility of the regulatory and fiscal changes in the UK, Australia and the USA, and believe that our scale, leading customer propositions and strong balance sheet mean we are well positioned to build a business that can generate sustainable shareholder returns over the long term."

Notes:

[1] The "underlying" measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as "separately disclosed items" (see note 5 and page 34 to the financial statements.

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

[3] Constant currency ("cc") growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of H1 2017 at H1 2018 exchange rates (see Appendix 3).

Analyst briefing:
The Group will host a presentation for institutional investors and analysts this morning at 10:00am (IST/BST). The presentation will be webcast live on the Group's corporate website (www.paddypowerbetfair.com) and a conference call facility will also be available. To dial into the conference call, participants should dial 0800 783 0906 or 01296 480 100 from the UK, (01) 242 1074 from Ireland and +44 1296 480 100 from elsewhere. The passcode is 750 401 61.

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

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Business Review

In our Preliminary results in March 2018, we set out our immediate strategic priorities. These were to (i) re-establish product leadership in Europe; (ii) return Paddy Power to growth; (iii) accelerate international growth; (iv) invest in retail ahead of regulatory change; (v) invest to take further market share in Australia; (vi) launch, and get to scale quickly, in the US sports betting market; and (vii) improve balance sheet efficiency while maintaining strategic flexibility.

Europe

(i) *Re-establish product leadership*

Since the completion of our European platform integration in January 2018, development activity has focused on customer facing product enhancements. While still in the early stages of addressing the product gaps that emerged during the platform integration, we are encouraged by the customer response to the initial improvements we have made. This supports our view that product is a key driver of customer engagement and share of wallet.

The impact of improved product has been most material for the Paddy Power brand due to its relatively weaker starting point. Customers are appreciating the speed improvement delivered by its new app, including a 50% faster load time, and we have seen a 12-percentage point increase in the proportion of customers expressing satisfaction with its speed.

As well as speed and ease of use, the development of new features is important for product differentiation in sports betting. A key advantage of operating on a single platform is the increased efficiency of product development, with features now being developed once and released simultaneously across both European brands. In addition, our in-house product development model enables continuous iteration and enhancement of features, ensuring that products can be improved efficiently to respond to customer activity and feedback. The first important feature released on the integrated platform was 'Same Game Multis', with our market-leading product driving good usage on both brands at the World Cup.

Paddy Power customers have also enjoyed a significantly improved gaming product following the migration to the new integrated platform at the end of January. This has driven a three-percentage point increase in the proportion of Paddy Power sports customers who also used gaming products, contributing to good growth in gaming revenues in the first half. Following recent product releases, our brands now have the fastest loading gaming apps in the market.

(ii) *Return Paddy Power to growth*

Over the last few years Paddy Power lost market share. To address this, in conjunction with the acceleration of new product delivery, in March we announced plans to increase marketing spend and to invest more in customer retention.

To ensure the brand better reaches its recreational target audience, the focus of recent marketing has been to increase the relevance of messaging by more closely linking it to topical news content and leveraging the brand's distinct personality and social media presence. Examples in the period included:

- Prime TV advertising slots throughout the World Cup showing Paddy Power's take on alternative, and sometimes risqué, uses for FIFA's new VAR system
- The 'Rainbow Russians' campaign where we committed to donate to LGBT+ charities for every goal scored by Russia at the World Cup, resulting in a total donation of £170,000
- Paddy Power hosted entertainment shows featuring celebrities streamed live during key events
- Sending a 'drunk tank' to Royal Ascot in response to media coverage of drunken behaviour by racegoers at previous high-profile events.

These campaigns have resulted in high levels of customer engagement on social media, with Paddy Power the most cited betting brand in the UK in conversations on the World Cup and the sixth brand globally overall, behind only Adidas, Nike, Budweiser, Coca-Cola and Puma. Supported by increased marketing investment this has driven increased spontaneous brand awareness and more effective acquisition of recreational customers.

We increased promotional generosity to reward loyalty, with the objective of increasing the brand's share of customer spend. Examples of recent initiatives include the extension of the Paddy's Rewards scheme to more customers by easing the qualification criteria, with membership of the scheme doubling since the start of 2018, and the free to play £1m 'Beat the Drop', where customers can keep whatever cash remains after they have answered 20 sports betting related questions. These continue to be supported by generous Money Back Specials on popular selections at key events and are driving increased association of Paddy Power as the brand that has the best offers, with third party research indicating that Paddy Power is now the top ranked brand in this regard, up from 4th place in 2017.

(iii) *__Accelerate international growth__*

In the UK, Ireland, Australia and the US we benefit from having scale and leading sports brands. While Betfair serves customers elsewhere, including less mature regulated online markets and many unregulated jurisdictions, it remains sub-scale in these markets.

We believe that substantial scale and brand presence is required to compete for profits sustainably within many online regulated markets. We therefore continue to assess our participation in these markets, including whether opportunities exist to invest more, organically or inorganically, to achieve greater scale.

Within unregulated markets, where profit margins may be higher, our strategy is to participate via a global operating model which enables us to operate profitably without local scale. When investing in these markets we are mindful that any material concentration of revenues can expose the overall sustainability of our profits.

(iv) *__Retail: continue to invest in leading proposition ahead of regulatory change__*

Paddy Power retail has consistently outperformed its competitors with its market-leading sports-led proposition based around ongoing investment in the best odds, content, locations and staff.

In the UK, we do not expect the Government's proposed new £2 stake limit for gaming machines to have a material impact on our retail strategy and we are continuing to invest in extending our leadership position. Recent investments include 'Same Game Multis' on SSBTs, the addition of a third in-house TV channel providing coverage of an extra 59 races per day and the ongoing rollout across our estate of enhanced TV displays and 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 the impact of lower machine stakes limits. We operate in high footfall, highly competed locations, which means we are well placed 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

(v) *__Maintain market leadership; invest to capitalise on industry regulatory / fiscal headwinds__*

Online market growth in Australia remains strong and, in Sportsbet, we operate the market-leading brand in terms of spontaneous awareness, customer usage and product satisfaction. This position results from substantial investment in its customer proposition and has delivered strong multi-year revenue and profit growth.

In recent months, state governments have confirmed their intentions for introducing point of consumption taxes, with the overall impact being an additional cost equivalent to c.13% of revenues from 2019. While this will impact materially on Sportsbet's profits, where EBITDA currently represents c.35% of revenue, it will have a much greater impact on many of our competitors who currently operate at lower margins due to having less established brands and lack of scale. In this context, while competition remains intense and market consolidation has commenced, we see an opportunity to increase investment to further cement our market-leadership position.

Accordingly, we have further increased our promotional generosity in the first half. This included more daily races featuring money-back specials and the extension of early payout offers, where we pay out early when your team is ahead, to the NBA and the World Cup. We are also increasing our marketing activity to support this increased generosity and further extend our brand reach.

USA

(vi) *Launch sports betting in key states and achieve scale quickly*

The US market has recently experienced positive regulatory change opening up a potentially significant long-term future growth opportunity. Accordingly, it is expected that a large number of operators will target the nascent sports betting market. We believe four key factors are necessary to successfully build scale businesses, with the combination of the FanDuel brand and daily fantasy sports business, our existing TVG and online casino businesses, supported by the Group's resources positioning us well:

a. Brand & customer base:
We will use the FanDuel Sportsbook brand to address the market. The FanDuel brand has a high level of recognition amongst sports fans nationwide following substantial historical marketing spend. Furthermore, the combined business has over 1m active customers and 8m registered customers in 45 states and over 80% of FanDuel customers say they already bet on sports. The combination of strong brand and existing customer base provides a good opportunity to build scale quickly through both new customer acquisition and cross-sell.

b. Market access:
Most states are expected to require operators to partner with existing licensed entities, such as land-based casinos and horseracing tracks. Our scale makes us an attractive partner for these entities as they typically receive a share of sports betting revenues generated through their licence and, in the case of racetracks, we have strong existing relationships through TVG. To date, we have signed market access agreements which mean we currently operate a sportsbook in New Jersey and we will potentially have access to a further 14 states nationwide, subject to favourable legislation and regulatory approvals.

c. Sports betting operational capabilities:
We have operated multi-state, real money wagering in the USA since we entered the market in 2009 through the acquisition of TVG. For US sports betting we will leverage this together with the Group's global sports betting capabilities, including risk management and trading, sports betting product expertise and retail betting capability.

d. Balance sheet:
Achieving scale in the sports betting market is likely to require substantial investment. While our existing assets give us a good launch pad in achieving scale and our existing capabilities can allow us to operate more efficiently, the Group's strong balance sheet gives us substantial firepower and provides a competitive advantage in reaching scale.

Capital structure

(vii) Improve balance sheet efficiency while maintaining strategic flexibility

The Group had net cash of £148m at 30 June 2018 and has targeted a medium-term leverage range of between 1x and 2x net debt to EBITDA. This target reflects the Group's strong cash flow generation and general capital market conditions and will improve balance sheet efficiency whilst retaining strategic flexibility.

In May, as an initial step towards a more efficient capital structure, we announced our intention to return £500m of cash to shareholders and commenced a £200m share buyback programme. On completion of the initial £200m programme in the coming weeks, we will commence an additional £300m share buyback programme.

Responsible gambling

Responsible gambling is critically important for both our own business and the wider industry. For us to have a sustainable, long-term business it's vital that our business is built on sustainable income sources and that customers have entertaining, safe experiences across all our products, whether online or in shops. Accordingly, we continue to invest in our responsible gambling capabilities, including investment in technology and people. This year we have established a distinct global Corporate Risk function and one of the key responsibilities of the Chief Risk Officer, who reports directly to the CEO, is to deliver an ongoing and sustainable responsible gambling strategy that continues to deliver best in class capabilities in this area. We have recently appointed a Responsible Gambling Strategy Director to oversee Group wide responsible gambling developments and improvements. On a day to day basis, over 60 staff manage our operational responsible gambling processes and that team is growing. Our approach is split into three areas.

First, we continue to invest heavily in understanding our customer base to help us identify and interact with customers who are displaying potential signs of harm. Our Customer Activity Awareness Program (CAAP) is a predictive model based on academic research that forecasts a customer's likelihood of developing an issue with their gambling at some point in the future. This type of predictive modelling prompts different levels of intervention to support customers in ensuring gambling remains fun and controlled. The predictive model is complemented by a 'real time' model to detect 'at-risk' customers in the moment. Once customers are identified, we intervene in the manner most appropriate to that customer. We are committed to continuously enhancing the effectiveness of these processes.

Secondly, we continue to invest in technology, for example further improving the range and visibility of time and spend management tools for customers on our websites. This better visibility, combined with direct customer interventions, has resulted in these tools being used by an increasing number of customers. Since the start of the year we have rolled out a new automated electronic self-exclusion process for retail customers in the UK. We are also committed to improving responsible gambling capability as an industry and have been heavily involved in the funding and launch of the UK's national online self-exclusion scheme 'GAMSTOP', where customers will be able to self-exclude from all gambling sites at the same time.

Finally, we support a wide range of research and treatment initiatives for problem gambling, committing 0.1% of our UK gross gaming revenue to various causes, including Gamble Aware and YGAM – and supporting Dunlewey Addiction Services in Ireland.

Government policy has a key role to play and we welcomed the UK Government's decision to reduce the stake on Fixed Odds Betting Terminals ("FOBTs") as we believed the negative sentiment towards these machines had undermined the sector as a provider of entertainment, employment and tax revenue in addition to being a supporter of sports such as horseracing. With this in mind, we hope that a timeline for the stake cut can be announced as soon as possible to give our sector the certainty it needs to move on from this decision. We remain fully supportive of the introduction of the Gambling Control Bill in Ireland at the earliest opportunity, and we continue to play a leading role in Responsible Wagering Australia.

As ever, we remain supportive of further regulation in all jurisdictions to track customer behaviour, introduce better processes to avoid harm and reduce the volume of pre-watershed TV advertising to protect young children. It is our intention to be active and provide leadership in discussions between the industry and governments across the world on responsible gambling and related issues.

CFO succession

The Group confirms that, further to the announcement on 28 March 2018 regarding his appointment, Jonathan Hill will take up the position of CFO on 22 October 2018. Alex Gersh will continue as CFO and remain on the Board until that date.

Outlook

Overall, the second half of the year has started in line with our expectations. For the full year we now expect underlying[1] EBITDA to be between £460m and £480m, before the impact of US sports betting. This outlook reflects our recent trading momentum, with a better than expected performance in gaming and strong conclusion to the World Cup offset by continued weakness in exchange horseracing revenues, as well as the impact of additional Australian taxes and product fee increases, and the inclusion of the FanDuel daily fantasy sports operations.

We are focused on building a business that can sustainably generate profits and shareholder value over the long-term. The Group's strong balance sheet allows us to continue to invest in our customer proposition and marketing, while also maintaining flexibility for strategic investments and returns to shareholders.

Operating and Financial Review

Group

	H1 2018 £m	H1 2017 £m	Change %	Constant Currency[3] Change %
Sports revenue	677	646	+5%	+7%
Gaming revenue	190	181	+5%	+5%
Total revenue	**867**	**827**	**+5%**	**+7%**
Cost of sales	(210)	(189)	+11%	+13%
Gross profit	**657**	**638**	**+3%**	**+5%**
Sales and marketing	(187)	(166)	+12%	+14%
Product and technology	(67)	(66)	+1%	+2%
Operations	(160)	(160)	Flat	+1%
Central costs	(27)	(27)	Flat	+2%
Total operating costs	(440)	(419)	+5%	+7%
Underlying EBITDA[1,2]	**217**	**220**	**-1%**	**+1%**
Underlying EBITDA margin %	*25.0%*	*26.6%*	*-1.6%*	*-1.4%*
Depreciation and amortisation	(43)	(40)	+7%	+8%
Underlying[1] operating profit	**174**	**180**	**-3%**	**-1%**
Underlying net interest expense	(2)	(2)	-20%	
Separately disclosed items	(66)	(75)	-12%	
Profit before tax	**106**	**102**	**+4%**	
Underlying[1] earnings per share	**173.6p**	**181.1p**	**-4%**	
Dividends per share	**67p**	**65p**	**+3%**	
Net cash at period end[4]	**£148m**	**£87m**		

Group revenue was up 5% to £867m, with a 2% decline in Q1 revenues offset by 12% growth in Q2 revenues. On a constant currency ("cc") basis, excluding the adverse FX impact from the translation of non-UK revenues, revenue growth was 7% (Q1: flat; Q2: +13%).

Q1 revenue was adversely affected by reduced customer activity in the UK & Ireland, relating to the sustained period of bookmaker friendly sports results from November 2017 through to February 2018 and a high level of weather-related racing fixture cancellations, and by adverse sports results in Australia.

Q2 sports revenue was up 12% (14%cc) with 7% (9%cc) growth in the period prior to the World Cup commencing boosted by £23m of revenues from the World Cup in June (total revenues of £45m for the full tournament, which concluded in July). The total profit contribution for the full tournament, after estimated cost of sales and marketing investment, was approximately £8m with an immaterial contribution in the first half due to phasing of marketing spend.

Overall, sports results were broadly in line with our expectations for the half with favourable sports results in European Online offset by adverse results in Australia.

Cost of sales were adversely affected by approximately £8m from the annualisation of changes to betting taxes and levies implemented during 2017. Total operating costs increased by 5%, or 7% on a constant currency basis. Within this, sales and marketing spend increased by 14% in constant currency and other operating costs increased by 1% in constant currency.

Underlying EBITDA was down 1% to £217m and underlying operating profit was down 3% to £174m. Excluding the adverse impact from foreign exchange translation and the annualisation of start-up losses in DRAFT and changes to betting taxes and levies, on a like-for-like basis underlying EBITDA was up 6% (Q1 flat; Q2 +13%) and underlying operating profit was up 6%.

After separately disclosed items, which do not relate to the usual business activity of the Group and therefore are excluded from underlying profits, the Group recorded a profit before tax of £106m (H1 2017: £102m).

Online

	H1 2018 £m	H1 2017 £m	Change %
Sportsbook stakes	**2,735**	**2,962**	**-8%**
Sportsbook net revenue %	*7.5%*	*6.2%*	*+1.3%*
Sports revenue	335	318	+5%
Gaming revenue	127	120	+5%
Total revenue	**462**	**439**	**+5%**
Cost of sales	(109)	(97)	+13%
Gross profit	**353**	**342**	**+3%**
Sales and marketing	(128)	(113)	+13%
Product and technology	(47)	(46)	+3%
Operations	(35)	(35)	+1%
Total operating costs	(211)	(194)	+9%
Underlying EBITDA[1,2]	**142**	**148**	**-4%**
Depreciation and amortisation	(21)	(19)	+10%
Underlying[1] operating profit	**121**	**129**	**-6%**

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

Revenue increased by 5% to £462m with a 2% decrease in Q1 offset by 13% growth in Q2. The significant uplift in performance in Q2 in part reflected the fact that Q1 customer activity was adversely affected by a high level of weather-related racing cancellations and reduced recycling of customer winnings but also was due to improved underlying trading in Q2 and the benefit of the World Cup.

The improved underlying trading was most evident in gaming, where revenue Q2 revenues were up 14%, compared with a 4% decrease in Q1. This was driven by a strong improvement in the Paddy Power brand where a significantly improved product post platform integration has contributed to higher cross sell rates.

Sports revenue was up 5%, which comprised a 12% increase in sportsbook revenues offset by a 4% decline in exchange and B2B revenues. In sportsbook, stakes were down 8%, reflecting the reduced recycling of customer winnings in Q1 and a greater focus on profitable revenue growth, rather than volume. Both sportsbooks brands have shown good revenue momentum across the half with 3% total sportsbook growth in Q1, increasing to 15% growth in Q2 in the period prior to the World Cup (Q2 total growth 23%).

While football commissions are also showing good momentum on the Betfair Exchange, overall exchange revenues were down 1% in Q2 due to continued weakness in horseracing commissions. The weak horseracing performance in Q1 could largely be attributed to the high number of fixture cancellations, but the fact this weakness continued in Q2 highlights the competitive challenge facing racing commissions from low margin sportsbooks and price discounting by smaller exchange competitors.

Cost of sales were adversely affected by approximately £6m from the annualisation of the extension of the UK Horserace Betting Levy to online (from April 2017) and changes to the treatment of free bets for online gaming point of consumption tax (applying from Q4 2017). Total operating costs increased by 9%, driven by 13% growth in sales and marketing investment. Accordingly, notwithstanding the 5% revenue growth, underlying EBITDA for the division decreased by 4% to £142m.

Australia[5]

	H1 2018 £m	H1 2017 £m	Change % £	Change % A$
Sportsbook stakes	**1,935**	**1,699**	**+14%**	**+22%**
Sportsbook net revenue %	*9.4%*	*10.2%*	*-0.8%*	*-0.8%*
Revenue	**182**	**173**	**+5%**	**+12%**
Cost of sales	(51)	(46)	+10%	+18%
Gross profit	**131**	**127**	**+3%**	**+11%**
Sales and marketing	(40)	(38)	+7%	+14%
Product and technology	(11)	(13)	-15%	-9%
Operations	(21)	(23)	-7%	-1%
Total operating costs	(72)	(73)	-1%	+6%
Underlying EBITDA[1,2]	**59**	**54**	**+9%**	**+18%**
Depreciation and amortisation	(8)	(7)	+7%	+15%
Underlying[1] operating profit	**51**	**46**	**+10%**	**+18%**

The Australia division operates the online betting brand Sportsbet.

Revenue increased by 12% to £182 million with 22% stakes growth partially offset by an 80bps decrease in the net revenue margin which in part reflected less favourable sports results (approximately 10bps impact year-on-year, primarily in Q1) but was primarily due to the significant investment in promotional generosity.

This increased promotional generosity was supported by increased investment in marketing, with sales and marketing spend increasing by 14%. Total operating costs were up 6%, with other operating costs decreasing by 4%. Therefore, notwithstanding the adverse impact on cost of sales growth of South Australian point of consumption tax (which became payable from H2 2017) and increased NRL product fees, the 12% increase in revenues converted to an 18% increase in underlying EBITDA to £59m.

Retail

	H1 2018 £m	H1 2017 £m	Change %
Sportsbook stakes	**875**	**934**	**-6%**
Sportsbook net revenue %	*12.4%*	*11.6%*	*+0.8%*
Sports revenue	108	108	Flat
Machine gaming revenue	54	52	+5%
Total revenue	**162**	**160**	**+1%**
Cost of sales	(36)	(34)	+7%
Gross profit	**126**	**126**	**Flat**
Sales and marketing	(3)	(3)	+7%
Product and technology	(3)	(3)	+4%
Operations	(86)	(83)	+3%
Total operating costs	(92)	(89)	+3%
Underlying EBITDA[1,2]	**34**	**37**	**-8%**
Depreciation and amortisation	(10)	(9)	+10%
Underlying[1] **operating profit**	**24**	**28**	**-14%**
Shops at period end	629	620	+1%

The Retail division operates 629 Paddy Power betting shops across the UK and Ireland.

Revenues from UK shops increased by 3% and Irish shop revenues decreased by 4% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like[6] revenues decreased by 1% and operating costs increased by 1%. The like-for-like[6] revenue growth was comprised of a 3% decrease in sportsbook revenues, driven by a 9% decline in stakes partially offset by improved sports results, and machine gaming growth of 3%. The weakness in sports staking was driven by racing, which was affected by a large number of weather-related cancellations in Q1 and April. This was partially offset by good growth in SSBT and football staking including the benefit of the World Cup.

The decline in sports revenues resulted in an 8% decrease in EBITDA for the division to £34m.

During the period, we opened three shops in the UK and two shops in Ireland and closed one shop in each estate.

US[5]

	H1 2018 £m	H1 2017 £m	Change % £	Change % US$
Sports revenue	52	46	+12%	+22%
Gaming revenue	9	9	+8%	+18%
Total revenue	**61**	**55**	**+11%**	**+21%**
Cost of sales	(14)	(12)	+15%	+25%
Gross profit	**47**	**43**	**+10%**	**+20%**
Sales and marketing	(15)	(12)	+22%	+33%
Product and technology	(6)	(5)	+23%	+34%
Operations	(17)	(18)	-7%	+2%
Total operating costs	(38)	(35)	+7%	+17%
Underlying EBITDA[1,2]	**9**	**7**	**+26%**	**+38%**
Depreciation and amortisation	(4)	(5)	-13%	-4%
Underlying[1] **operating profit**	**5**	**3**	**+97%**	**+119%**

For the period, the US division comprised TVG, America's leading horseracing TV and wagering network; Betfair Casino, the second largest online casino in New Jersey; the Betfair Exchange in New Jersey and the early-stage daily fantasy operator DRAFT.

Revenue increased by 21% in local currency terms, comprised of 22% growth in sports revenue and 18% growth in gaming revenues.

Customer interest in horseracing was enhanced by Justify's Triple Crown bid and TVG increased its market share in wagering following strong growth in active customer numbers. A major part of this success stems from further product enhancements, including a new wagering app which has embedded streaming of its two horseracing TV channels. It is also successfully employing marketing strategies used elsewhere in the Group, including promotions such as 'Money Back Specials' and a free-to-play Super 8 promotion, in which customers pick the winners of eight races for the chance of winning a $1m prize.

Gaming revenue from the Betfair Casino increased by 18% and the brand is now the second largest online casino in New Jersey.

EBITDA was up 38%, with profit growth at TVG and the Betfair Casino partially offset by start-up losses incurred in DRAFT and the Betfair Exchange.

In May, the Group agreed to combine its US assets with FanDuel, a leading daily fantasy sports operator, to strengthen its opportunity to target the prospective US sports betting market and this transaction completed on 10 July 2018, with the Group owning 61% of the combined business. The combined business will operate as the FanDuel Group and will incorporate the FanDuel daily fantasy sports business and the Group's US sports betting operations together with the Group's existing US division. FanDuel Group will be accounted for as a subsidiary, with financial results being fully consolidated and a minority non-controlling interest recognised on the income statement and balance sheet.

Although not included in the reported first half results, FanDuel revenue increased by 4% year-on-year and it generated a small EBITDA loss in the period. The combined US business is expected to be loss making in the second half of the year due to the seasonality of daily fantasy business, which has high levels of marketing at the start of the NFL season in September and October, and the launch of the sports betting business.

Regulatory update

UK

In May, the UK Government published it Review of Gaming Machines and Social Responsibility Measures, which included a proposal to implement a new stake limit for gaming machines of £2. We estimate that the direct, pre-mitigation, impact of this new stake limit would be a 33% to 43% decrease in our total machine gaming revenue. In 2017, this would have equated to a £35m to £46m revenue impact, representing 2.0% to 2.6% of Group revenue. Potential mitigation factors include reduced direct variable costs (including Machine Gaming Duty at 25% and supplier revenue share), product development, substitution to other betting products and market consolidation.

The Government also announced a plan to increase the rate of remote gaming duty (currently 15%) to offset some of the lost tax receipts relating to gaming machines. For the Group, based on our H1 2018 gaming revenues, each percentage point increase in the remote gaming duty rate would result in an additional £2.5m of duty being payable on an annualised basis.

Australia

In South Australia, a point of consumption tax at 15% of gross revenues was introduced from July 2017. In September 2017, the Western Australian state Government announced that it will introduce a point of consumption wagering tax from 1 January 2019 at a rate of 15% of wagering revenue. In recent months, other state governments have also confirmed their intentions for introducing point of consumption taxes.

In May 2018, the state Government of Victoria announced that it will introduce a point of consumption wagering tax from 1 January 2019 at a rate of 8% of wagering revenue. In June 2018, the Queensland state Government announced that it will introduce a point of consumption wagering tax from 1 October 2018 at a rate of 15% of wagering revenue. In June 2018, the New South Wales state Government announced that it will introduce a point of consumption wagering tax from 1 January 2019 at a rate of 10% of wagering revenue. In June 2018, the Australian Capital Territory Government announced that it will introduce a point of consumption wagering tax from 1 January 2019 at a rate of 15% of wagering revenue.

The overall impact of these announced taxes for Sportsbet is an additional tax at a current blended rate of approximately 11% of gross revenues (or c.13% of net revenues) which on revenues for the 12 months to 30 June 2018 levels equates to approximately A$95m.

In June, Racing Victoria Limited and Racing and Wagering Western Australia announced changes to the structure of their racefield fees (product fees payable on races in their states) applying from 1 July 2018. The net impact of these changes, applied to Sportsbets's revenue level and mix in the 12 months to 30 June 2018 would be approximately A$4m adverse.

From February 2018, the prohibition on credit betting implemented by the Interactive Gambling Amendment Bill came into effect.

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.

From July 2018, the New South Wales Department of Liquor & Gaming will be enforcing amended NSW gambling advertising laws in a stricter manner which prohibits advertising of certain promotions and products deemed 'inducements' from being viewed publicly in NSW by consumers, regardless to whether or not the consumer was being excluded from taking up such promotion or product. This impacts permissible wagering advertising on national advertising mediums such as subscription TV. However, the law will not be enforced for any such inducements advertised on exclusive racing media platforms.

Under the National Consumer Protection Framework for online wagering, other consumer protection measures are anticipated to be introduced across the second half of 2018 and 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.

Other regulated markets

In Italy, the Government in July 2018 introduced a ban on all gambling-related advertising and sports sponsorship that will take effect from July 2019.

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

Separately disclosed items

	H1 2018 £m	**H1 2017 £m**
Non-cash merger related items:		
Intangible asset amortisation	(44)	(70)
Fair value adjustment for replacement share-based payment awards	-	(5)
Non-cash items relating to the DRAFT business:		
Impairment of goodwill & intangible assets	(27)	-
Gain on contingent consideration	11	-
Restructuring and strategic initiatives	(13)	-
Profit on sale of investment	7	-
Total separately disclosed items	(66)	(75)

Separately disclosed items do not relate to the usual business activity of the Group and therefore are excluded from underlying profits. In the period, these included £44m of amortisation of intangible assets recognised on accounting for the 2016 merger of Paddy Power and Betfair. Following the agreement to combine the Group's US assets with FanDuel, we reviewed the carrying value of assets and contingent consideration relating to Group's existing US daily fantasy sports business, DRAFT, which resulted in a net non-cash write-off to the income statement of £16m in the period.

Costs relating to restructuring and strategic initiatives totalling £13m were incurred in the period. These arose from operational and strategic changes made following the appointment of a new CEO and transaction costs arising during the period from the combination of Betfair US with FanDuel.

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

Taxation

The Group's underlying effective tax rate in the period was 14.5% (H1 2017: 14.4%). The full-year 2018 underlying effective tax rate is expected to be between 13% and 15% (FY 2017: 13.5%).

Capital expenditure

The Group had £50m of capital expenditure in the period (H1 2017: £50m). Approximately 20% of the expenditure related to our retail business with the remainder relating to technology projects, product development and capital expenditure in our US business. For the full year we now expect total capital expenditure to be approximately £100m. This expectation includes only currently incurred and committed expenditure relating to US sports betting.

Cash flow and financial position

	H1 2018 £m	**H1 2017 £m**
Underlying EBITDA[1,2]	217	220
Capex	(50)	(50)
Working capital	(42)	25
Corporation tax	(37)	(22)
Underlying free cash flow	**88**	**172**
Cash flow from separately disclosed items	20	(8)
Free cash flow	**108**	**164**
Dividends paid	(114)	(95)
Share buyback	(87)	-
DRAFT acquisition	-	(14)
Interest and other borrowing costs	(2)	-
Net proceeds from issue of new shares	2	2
Net (decrease)/increase in cash	**(93)**	**57**
Net cash at start of period	**244**	**36**
Foreign currency exchange translation	(3)	(6)
Net cash at period end[4]	**148**	**87**

As at 30 June 2018, the Group had net cash of £148m, excluding customer balances. During the period, over £200m was returned to shareholders via dividends and share buybacks. Working capital in the period was adversely affected by both the timing of some Q4 2017 costs paid in Q1 2018 (c.£20m) and material prepayments in the period in relation to marketing assets.

Cash flow from separately disclosed items includes the receipt of £22m for the disposal of the Group's remaining stake in LMAX Exchange Group.

Dividend and share buybacks

The Board continues to target a pay-out ratio for the Group's dividend of approximately 50% of underlying profits after tax. The Board has declared an interim dividend of 67p per share (2017: 65p per share), which equates to an expected total interim dividend of £55m (2017: £55m). This will be paid on 24 September 2018 to shareholders on the register at the close of business on 24 August 2018.

On 29 May 2018, the Group entered into a £200m irrevocable share buyback programme. To date, £170m of this programme has been completed with 2.0m shares repurchased at an average price of £85 per share. It is the Group's intention to enter into an additional £300m share buyback programme to commence on completion of the £200m programme.

[1] The “underlying” measures exclude separately disclosed items, that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, and have been therefore reported as “separately disclosed items” (see note 5 and page 34 to the financial statements.

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

[3] Constant currency (“cc”) growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of H1 2017 at H1 2018 exchange rates (see Appendix 3)

[4] Net cash at 30 June 2018 is comprised of gross cash excluding customer balances of £317m and borrowings of £169m. The comparative balance shown as at 30 June 2017 is comprised of gross cash excluding customer balances of £232m and borrowings of £145m (see Appendix 2).

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

[6] Like-for-like growth rates are in constant currency[3] and are calculated by only including in the H1 2018 results, financial results from shops open prior to 2017 plus the financial results from shops opened during H1 2017 only from the anniversary of their opening date.

Appendix 1: Divisional Key Performance Indicators

Half yearly

£m	Online			Australia				Retail			US				Group			
	H1 2018	**H1 2017**	**% Change**	**H1 2018**	**H1 2017**	**% Change**	**A$ % Change**	**H1 2018**	**H1 2017**	**% Change**	**H1 2018**	**H1 2017**	**% Change**	**US$ % Change**	**H1 2018**	**H1 2017**	**% Change**	**CC[1]% Change**
Sportsbook stakes	2,735	2,962	-8%	1,935	1,699	+14%	+22%	875	934	-6%					5,544	5,594	-1%	+1%
Sportsbook net revenue %	*7.5%*	*6.2%*	*+1.3%*	*9.4%*	*10.2%*	*-0.8%*	*-0.8%*	*12.4%*	*11.6%*	*+0.8%*					*8.9%*	*8.3%*	*+0.6%*	*+0.6%*
Sports revenue	335	318	+5%	182	173	+5%	+12%	108	108	Flat	52	46	+12%	+22%	677	646	+5%	+7%
Gaming revenue	127	120	+5%	-	-	-	-	54	52	+5%	9	9	+8%	+18%	190	181	+5%	+5%
Total revenue	**462**	**439**	**+5%**	**182**	**173**	**+5%**	**+12%**	**162**	**160**	**+1%**	**61**	**55**	**+11%**	**+21%**	**867**	**827**	**+5%**	**+7%**
Regulated markets	422	399	+6%	182	173	+5%	+12%	162	160	+1%	61	55	+11%	+21%	827	787	+5%	+7%
Unregulated markets	40	40	Flat	-	-	-	-	-	-	-	-	-	-	-	40	40	Flat	+3%
Total revenue	**462**	**439**	**+5%**	**182**	**173**	**+5%**	**+12%**	**162**	**160**	**+1%**	**61**	**55**	**+11%**	**+21%**	**867**	**827**	**+5%**	**+7%**
Cost of sales	(109)	(97)	+13%	(51)	(46)	+10%	+18%	(36)	(34)	+7%	(14)	(12)	+15%	+25%	(210)	(189)	+11%	+13%
Gross Profit	**353**	**342**	**+3%**	**131**	**127**	**+3%**	**+11%**	**126**	**126**	**Flat**	**47**	**43**	**+10%**	**+20%**	**657**	**638**	**+3%**	**+5%**
Sales & marketing	(128)	(113)	+13%	(40)	(38)	+7%	+14%	(3)	(3)	+7%	(15)	(12)	+22%	+33%	(187)	(166)	+12%	+14%
Product & technology	(47)	(46)	+3%	(11)	(13)	-15%	-9%	(3)	(3)	+4%	(6)	(5)	+23%	+34%	(67)	(66)	+1%	+2%
Operations	(35)	(35)	+1%	(21)	(23)	-7%	-1%	(86)	(83)	+3%	(17)	(18)	-7%	+2%	(160)	(160)	Flat	+1%
Unallocated central costs															(27)	(27)	Flat	+2%
Operating costs	**(211)**	**(194)**	**+9%**	**(72)**	**(73)**	**-1%**	**+6%**	**(92)**	**(89)**	**+3%**	**(38)**	**(35)**	**+7%**	**+17%**	**(440)**	**(419)**	**+5%**	**+7%**
Underlying EBITDA	**142**	**148**	**-4%**	**59**	**54**	**+9%**	**+18%**	**34**	**37**	**-8%**	**9**	**7**	**+26%**	**+38%**	**217**	**220**	**-1%**	**+1%**
Depreciation & amortisation	(21)	(19)	+10%	(8)	(7)	+7%	+15%	(10)	(9)	+10%	(4)	(5)	-13%	-4%	(43)	(40)	+7%	+8%
Underlying operating profit	**121**	**129**	**-6%**	**51**	**46**	**+10%**	**+18%**	**24**	**28**	**-14%**	**5**	**3**	**+97%**	**+119%**	**174**	**180**	**-3%**	**-1%**

[1] Constant currency (“cc”) growth is calculated by retranslating non-sterling denominated component of H1 2017 at H1 2018 exchange rates (see Appendix 3)

Appendix 1: Divisional Key Performance Indicators

Quarterly, unaudited

£m	Online			Australia				Retail			US				Group			
	Q1 2018	Q1 2017	% Change	Q1 2018	Q1 2017	% Change	A$ % Change	Q1 2018	Q1 2017	% Change	Q1 2018	Q1 2017	% Change	US$ % Change	Q1 2018	Q1 2017	% Change	CC[1]% Change
Sportsbook stakes	1,277	1,424	-10%	917	819	+12%	+21%	415	456	-9%					2,609	2,699	-3%	-2%
Sportsbook net revenue %	*7.6%*	*6.7%*	*+0.9%*	*9.0%*	*10.4%*	*-1.4%*	*-1.4%*	*12.5%*	*12.4%*	*+0.1%*					*8.9%*	*8.8%*	*+0.1%*	*+0.1%*
Sports revenue	161	163	-1%	83	85	-2%	+6%	52	57	-8%	23	21	+10%	+24%	319	326	-2%	Flat
Gaming revenue	58	61	-4%	-	-	-	-	27	25	+5%	5	4	+6%	+19%	90	90	Flat	Flat
Total revenue	**219**	**224**	**-2%**	**83**	**85**	**-2%**	**+6%**	**79**	**82**	**-4%**	**28**	**25**	**+10%**	**+23%**	**408**	**416**	**-2%**	**Flat**
Regulated markets	200	205	-2%	83	85	-2%	+6%	79	82	-4%	28	25	+10%	+23%	389	397	-2%	Flat
Unregulated markets	19	19	-1%	-	-	-	-	-	-	-	-	-	-	-	19	19	-1%	+2%
Total revenue	**219**	**224**	**-2%**	**83**	**85**	**-2%**	**+6%**	**79**	**82**	**-4%**	**28**	**25**	**+10%**	**+23%**	**408**	**416**	**-2%**	**Flat**
Underlying EBITDA															**102**	**111**	**-8%**	**-6%**
Underlying operating profit															**80**	**91**	**-12%**	**-9%**

£m	Online			Australia				Retail			US				Group			
	Q2 2018	Q2 2017	% Change	Q2 2018	Q2 2017	% Change	A$ % Change	Q2 2018	Q2 2017	% Change	Q2 2018	Q2 2017	% Change	US$ % Change	Q2 2018	Q2 2017	% Change	CC[1]% Change
Sportsbook stakes	1,458	1,538	-5%	1,018	880	+16%	+22%	459	478	-4%					2,935	2,895	+1%	+3%
Sportsbook net revenue %	*7.3%*	*5.7%*	*+1.6%*	*9.8%*	*10.1%*	*-0.3%*	*-0.3%*	*12.2%*	*10.9%*	*+1.3%*					*8.9%*	*7.9%*	*+1.0%*	*+1.0%*
Sports revenue	174	155	+12%	99	89	+12%	+19%	56	52	+8%	28	25	+13%	+20%	358	321	+12%	+14%
Gaming revenue	68	60	+14%	-	-	-	-	27	26	+5%	5	4	+10%	+18%	100	90	+11%	+12%
Total revenue	**243**	**215**	**+13%**	**99**	**89**	**+12%**	**+19%**	**84**	**78**	**+7%**	**33**	**29**	**+13%**	**+20%**	**458**	**411**	**+12%**	**+13%**
Regulated markets	222	194	+14%	99	89	+12%	+19%	84	78	+7%	33	29	+13%	+20%	438	390	+12%	+14%
Unregulated markets	21	21	+1%	-	-	-	-	-	-	-	-	-	-	-	21	21	+1%	+3%
Total revenue	**243**	**215**	**+13%**	**99**	**89**	**+12%**	**+19%**	**84**	**78**	**+7%**	**33**	**29**	**+13%**	**+20%**	**458**	**411**	**+12%**	**+13%**
Underlying EBITDA															**115**	**109**	**+6%**	**+8%**
Underlying operating profit															**94**	**89**	**+6%**	**+8%**

[1] Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of Q1 2017 and Q2 2017 at Q1 2018 and Q2 2018 exchange rates, respectively

Appendix 2: Reconciliation of Presented cash flow to Reported statutory cash flow

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

£m	Presented cash flow		Adjustment to include borrowings		Reported cash flow	
	H1 2018	**H1 2017**	**H1 2018**	**H1 2017**	**H1 2018**	**H1 2017**
Underlying EBITDA [1]	217	220	-	-	217	220
Capex[2]	(50)	(50)	-	-	(50)	(50)
Working capital[3]	(42)	25	-	-	(42)	25
Corporation tax	(37)	(22)			(37)	(22)
Underlying free cash flow	**88**	**172**	**-**	**-**	**88**	**172**
Cash flow from separately disclosed items[4]	20	(8)	-	-	20	(8)
Free cash flow	**108**	**164**	**-**	**-**	**108**	**164**
Dividends paid	(114)	(95)	-	-	(114)	(95)
Share buyback	(87)	-	-	-	(87)	-
DRAFT acquisition	-	(14)	-	-	-	(14)
Interest and other borrowing costs[5]	(2)	-	-	-	(2)	(0)
Net proceeds from issue of new shares	2	2	-	-	2	2
Net amounts drawn down / (repaid) on borrowings	-	-	108	(73)	108	(73)
Net increase / (decrease) in cash	**(93)**	**57**	**108**	**(73)**	**15**	**(16)**
Net cash at start of the period	**244**	**36**	**62**	**214**	**307**	**250**
Foreign currency exchange translation	(3)	(6)	(1)	4	(5)	(2)
Net cash at period end	**148**	**87**	**169**	**145**	**317**	**232**

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

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

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

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

Appendix 3: Reconciliation of growth rates to constant currency growth rates

Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of H1 2017 at H1 2018 exchange rates as per the table below.

£m	H1 2018	H1 2017	% Change	H1 2017 FX impact	H1 2017 CC	CC% Change
Sports net revenue	677	646	+5%	(13)	633	+7%
Gaming net revenue	190	181	+5%	(1)	180	+5%
Total net revenue	**867**	**827**	**+5%**	**(14)**	**813**	**+7%**
Regulated markets	827	787	+5%	(13)	775	+7%
Unregulated markets	40	40	Flat	(1)	39	+3%
Total net revenue	**867**	**827**	**+5%**	**(14)**	**813**	**+7%**
Cost of sales	(210)	(189)	+11%	4	(185)	+13%
Gross Profit	**657**	**638**	**+3%**	**(10)**	**628**	**+5%**
Sales & marketing	(187)	(166)	+12%	3	(163)	+14%
Product & technology	(67)	(66)	+1%	1	(65)	+2%
Operations	(160)	(160)	Flat	2	(158)	+1%
Unallocated central costs	(27)	(27)	Flat	0	(27)	+2%
Operating costs	**(440)**	**(419)**	**+5%**	**5**	**(414)**	**+7%**
Underlying EBITDA	**217**	**220**	**-1%**	**(6)**	**214**	**+1%**
Depreciation & amortisation	(43)	(40)	+7%	1	(39)	+8%
Underlying operating profit	**174**	**180**	**-3%**	**(5)**	**175**	**-1%**
Revenue by division						
Online	462	439	+5%	-	439	+5%
Australia	182	173	+5%	(11)	162	+12%
Retail	162	160	+1%	2	162	Flat
US	61	55	+11%	(5)	50	+11%
Underlying EBITDA by division						
Online	142	148	-4%	(1)	147	-3%
Australia	59	54	+9%	(4)	50	+18%
Retail	34	37	-8%	1	38	-10%
US	9	7	+26%	0	7	+38%
Unallocated central costs	(27)	(27)	Flat	0	(27)	+2%

STATEMENT OF DIRECTORS RESPONSIBILITES
For the six months ended 30 June 2018

The Directors are responsible for preparing this interim management report in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, the Transparency (Directive 2004/109/EC) Regulations 2007 ("Transparency Directive"), and the related Transparency Rules of the Central Bank of Ireland.

We confirm that to the best of our knowledge:

a) the condensed set of financial statements in the half-yearly financial report of Paddy Power Betfair plc ("the Company") for the six months ended 30 June 2018 ("the interim financial information") which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of other comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and related explanatory notes, have been presented and prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

b) the interim financial information presented, as required by the Transparency (Directive 2004/109/EC) Regulations 2007, includes:

   i) an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements;

   ii) a description of the principal risks and uncertainties for the remaining six months of the financial year;

   ii) related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and

   iv) any changes in the related parties' transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

c) the interim financial information also includes a fair review of the information required by:

   i) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

   ii) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could so.

On behalf of the Board

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

7 August 2018

Understanding and managing our principal risks

The Board continuously assesses and monitors the key risks of the business. The key risks that could affect the Group's performance and the factors that mitigate those risks have not significantly changed from those set out on pages 47-49 in the Group's Annual Report and Accounts 2017 (which is available to download at www.paddypowerbetfair.com). The principal risks facing the Group, together with the Group's risk management process in relation to these risks, continue to be monitored, reviewed and re-assessed. A summary of the principal risks and uncertainties that are most relevant to the remainder of the current financial year is included below:

- Regulation and licensing and regulatory compliance – 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. 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 – 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. 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 compliance with the new EU-wide General Data Protection Regulation which came 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.

- Product availability and competition – An inability to deliver market-leading customer-facing products across our brands could materially impact competitiveness and market share. 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 – 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. 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 – 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. 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.

- Business continuity planning and disaster recovery – 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. 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 and seek to limit single points of failure.

- Reliance on third parties and key supplier relationships – 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. 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 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 – 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. 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.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 30 June 2018

	Note	**Before separately disclosed items Six months ended 30 June 2018 (unaudited) £m**	**Separately disclosed items (Note 5) Six months ended 30 June 2018 (unaudited) £m**	**Total Six months ended 30 June 2018 (unaudited) £m**	Before separately disclosed items Six months ended 30 June 2017 (unaudited) £m	Separately disclosed items (Note 5) Six months ended 30 June 2017 (unaudited) £m	Total Six months ended 30 June 2017 (unaudited) £m
Continuing operations							
Revenue	4	**866.7**	**-**	**866.7**	827.0	-	827.0
Cost of sales		**(209.6)**	**-**	**(209.6)**	(188.7)	-	(188.7)
Gross profit		**657.1**	**-**	**657.1**	638.3	-	638.3
Operating costs excluding depreciation, amortisation and impairment		**(440.4)**	**(12.5)**	**(452.9)**	(418.6)	(5.2)	(423.8)
EBITDA [1]		**216.7**	**(12.5)**	**204.2**	219.7	(5.2)	214.5
Depreciation and amortisation		**(42.9)**	**(44.2)**	**(87.1)**	(40.1)	(70.1)	(110.2)
Impairment		**-**	**(27.2)**	**(27.2)**	-	-	-
Operating profit		**173.8**	**(83.9)**	**89.9**	179.6	(75.3)	104.3
Financial income		**0.9**	**17.7**	**18.6**	0.7	-	0.7
Financial expense		**(2.5)**	**-**	**(2.5)**	(2.7)	-	(2.7)
Profit before tax		**172.2**	**(66.2)**	**106.0**	177.6	(75.3)	102.3
Tax (expense) / credit	6	**(24.9)**	**6.9**	**(18.0)**	(25.6)	9.7	(15.9)
Profit for the period – all attributable to equity holders of the Company		**147.3**	**(59.3)**	**88.0**	152.0	(65.6)	86.4
Earnings per share							
Basic	7			**£1.037**			£1.029
Diluted	7			**£1.033**			£1.020

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Note	**Six months ended 30 June 2018 (unaudited) £m**	Six months ended 30 June 2017 (unaudited) £m
Profit for the period – all attributable to equity holders of the Company		**88.0**	86.4
Other comprehensive income / (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities		**7.3**	(24.4)
Other comprehensive income / (loss)		**7.3**	(24.4)
Total comprehensive income for the period – all attributable to equity holders of the Company		**95.3**	62.0

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	**30 June 2018 (unaudited) £m**	31 December 2017 (audited) £m
Assets			
Property, plant and equipment		**127.7**	136.3
Intangible assets		**414.7**	445.2
Goodwill	8	**3,867.9**	3,885.2
Deferred tax assets		**11.9**	11.7
Investments	5	**0.2**	15.1
Trade and other receivables	10	**3.0**	4.2
Total non-current assets		**4,425.4**	4,497.7
Trade and other receivables	10	**98.8**	48.8
Financial assets – restricted cash	11	**92.8**	75.4
Cash and cash equivalents	11	**317.0**	306.6
Total current assets		**508.6**	430.8
Total assets		**4,934.0**	4,928.5
Equity			
Issued share capital and share premium		**424.6**	423.0
Treasury shares		**(40.7)**	(40.7)
Shares held by employee benefit trust		**(12.8)**	(15.6)
Other reserves		**107.4**	114.5
Retained earnings		**3,710.8**	3,914.2
Total equity attributable to equity holders of the Company		**4,189.3**	4,395.4
Liabilities			
Trade and other payables	12	**466.5**	334.7
Derivative financial liabilities	12	**17.2**	7.8
Provisions		**3.3**	3.2
Current tax payable		**23.8**	38.0
Total current liabilities		**510.8**	383.7
Trade and other payables	12	**18.6**	34.5
Derivative financial liabilities	12	**1.4**	2.3
Provisions		**1.4**	1.2
Deferred tax liabilities		**44.0**	49.2
Borrowings	14	**168.5**	62.2
Total non-current liabilities		**233.9**	149.4
Total liabilities		**744.7**	533.1
Total equity and liabilities		**4,934.0**	4,928.5

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the six months ended 30 June 2018

	Note	**Six months ended 30 June 2018 (unaudited) £m**	Six months ended 30 June 2017 (unaudited) £m
Cash flows from operating activities			
Profit for the period – all attributable to equity holders of the Company		**88.0**	86.4
Separately disclosed items	5	**59.3**	65.6
Tax expense before separately disclosed items		**24.9**	25.6
Financial income before separately disclosed items		**(0.9)**	(0.7)
Financial expense before separately disclosed items		**2.5**	2.7
Depreciation and amortisation before separately disclosed items		**42.9**	40.1
Employee equity-settled share-based payments expense before separately disclosed items		**13.9**	15.4
Foreign currency exchange (gain) / loss		**(0.8)**	0.8
Loss on disposal of property, plant and equipment and intangible assets		**0.2**	-
Cash from operations before changes in working capital		**230.0**	235.9
Increase in trade and other receivables		**(52.2)**	(5.2)
(Decrease) / increase in trade, other payables and provisions		**(2.4)**	14.0
Cash generated from operations		**175.4**	244.7
Tax paid		**(37.0)**	(22.1)
Net cash from operating activities before restructuring and strategic initiative costs		**138.4**	222.6
Restructuring and strategic initiative costs paid		**(2.3)**	(7.7)
Net cash from operating activities		**136.1**	214.9
Purchase of property, plant and equipment		**(10.2)**	(12.5)
Purchase of intangible assets		**(26.2)**	(27.5)
Proceeds from disposal of investment		**21.9**	-
Purchase of businesses, net of cash acquired	9	**(0.9)**	(14.4)
Capitalised internal development expenditure		**(11.8)**	(9.0)
Payment of contingent deferred consideration	9	**(1.5)**	(1.4)
Interest received		**0.8**	0.7
Net cash used in investing activities		**(27.9)**	(64.1)
Proceeds from the issue of new shares		**1.7**	2.2
Dividends paid	15	**(114.0)**	(94.7)
Net amounts drawn down / (repaid) on borrowings facility		**108.1**	(73.1)
Interest paid		**(0.6)**	(0.9)
Fees in respect of borrowings facility		**(1.7)**	-
Purchase of own shares including direct purchase costs	16	**(86.5)**	-
Net cash used in financing activities		**(93.0)**	(166.5)
Net increase / (decrease) in cash and cash equivalents		**15.2**	(15.7)
Cash and cash equivalents at start of period		**306.6**	249.9
Foreign currency exchange loss on cash and cash equivalents		**(4.8)**	(2.2)
Cash and cash equivalents at end of period	11	**317.0**	232.0

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Attributable to equity holders of the Company								
(unaudited)	***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 2018	***86.5***	**423.0**	**(13.8)**	**15.4**	**(40.7)**	**(15.6)**	**112.9**	**3,914.2**	**4,395.4**
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	-	-	**88.0**	**88.0**
Foreign exchange translation	-	-	**7.3**	-	-	-	-	-	**7.3**
Total comprehensive income for the period	-	-	**7.3**	-	-	-	-	**88.0**	**95.3**
Transactions with owners of the Company, recognised directly in equity									
Shares issued (Note 16)	***0.2***	**1.7**	-	-	-	-	-	-	**1.7**
Own shares acquired by the Group (Note 16)	***(1.0)***	**(0.1)**	-	**0.1**	-	-	-	**(202.0)**	**(202.0)**
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	**13.9**	-	**13.9**
Equity-settled transactions – vestings	-	-	-	-	-	**2.8**	**(2.5)**	**(0.1)**	**0.2**
Tax on share-based payments	-	-	-	-	-	-	-	**(1.2)**	**(1.2)**
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	**(12.2)**	**12.2**	-
Transfer to retained earnings on disposal of investment	-	-	-	**(13.7)**	-	-	-	**13.7**	-
Dividends to shareholders (Note 15)	-	-	-	-	-	-	-	**(114.0)**	**(114.0)**
Total contributions by and distributions to owners of the Company	***(0.8)***	**1.6**	-	**(13.6)**	-	**2.8**	**(0.8)**	**(291.4)**	**(301.4)**
Balance at 30 June 2018	***85.7***	**424.6**	**(6.5)**	**1.8**	**(40.7)**	**(12.8)**	**112.1**	**3,710.8**	**4,189.3**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017

	Attributable to equity holders of the Company								
(unaudited)	*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 period									
Profit for the period	-	-	-	-	-	-	-	86.4	86.4
Foreign exchange translation	-	-	(24.4)	-	-	-	-	-	(24.4)
Total comprehensive (loss) / income for the period	-	-	(24.4)	-	-	-	-	86.4	62.0
Transactions with owners of the Company, recognised directly in equity									
Shares issued (Note 16)	*0.3*	2.3	-	-	-	-	-	-	2.3
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	15.4	-	15.4
Equity-settled transactions – vestings	-	-	-	-	-	11.7	(10.2)	0.4	1.9
Tax on share-based payments	-	-	-	-	-	-	-	0.7	0.7
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(31.1)	31.1	-
Dividends to shareholders (Note 15)	-	-	-	-	-	-	-	(94.7)	(94.7)
Replacement share options – expense recorded in income statement (Note 5)	-	-	-	-	-	-	5.2	-	5.2
Total contributions by and distributions to owners of the Company	*0.3*	2.3	-	-	-	11.7	(20.7)	(62.5)	(69.2)
Balance at 30 June 2017	*86.3*	419.5	5.1	1.7	(40.7)	(19.2)	121.1	3,821.9	4,309.4

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General information

Paddy Power Betfair plc (the "Company") is a company incorporated in the Republic of Ireland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The condensed consolidated interim financial statements are unaudited but have been reviewed by KPMG, the Group's auditor, whose report is set out on the last page of this document.

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU together with an unqualified audit report thereon under Section 391 of the Irish Companies Act 2014, will be annexed to the annual return and filed with the Registrar of Companies in Ireland.

The condensed consolidated interim financial statements were approved for issue by the Board of Directors of Paddy Power Betfair plc on 7 August 2018.

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and with IAS 34 'Interim Financial Reporting' as adopted by the EU. The condensed consolidated interim financial statements are prepared on the historical cost basis except for betting transactions and forward foreign exchange contracts (which are recorded as derivative financial instruments), equity securities, contingent deferred consideration and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of equity-settled share-based payments).

The financial information contained in the condensed consolidated interim financial statements has been prepared in accordance with the accounting policies set out in the Group's last annual financial statements in respect of the year ended 31 December 2017, except as set out below.

<u>Amendments to existing standards</u>
The Group has adopted IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards (including IFRS 15 *Revenue from Contracts with Customers*) are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

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

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

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

The impact of IFRS 9 on the classification and measurement of the consolidated statement of financial position as at 31 December 2017 is disclosed in Note 20 to the condensed consolidated interim financial statements.

3. Judgements and estimates

The preparation of interim 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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

4. Operating segments

Reportable business segment information

The Group's reportable segments are as follows:

- Online;
- Australia;
- US;
- Retail.

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

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

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

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

The US segment earns its revenues from sports betting 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 the Company's last annual financial statements in respect of the year ended 31 December 2017.

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

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

4. Operating segments (continued)

Reportable business segment information for the six months ended 30 June 2018:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	**461.6**	**182.1**	**162.3**	**60.7**	**-**	**866.7**
Cost of sales	**(108.9)**	**(51.0)**	**(36.0)**	**(13.7)**	**-**	**(209.6)**
Gross profit	**352.7**	**131.1**	**126.3**	**47.0**	**-**	**657.1**
Operating costs excluding depreciation, amortisation and impairment	**(210.8)**	**(72.4)**	**(91.9)**	**(38.0)**	**(27.3)**	**(440.4)**
EBITDA [1]	**141.9**	**58.7**	**34.4**	**9.0**	**(27.3)**	**216.7**
Depreciation and amortisation	**(20.8)**	**(7.8)**	**(10.2)**	**(4.1)**	**-**	**(42.9)**
Reportable segment profit / (loss) before separately disclosed items	**121.1**	**50.9**	**24.2**	**4.9**	**(27.3)**	**173.8**
Amortisation of merger related intangible assets (Note 5)	**(42.2)**	**-**	**-**	**(2.0)**	**-**	**(44.2)**
Impairment of goodwill and intangible assets (Note 5)	**-**	**-**	**-**	**(27.2)**	**-**	**(27.2)**
Reportable segment profit / (loss) after amortisation of merger related intangible assets and impairment of goodwill and intangible assets	**78.9**	**50.9**	**24.2**	**(24.3)**	**(27.3)**	**102.4**
Restructuring and strategic initiatives [2] (Note 5)						**(12.5)**
Operating profit						**89.9**

Reportable business segment information for the six months ended 30 June 2017:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	438.8	173.4	160.2	54.6	-	827.0
Cost of sales	(96.5)	(46.4)	(33.8)	(12.0)	-	(188.7)
Gross profit	342.3	127.0	126.4	42.6	-	638.3
Operating costs excluding depreciation, amortisation and impairment	(194.4)	(73.3)	(89.0)	(35.4)	(26.5)	(418.6)
EBITDA [1]	147.9	53.7	37.4	7.2	(26.5)	219.7
Depreciation and amortisation	(18.8)	(7.3)	(9.3)	(4.7)	-	(40.1)
Reportable segment profit / (loss) before separately disclosed items	129.1	46.4	28.1	2.5	(26.5)	179.6
Amortisation of merger related intangible assets (Note 5)	(67.3)	-	-	(2.8)	-	(70.1)
Reportable segment profit / (loss) after amortisation of merger related intangible assets	61.8	46.4	28.1	(0.3)	(26.5)	109.5
Replacement share options [2] (Note 5)						(5.2)
Operating profit						104.3

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

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

4. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Revenue		
Total revenue from reportable segments, being total Group revenue	**866.7**	827.0
Profit and loss		
Operating profit	**89.9**	104.3
Unallocated amounts:		
Financial income	**18.6**	0.7
Financial expense	**(2.5)**	(2.7)
Profit before tax	**106.0**	102.3

Disaggregation of revenue

Group revenue disaggregated by product line for the six months ended 30 June 2018:

	Online £m	**Australia £m**	**Retail £m**	**US £m**	**Total £m**
Sports revenue	**335.0**	**182.1**	**108.1**	**51.6**	**676.8**
Gaming revenue	**126.6**	**-**	**54.2**	**9.1**	**189.9**
Total Group revenue	**461.6**	**182.1**	**162.3**	**60.7**	**866.7**

Group revenue disaggregated by product line for the six months ended 30 June 2017:

	Online £m	Australia £m	Retail £m	US £m	Total £m
Sports revenue	318.5	173.4	108.5	46.1	646.5
Gaming revenue	120.3	-	51.7	8.5	180.5
Total Group revenue	438.8	173.4	160.2	54.6	827.0

Group revenue disaggregated by geographical market for the six months ended 30 June 2018:

	Online £m	**Australia £m**	**Retail £m**	**US £m**	**Total £m**
UK and Ireland	**391.0**	**-**	**162.3**	**-**	**553.3**
Australia	**-**	**182.1**	**-**	**-**	**182.1**
US	**-**	**-**	**-**	**60.7**	**60.7**
Rest of World	**70.6**	**-**	**-**	**-**	**70.6**
Total Group revenue	**461.6**	**182.1**	**162.3**	**60.7**	**866.7**

Group revenue disaggregated by geographical market for the six months ended 30 June 2017:

	Online £m	Australia £m	Retail £m	US £m	Total £m
UK and Ireland	373.7	-	160.2	-	533.9
Australia	-	173.4	-	-	173.4
US	-	-	-	54.6	54.6
Rest of World	65.1	-	-	-	65.1
Total Group revenue	438.8	173.4	160.2	54.6	827.0

Seasonality

The Group's sportsbook revenue is driven by a combination of the timing of sporting and other events and the Group's results derived from those events. Gaming and other revenue is not as dependent on the sporting calendar.

5. Separately disclosed items

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Amortisation of merger related intangible assets	**(44.2)**	(70.1)
Replacement share options	**-**	(5.2)
Impairment of goodwill and intangible assets	**(27.2)**	-
Gain on contingent consideration	**10.7**	-
Restructuring and strategic initiatives	**(12.5)**	-
Profit on disposal of investment	**7.0**	-
Operating profit impact of separately disclosed items	**(66.2)**	(75.3)
Tax credit on separately disclosed items	**6.9**	9.7
Total separately disclosed items	**(59.3)**	(65.6)

Amortisation of merger related intangible assets
Non-cash amortisation of £44.2m has been incurred in the period (six months ended 30 June 2017: £70.1m) 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. No such costs were incurred in the period (six months ended 30 June 2017: £5.2m).

Impairment of goodwill and intangible assets
Non-cash impairments amounting to £27.2m in relation to primarily goodwill and intangible assets associated with our DRAFT business were incurred in the period (see Note 8). There were no such impairments in the six months ended 30 June 2017.

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

Restructuring and strategic initiatives
This relates to incremental, one-off costs incurred as a result of significant restructuring and strategic changes made following the appointment of a new CEO, and transaction costs arising during the period from the combination of Betfair US with FanDuel (see Note 19). No such costs were incurred in 2017.

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

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

6. Tax expense

Tax is accrued for the interim reporting period using management's best estimate of the weighted average tax rate that is expected to be applicable to estimated total annual earnings. This expected annual effective tax rate is applied to the taxable income of the interim period.

The Group's underlying effective tax rate before separately disclosed items for the period was 14.5% (six months ended 30 June 2017: 14.4%), which compares to the standard Irish corporation tax rate of 12.5%. A tax credit on separately disclosed items amounting to £6.9m was accounted for in the period ended 30 June 2018 (six months ended 30 June 2017: £9.7m) (see Note 5).

7. 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. The weighted average number of shares has been adjusted for amounts held as Treasury Shares and amounts held by the Paddy Power Betfair plc Employee Benefit Trust ("EBT").

Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Adjusted EPS is determined by adjusting the profit attributable to ordinary shareholders for the impact of separately disclosed items.

The calculation of basic, diluted and adjusted EPS is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Numerator in respect of basic and diluted earnings per share (£m):		
Profit attributable to equity holders of the Company	**88.0**	86.4
Numerator in respect of adjusted earnings per share (£m):		
Profit attributable to equity holders of the Company	**88.0**	86.4
Separately disclosed items (Note 5)	**59.3**	65.6
Profit for adjusted earnings per share calculation	**147.3**	152.0
Weighted average number of ordinary shares in issue during the period (in '000s)	**84,838**	83,925
Basic earnings per share	**£1.037**	£1.029
Adjusted basic earnings per share	**£1.736**	£1.811
Adjustments to derive denominator in respect of diluted earnings per share (in '000s):		
Weighted average number of ordinary shares in issue during the period	**84,838**	83,925
Dilutive effect of share options and awards on issue	**339**	805
Adjusted weighted average number of ordinary shares in issue during the period	**85,177**	84,730
Diluted earnings per share	**£1.033**	£1.020
Adjusted diluted earnings per share	**£1.729**	£1.794

The average market value of the Company's shares of £78.77 (30 June 2017: £85.22) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

8. Goodwill

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

	Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2017	3,432.3	45.2	377.0	17.9	18.7	3,891.1
Arising on acquisitions during the period (Note 9)	-	-	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
Arising on acquisitions during the period (Note 9)	**-**	**-**	**-**	**0.5**	**0.5**	**1.0**
Impairment charge	**-**	**-**	**(26.5)**	**-**	**-**	**(26.5)**
Foreign currency translation adjustment	**-**	**(1.3)**	**9.8**	**(0.2)**	**(0.1)**	**8.2**
Balance at 30 June 2018	**3,432.6**	**43.3**	**352.8**	**19.0**	**20.2**	**3,867.9**

The Group reviews the carrying value of goodwill for impairment annually (or more frequently if there are indications that the value of goodwill may be impaired) by comparing the carrying values of these cash generating units with their recoverable amounts (being the higher of value in use and fair value less costs to sell). Due to the decision to combine the Group's US assets with FanDuel (see Note 19) and the impact of this decision on the Group's existing US daily fantasy sports business, the Group reviewed the carrying value of goodwill associated with its existing US daily fantasy sports business, and determined, that an impairment charge of £26.5m was required at 30 June 2018.

9. Business combinations

Six months ended 30 June 2018

Shop property business acquisitions

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

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

	Provisional fair values 30 June 2018 £m
Goodwill arising on acquisition – Irish Retail and UK Retail	**1.0**
Consideration	**1.0**
The consideration is analysed as:	
Cash consideration	**0.9**
Deferred and contingent consideration	**0.1**
Consideration	**1.0**

The principal factors contributing to the Irish Retail and UK Retail goodwill balance is 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 respect of the period from acquisition and for the period ended 30 June 2018 has not been presented on the basis of immateriality.

9. Business combinations (continued)

Six months ended 30 June 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.

Details of the fair values of the net assets acquired and the goodwill arising on this acquisition under IFRS were 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

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

Details of the goodwill arising on this acquisition under IFRS were as follows:

	Fair values 30 June 2017 £m
Goodwill arising on acquisition – Irish Retail	0.2
Consideration	0.2
The consideration is analysed as:	
Cash consideration	0.1
Deferred and contingent consideration	0.1
Consideration	0.2

Net cash outflow from purchase of businesses

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Cash consideration – acquisitions in the period	**0.9**	14.4
Cash consideration – acquisitions in previous periods	**1.5**	1.4
	2.4	15.8
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	**0.9**	14.4
Payment of contingent deferred consideration	**1.5**	1.4
	2.4	15.8

10. Trade and other receivables

Non-current assets

	30 June 2018	31 December 2017
	£m	£m
Trade and other receivables		
Trade receivables	**3.0**	4.2

Current assets

	30 June 2018	31 December 2017
	£m	£m
Trade and other receivables		
Trade receivables	**6.5**	4.8
Other receivables	**2.9**	3.1
Value-added tax and goods and services tax	**1.7**	5.4
Prepayments and accrued income	**87.7**	35.5
	98.8	48.8

Included in prepayments and accrued income at 30 June 2018 are material prepayments in the period in relation to marketing assets.

11. Financial assets and cash and cash equivalents

	30 June 2018	31 December 2017
	£m	£m
Financial assets – restricted cash	**92.8**	75.4
Cash and cash equivalents	**317.0**	306.6
	409.8	382.0

Included in financial assets – restricted cash at 30 June 2018 are bank deposits which were either (1) restricted at that date, as they represented customer funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities. These customer funds that are not held in trust are matched by liabilities of equal value.

As at 30 June 2018, £370.9m (31 December 2017: £341.8m) was held in trust in The Sporting Exchange (Clients) Limited on behalf of the Group's customers and is equal to the amounts deposited into customer accounts. These balances are not consolidated and not reported in the condensed consolidated statement of financial position for the Group.

12. Trade and other payables and derivative financial liabilities

Current liabilities

	30 June 2018	31 December 2017
	£m	£m
Trade and other payables		
Trade payables	**20.5**	3.1
Liability to purchase own shares	**115.5**	-
Accruals and other payables	**330.5**	331.6
	466.5	334.7
Derivative financial liabilities		
Sports betting open positions	**17.2**	7.8

Non-current liabilities

	30 June 2018	31 December 2017
	£m	£m
Trade and other payables		
Accruals and other payables	**18.6**	34.5
Derivative financial liabilities		
Sports betting open positions	**1.4**	2.3

The liability to purchase own shares relates to an obligation arising under a buyback agreement for the purchase of the Company's own shares (see Note 16).

Included in non-current accruals and other payables at 30 June 2018 is deferred and contingent consideration of £16.7m due to Betfair's historical acquisition of HRTV, a horseracing television network based in the United States. The amount payable at 30 June 2018 amounted to £20.9m, with £4.2m due within one year and £16.7m due after one year from the reporting date.

13. Financial instruments

Carrying amounts versus fair values

There are no differences between the fair values of financial assets and financial liabilities at 30 June 2018 or 31 December 2017 and their respective carrying amounts in the consolidated statement of financial position. It has been determined for financial instruments carried at amortised cost, that the carrying amount represents a reasonable approximation of fair value.

Financial instruments carried at fair value

Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation method used. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

13. Financial instruments (continued)

	30 June 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Investments	**-**	**-**	**0.2**	**0.2**
Derivative financial liabilities	**-**	**-**	**(18.6)**	**(18.6)**
Non-derivative financial liabilities	**-**	**-**	**(23.6)**	**(23.6)**
Total	**-**	**-**	**(42.2)**	**(42.2)**

	31 December 2017			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investments	-	-	15.1	15.1
Derivative financial liabilities	-	-	(10.1)	(10.1)
Non-derivative financial liabilities	-	-	(33.8)	(33.8)
Total	-	-	(43.9)	(43.9)

Basis for determining fair values
The following are the significant methods and assumptions used to estimate the fair values of the financial instruments carried at fair value:

Investments (Level 3)
The fair value of investments 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 liabilities (Level 3)
Derivative financial liabilities comprise sports betting open positions. The fair value of open sports bets at the period end has been calculated using the latest available prices on relevant sporting events.

It 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.

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.

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 30 June 2018 by £0.7m and £0.7m respectively (31 December 2017: £1.9m and £3.3m).

Financial risk management – credit risk of trade and other receivables
The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017.

14. Borrowings

Non-current liabilities

	30 June 2018	31 December 2017
	£m	£m
Revolving credit facility	**170.0**	62.2
Less: expenses relating to revolving credit facility	**(1.5)**	-
	168.5	62.2

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300 million provided by a syndicate of banks which expired in May 2020. In 2018, the RCF was amended to an amount of £450 million and was extended to expire in April 2023. At 30 June 2018, £170m (31 December 2017: €70m (£62.2m)) of the RCF 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 LIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.

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 period ended 30 June 2018, all covenants have been complied with.

15. Dividends paid on ordinary shares

	Six months ended 30 June 2018	Six months ended 30 June 2017
	£m	£m
Ordinary shares:		
- final dividend of £1.35 per share for the year ended 31 December 2017 (31 December 2016: £1.13)	**114.0**	94.7

The Directors have proposed an interim dividend of 67.0 pence per share which will be paid on 24 September 2018 to shareholders on the Company's register of members at the close of business on the record date of 24 August 2018. This dividend, which amounts to approximately £55m, has not been included as a liability at 30 June 2018.

The interim dividend for the period ended 30 June 2017 was 65.0 pence per share, amounting in total to £54.7m.

16. Changes in equity

During the six month period ended 30 June 2018, 174,864 ordinary shares (six months ended 30 June 2017: 341,093) were issued as a result of the exercise of share options, giving rise to a share premium of £1.7m (six months ended 30 June 2017: £2.3m).

The £200m share buyback programme announced on 29 May 2018 is currently ongoing. In the six months ended 30 June 2018, the Group's brokers repurchased 1,060,360 ordinary shares of €0.09 each at a cost of £92.4m. The total cost of the shares repurchased comprised £91.5m for the shares themselves and a further £0.9m for other transaction related costs. Cash payments of £86.5m had been made in respect of the repurchases with the outstanding £5.9m settlement made at the beginning of July 2018. This £5.9m together with the remaining value of the buyback programme of £109.6m was recorded as a liability at 30 June 2018. The shares bought back are being cancelled and the nominal value of these shares is transferred to the capital redemption reserve fund. The nominal value of the shares cancelled at 30 June 2018 was £0.1m.

As at 30 June 2018, 1,965,600 ordinary shares were held in treasury (30 June 2017: 1,965,600). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to £40.7m as of 30 June 2018 (30 June 2017: £40.7m).

At 30 June 2018, the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") held a further 154,284 (30 June 2017: 276,504 shares) of its own shares in respect of potential future awards relating to the Group's employee share plans, which were acquired at a total cost of £12.8m (30 June 2017: £19.2m). The Group's distributable reserves at 30 June 2018 are further restricted by this cost amount.

As detailed in the condensed consolidated interim statement of changes in equity during the six month period ended 30 June 2018, the movement in the share-based payment reserve and in the shares held by the EBT is due to the equity-settled share-based payments charge and the vesting and exercising of share-based payments awards. A total of 46,689 shares in respect of share-based payments awards and related dividends were vested from the EBT to certain staff during the six months ended 30 June 2018 (six months ended 30 June 2017: 201,888 shares).

The movement in the foreign exchange translation reserve in the six months to 30 June 2018 reflects the strengthening of USD against GBP in the period, partially offset by the weakening of AUD against GBP in the period.

The movement in other reserves in the six months ended 30 June 2018 relates to the disposal of an investment which had previously been revalued, and the subsequent transfer of the revaluation from the fair value reserve to retained earnings. At 30 June 2018, other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a net wealth tax reserve.

17. 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.

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

18. Related parties

There were no material transactions with related parties during the six months ended 30 June 2018 or 30 June 2017 or the year ended 31 December 2017.

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

19. Events after the reporting date

Acquisition of FanDuel

On 10 July 2018, the Group completed the combination of its US business with Fanduel Limited, to create a new company called FanDuel Group Inc. Under the terms of the combination, the Group contributed its existing US assets along with $158m of cash to FanDuel Group Inc., while Fanduel Limited contributed its entire business to FanDuel Group Inc. The cash contribution was used in part to pay down existing Fanduel Limited debt and will also be used to fund the working capital of FanDuel Group Inc. The combination resulted in the holders of Paddy Power Betfair plc shares owning 61% of FanDuel Group Inc., and the holders of Fanduel Limited shares owning 39% of FanDuel Group Inc. Call and put options exist to acquire the shares of Fanduel Limited shareholders at prevailing market valuations within five years. The acquisition-date fair value accounting exercise had not been completed as at 7 August 2018.

Agreement with Boyd Gaming

On 3 August 2018, FanDuel Group Inc. entered into an agreement with Boyd Gaming Corporation. Under the terms of the agreement, subject to favourable legislation and regulatory approvals, FanDuel Group Inc. will gain market access for its sports book and online gaming products in several states and will provide Boyd Gaming Corporation with technology and related services to operate Boyd Gaming-branded mobile and online sports betting and gaming services in those states. As part of the transaction, Boyd Gaming Corporation will also take a 4% equity stake in FanDuel Group Inc. and have an option to purchase a further 1% stake. Pending Boyd Gaming Corporation exercising its option to purchase a further 1% stake, the holders of Paddy Power Betfair plc shares own 58% of FanDuel Group Inc.

Dividend

In respect of the current period, the Directors propose that an interim dividend of 67.0 pence per ordinary share of EUR 0.09 each (2017: 65.0 pence per share) be paid to shareholders on 24 September 2018. This dividend has not been included as a liability in these condensed consolidated interim financial statements. The proposed dividend is payable to all shareholders on the register of members on 24 August 2018. The total estimated dividend to be paid amounts to £55m (2017: £55m).

Share buyback

On 29 May 2018, the Group announced a £200m share buyback programme which was ongoing as at 30 June 2018. Between 30 June 2018 and 6 August 2018, 0.9m shares valued at £78m were repurchased. It is the Group's intention to enter into an additional £300m share buyback programme to commence on completion of the £200m programme.

20. Changes in accounting policies

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

	31 December 2017 As reported under previous accounting policies £m	31 December 2017 As reported under new accounting policies £m
Investments	0.1	15.1
Available-for-sale financial assets	15.0	-

INDEPENDENT REVIEW REPORT TO PADDY POWER BETFAIR PLC

Introduction
We have been engaged by Paddy Power Betfair plc ('the Company') to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of other comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and the related explanatory notes. Our review was conducted having regard to the Financial Reporting Council's ("FRCs") International Standard on Review Engagements ("ISRE") (UK and Ireland) 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*'.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 '*Interim Financial Reporting'* as adopted by the EU, the Transparency (Directive 2004/109/EC) Regulations 2007, and the Transparency Rules of the Central Bank of Ireland.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Transparency Directive and the Transparency Rules of the Central Bank of Ireland.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for ensuring that the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review having regard to the Financial Reporting Council's International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We read the other information contained in the half-yearly financial report to identify material inconsistencies with the information in the condensed set of financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent, the knowledge acquired by us in the course of performing the review. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The purpose of our review work and to whom we owe our responsibilities
This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Transparency Directive and the Transparency Rules of the Central Bank of Ireland. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Cliona Mullen 7 August 2018
for and on behalf of KPMG
Chartered Accountants
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St. Stephen's Green
Dublin 2