8 August 2017

Paddy Power Betfair plc - 2017 Interim Results

Paddy Power Betfair plc (the "Group") announces interim results for the six months ended 30 June 2017.

	Underlying[4] proforma[2] results			*Statutory results*	
	H1 2017 £m	**H1 2016 £m**	**Change %[1]**	**H1 2017 £m**	**H1 2016 £m**
Revenue	827	759	+9%	827	709
EBITDA[3]	220	181	+21%	215	70
Operating profit/(loss)	180	148	+22%	104	(44)
Earnings/(loss) per share	181.1p	147.0p	+23%	102.9p	(67.7)p
Dividends per share[5]	65p	52p	+25%	65p	40p

- **H1 highlights[1]:**
  - Revenue up 9% to £827m, driven by good stakes growth (Online up 10%, or 15% excluding Euro 2016, and Australia up 16%[6]) and foreign exchange, partially offset by increased investment in pricing and promotions
  - Strong Q1 growth driven by more favourable Cheltenham results, with Q2 affected by the absence of a major football tournament and adverse sports results
  - Underlying EBITDA[3,4] up 21% to £220m with EBITDA margin up 3 percentage points to 27%
  - Continued strong cash conversion with underlying free cash flow of £172m representing 113% of underlying profit after tax in the period
  - Entry into the daily fantasy sports market in the USA with the acquisition of Draft an early-stage operator

- **Outlook:**
  - Full year underlying EBITDA, including £15m of losses in DRAFT, expected to be between £445m and £465m

Breon Corcoran, Chief Executive, commented:

"We continue to make substantial investments to position Paddy Power Betfair as a structural winner in a dynamic and highly competitive market. The focus of this investment is to use technology to improve efficiency and minimise the cost of servicing our customers and to further enhance our customer proposition.

The integration of our technology platforms is on track for completion by the end of the year and will bring significant benefits including increased quantity and pace of new product development in 2018 and beyond.

Ahead of that, our customers and shareholders are already seeing benefits from efficiencies and investments. In the first half alone, customers enjoyed approximately £30m of extra value through better odds, more generous offers and new loyalty benefits.

Operating efficiency and the annualisation of merger-related cost savings resulted in strong operating leverage in the period, with operating profit up 22%."

Notes:

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

[2] The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date. The reported statutory comparative period results for six months ended 30 June 2016 reflect this accounting treatment in accordance with generally accepted accounting principles (GAAP) and only include Betfair results since the merger completion on 2 February 2016. This announcement includes comparative period results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full six month results of Paddy Power and Betfair for 30 June 2016. The directors consider that comparing the reported 2017 results against the proforma comparative period is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the year-on-year results are discussed versus the proforma comparatives. A reconciliation between the statutory and the non-GAAP proforma underlying comparative financials is included in Appendix 2 (page 17)

[3] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 17).

[4] The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see note 5 and page 33 to the financial statements and Appendix 2 on page 17)

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

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

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 950 626 62.

A presentation replay facility will be available later today on our corporate website: https://www.paddypowerbetfair.com/investor-relations/results-centre/2017.

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Business Review

Paddy Power Betfair's competitive advantage lies in its substantial global and local online scale; its leading capabilities in the areas of scalable proprietary technology, digital marketing, in-house product development and proprietary risk & trading operations; its portfolio of distinctive sports-led brands; and its differentiated products.

In the first half, we have continued to invest to build on these foundations to position the Group as a long-term structural winner. The focus is on further increasing efficiency and competitiveness through investing in both our capabilities and in our customer proposition.

We believe that this approach will enable us to sustainably generate profits from our key existing markets over the long-term, which will then drive both investment in new growth opportunities (either organically or via acquisition) and deliver shareholder returns.

Investing in capabilities

Proprietary technology is used across the Group to deliver product differentiation, increased reach and relevance of digital marketing and risk and trading excellence.

Technology platform

The integration of our technology platforms continued to be our priority in H1 and remains on track for completion in the final quarter of 2017. The migration of Paddy Power customers to the integrated platform will commence in the coming weeks and will be phased to manage risk.

Completion of this project will both enhance efficiency and facilitate investment in our customer proposition. Key benefits include increased pace of development and faster roll out of new product to all our customers, together with less development work being required to add new brands or enter new markets. The platform will enable us to build product once for deployment across multiple brands, channels and jurisdictions and the higher return on investment will enable more development resources to be deployed. Furthermore, the use of in-house development lowers the cost and facilitates differentiation and retention of IP.

Digital marketing

We now operate on a global marketing technology stack, and share development and expertise across all the Group's divisions and over 200 marketing professionals. Key marketing tools include a recently launched data management platform and marketing automation engine. This proprietary technology is delivering efficiency benefits through increased levels of automation and driving increased reach and relevance to our digital marketing. Building and operating these technologies in-house helps IP retention and secures data integrity, and we are already seeing evidence that they can drive incremental activity. For example, the use of these technologies for Betfair's Cheltenham reactivation campaigns, drove a 5% increase in overall activity from reactivated customers, when compared with our control groups.

Automated, customised content is now being delivered to customers across eight distinct marketing channels compared with four previously, following the addition of browser push, display, social and rich push notifications to our CRM platform, materially increasing the reach of our targeted messaging.

Examples of automated, customised content include (i) 'best odds' messaging, which uses channels such as display, email, search and social media to highlight when we have the best prices on key events and compares our live odds to those of key competitors; and (ii) personalised content, for example highlighting that previously backed winners are running in upcoming races, branded as Betfair's 'Golden Horses' or Sportsbet's 'Giddy Up Alerts'.

Risk and trading

The performance of our global risk and trading operations is also dependent on ongoing investment in proprietary technologies.

Following substantial historical investment in pricing and trading algorithms, 19 sports are currently traded using proprietary models and we are continuing to invest to improve existing algorithms and cover additional sports. This both enhances customer experience (for example, greater range of markets, reduced bet delay times and reduced market suspension rates) and improves efficiency through better pricing accuracy, which increases gross win margins. It also results in greater automation, which allows individual traders to manage more events simultaneously.

Recent model releases illustrate some of these benefits: (i) a new football model, launched in January, is improving the in-play betting experience, with a 97% reduction in the bet failure rate to less than 0.1% of in-play bets and a 90% reduction in the amount of time that betting is suspended, to less than one minute per match; and (ii) a new basketball model has led to a three-fold increase in the number of pre-match markets available on the NBA finals, resulting in strong growth in betting volumes on the event. A further six models are currently under development, including an updated tennis model and a new NFL model.

In addition to the development of pricing algorithms, investment in risk management models is also driving improved efficiency and pricing accuracy. For example, we are investing in machine learning to better automate our sportsbook customer analytics. Furthermore, our proprietary racing risk management model automatically feeds into our pricing algorithms and we are now developing similar capabilities for football and tennis.

Investing in our customer proposition

We continually strive to improve our competitive position through investment in products, pricing and promotions, and brands.

Product

To ensure we are best positioned for long-term growth, our technology resources have been focused on the platform integration work described above, which at times utilised over 70% of our European technology resources. With residual resources largely working on operational projects, new product development in our Online division has, accordingly, been limited over the past 18 months. The short-term impact of this has been fewer updates and new features on our European sportsbooks and a lack of capacity to address gaming product weaknesses. It has also restricted our ability to offer some or all of our products in certain international markets due to requisite, and jurisdictional specific, development work conflicting with the integration work.

While it will be primarily from 2018 and beyond that customers will begin to see the benefits of an increased quantity and pace of new product development facilitated by the enhanced platform, there are some immediate benefits arising from the integration work. For example, Betfair customers are already seeing additional product and improved pricing following access to Paddy Power's proprietary risk and trading models. Once they have been migrated, Paddy Power customers will see immediate product benefits, including a faster sports app, new gaming apps, a new proprietary sportsbook desktop that is more consistent with the mobile app experience, a much improved cash out product and greater promotional flexibility.

Pricing & promotions

Competitive pricing and promotions are essential factors behind attracting and retaining customers. Accordingly, in recent months we have increased our investment across all our online brands, providing customers with approximately £30m of additional value in H1 alone. Recognising that different customers are attracted to different value drivers, this investment has encompassed a number of different approaches.

For our Sportsbet and Paddy Power brands, increased investment has focussed on headline offers, including the "*2 up – You Win*" and "*24 Up – You win*" promotions which trigger early payouts on football and AFL, combined with loyalty rewards such as Paddy Power's *"VIPP club"* and Sportsbet's *"Power Play"*.

For Betfair our investment has centred on sportsbook pricing to re-emphasise the brand's strong value proposition as underpinned by its exchange heritage. A reduction in football overrounds to market leading levels is being valued by customers, with market research indicating that football bettors increasingly associate Betfair as offering the best odds.

Brand

This enhanced value proposition is being supported by continued investment in our brands across traditional media and digital channels.

In the UK, we have increased our share of voice for both our brands on TV this year, using our scale and dual branding to maximise the efficiency of this spend. In Australia, we commenced new marketing partnerships, meaning that Sportsbet now has key marketing assets across all major sports.

Our distinctive, modern brands are strongly positioned to leverage social and digital channels. In the UK our share of engagement within the betting category across Facebook and Twitter is over 60% and, in Australia, Sportsbet's share is almost 50%, reflecting our brands' unique ability to engage in rich, valuable and fun sports themed conversations. We are also increasingly looking at ways to innovatively leverage this position to drive engagement, such as socially driven pricing (Paddy Power's "*Crowd Powered Price*" and Sportsbet's "*Mates Rates*") or customer driven betting markets ("*#whatoddspaddy* and *#BYOsocceroos*).

Investing in new growth opportunities

DRAFT acquisition

In May, we entered the daily fantasy sports market in the United States with the acquisition of an early-stage operator, DRAFT (www.playdraft.com). The acquisition provides the Group with exposure to a fast-growing market (c.90% CAGR between 2014 and 2016 to over $300m of revenues) and complements our other businesses in the United States.

DRAFT is mobile-led and has a differentiated product that we believe is better positioned to target recreational players than the incumbent leading daily fantasy operators. The business continues to be run by its existing management team and will now have access to the Group's marketing and technology capabilities.

The initial cash consideration paid on completion was $19m. Further cash consideration of up to $29m will become payable over the next four years depending on the business' performance. To maximise the growth opportunity, substantial marketing investment in the business is envisaged in the next few years, with an EBITDA loss of approximately $20m expected in 2017.

Outlook

Our industry remains highly competitive and exposed to external factors including the economic and regulatory environments. However, we believe that the investments we are making, as well as our scale, market positions and leading capabilities, position us well for sustainable profitable growth.

The second half of the year has started in line with our expectations and full year 2017 underlying EBITDA, including the impact of the DRAFT acquisition, is expected to be between £445m and £465m.

Operating and Financial Review

Note this Operating and Financial Review presents the comparative period and corresponding year-on-year growth rates on a "Proforma" (non-GAAP) basis. As the merger of Paddy Power and Betfair completed on 2 February 2016 the reported statutory comparative period results only include Betfair results post 2 February 2016. The "Proforma" basis is prepared as if Paddy Power and Betfair had always been merged, and combines the full six month results of Paddy Power and Betfair for the period ended 30 June 2016. The directors consider that comparing the reported 2017 results against the proforma comparative period is the most appropriate information for understanding and analysing the performance of the Group. A reconciliation between the statutory comparatives and the non-GAAP proforma, underlying comparative financials is included on page 17.

Group[1]

		Proforma[2]		
	H1 2017 £m	**H1 2016 £m**	**Change %**	**Constant Currency**[7] **Change %**
Sportsbook stakes	**5,594**	**4,810**	**+16%**	**+9%**
Sportsbook net revenue %	*8.3%*	*8.5%*	*-0.2%*	*-0.2%*
Sports revenue	646	582	+11%	+4%
Gaming revenue	181	177	+2%	+2%
Total revenue	**827**	**759**	**+9%**	**+3%**
Cost of sales	(189)	(175)	+8%	+2%
Gross profit	**638**	**584**	**+9%**	**+4%**
Sales and marketing	(166)	(156)	+7%	Flat
Product and technology	(66)	(75)	-12%	-19%
Operations	(160)	(144)	+11%	+3%
Central costs	(27)	(28)	-4%	-8%
Total operating costs	(419)	(403)	+4%	-3%
Underlying EBITDA[3,4]	**220**	**181**	**+21%**	**+20%**
Underlying EBITDA margin %	*26.6%*	*23.8%*	*+2.8%*	*+3.7%*
Depreciation and amortisation	(40)	(33)	+20%	+10%
Underlying[4] **operating profit**	**180**	**148**	**+22%**	**+22%**
Separately disclosed items	(75)	(195)	n/a	n/a
Operating profit	**104**	**(48)**	**n/a**	**n/a**
Underlying[4] **earnings per share**	**181.1p**	**147.0p**	**+23%**	
Dividends per share[5]	**65p**	**52p**	**+25%**	
Net cash at period end[8]	**£87m**	**£2m**		

Group revenue increased 9% to £827m, with sports revenues up 11% and gaming revenues up 2%. Revenue growth included a £40m benefit from the translation of non-UK revenues due to the weakness of sterling versus the prior year. Conversely, year-on-year growth was affected by the lack of a major international football tournament in the year, with Euro 2016 contributing £22m of revenue in the comparative period.

This revenue growth comprised of 23% growth (constant currency, "cc", 15%) in the first quarter, partially offset by a 2% decline (cc -6%) in second quarter revenues. Whilst revenue growth in the first quarter benefitted from more favourable sports results this year (most notably at Cheltenham), revenue growth in the second quarter was impacted by a 1.5% decline in the sportsbook net revenue margin as well Euro 2016 falling in the prior year.

The decline in sportsbook net revenue margin in the second quarter was driven both by the strategic decision to increase our investment in pricing and promotions and by less favourable sports results this year. The year-on-year swing in sports results (c.1.1% impact on margin) was primarily due to results in April and May 2017 favouring customers at key events such as Premier League and Champions League football, the Grand National and the US Masters, along with the benefit to the prior year of a strong margin at Euro 2016.

Revenue from regulated markets represented 95% of total revenues in the period.

Revenue growth combined with operating efficiencies led to a 21% increase in underlying EBITDA to £220m (H1 2016: £181m), representing an EBITDA margin of 27% (H1 2016: 24%). Underlying operating profit increased by 22% to £180m (H1 2016: £148m). Underlying EBITDA included an £2m foreign exchange translation benefit and increased by 20% on a constant currency basis.

Total operating costs increased by 4%, or a decrease of 3% on a constant currency basis. Within this, sales and marketing spend, on a constant currency basis, was flat year-on-year, or up 10% excluding Euro 2016 spend. Other operating costs, which benefitted from the annualisation of merger synergies, continued operating efficiencies and a reduction in certain other employee related expenses, decreased by 5% in constant currency.

After separately disclosed items, which in the period consisted entirely of non-cash merger related items, the Group recorded an operating profit of £104m (H1 2016: operating loss of £44m).

Online[1]

		Proforma[2]	
	H1 2017 £m	**H1 2016 £m**	**Change %**
Online sportsbook stakes	2,780	2,481	+12%
Dial-a-bet sportsbook stakes	182	219	-17%
Total Sportsbook stakes	**2,962**	**2,700**	**+10%**
Sportsbook net revenue %	*6.2%*	*6.7%*	*-0.5%*
Sports revenue	318	316	+1%
Gaming revenue	120	124	-3%
Total revenue	**439**	**440**	**Flat**
Cost of sales	(97)	(100)	-4%
Gross profit	**342**	**339**	**+1%**
Sales and marketing	(113)	(108)	+4%
Product and technology	(46)	(58)	-20%
Operations	(35)	(33)	+6%
Total operating costs	(194)	(199)	-2%
Underlying EBITDA[3,4]	**148**	**140**	**+6%**
Depreciation and amortisation	(19)	(17)	+11%
Underlying[4] operating profit	**129**	**123**	**+5%**
Active customers (000's)[11]	2,788	3,061	-9%

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 of £439m was flat year-on-year or down 2% in constant currency. Sports revenue increased by 1% to £318m, comprised of a 1% decrease in sportsbook revenues, driven by a lower net revenue margin, and 3% growth in exchange and B2B revenues.

Sportsbook stakes increased by 10% in total, with 12% growth in online staking partially offset by a decline in the Paddy Power 'Dial-a-bet' business. The online staking growth was comprised of 13% growth in the first quarter and 11% growth in the second quarter, notwithstanding the impact from Euro 2016 which contributed 9% of stakes in the comparative quarter.

The net revenue margin decline, whilst driven by more customer friendly sports results this year, also reflected increased investment in pricing and promotions. This investment included improved odds for Betfair customers including a reduction in football overrounds to market leading levels, and enhanced value to Paddy Power customer's through our headline "*2 up – You Win*" offer and "*VIPP Club"* loyalty benefits.

Gaming revenues decreased 3% to £120m. As we highlighted in recent trading updates, gaming performance has been weak since the fourth quarter of 2016. We are continuing to focus on operational improvements but recognise that to achieve market growth rates we need to invest in our gaming product, post completion of our ongoing technology platform integration work, to address gaps in our product versus our competitors. While Paddy Power customers will see some immediate improvements with enhanced gaming apps on migration to the integrated platform, it will be 2018 before material new additional product updates will begin to be developed for release across both our brands.

Underlying EBITDA increased by 6% to £148m or by 9% excluding the £5m adverse impact from foreign exchange translation. Total operating costs decreased by 2%, reflecting both the annualisation of merger synergies and continued underlying operating efficiencies.

Australia[6]

	H1 2017 £m	**H1 2016 £m**	**Change % £**	**Change % A$**
Sportsbook stakes	**1,699**	**1,259**	**+35%**	**+16%**
Sportsbook net revenue %	*10.2%*	*10.3%*	*-0.1%*	*-0.1%*
Revenue	**173**	**129**	**+34%**	**+15%**
Cost of sales	(46)	(32)	+43%	+23%
Gross profit	**127**	**97**	**+31%**	**+13%**
Sales and marketing	(38)	(34)	+10%	-5%
Product and technology	(13)	(12)	+5%	-9%
Operations	(23)	(20)	+15%	-2%
Total operating costs	(73)	(66)	+11%	-5%
Underlying EBITDA[3,4]	**54**	**30**	**+77%**	**+52%**
Depreciation and amortisation	(7)	(4)	+73%	+48%
Underlying[4] **operating profit**	**46**	**26**	**+78%**	**+52%**
Active customers (000's)[11]	688	610	+13%	

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

Revenue increased by 15% to £173 million, driven by a 16% increase in total stakes. This growth was notwithstanding a reduced contribution from in-play betting, which represented 8% of stakes and 3% of revenues in the period, versus 15% and 8%, respectively, in the comparative period when our 'Bet Live' product was available to customers.

During the period we continued to invest in Sportsbet's promotions, product and marketing to maintain our online market leadership position. Key elements of an increased year-on-year investment in promotions included '*Power Play'* (which encourages customer loyalty by allowing them to trigger a daily power play that increases the odds on their selection), *"24-up You Win"* (which is the equivalent of Paddy Power's headline football offer applied to AFL), and increased racing generosity via our *"Saturday – 3 Big Tracks"* money-back specials.

Key recent product releases included the release of a new android app, significant upgrades to our racing form content and *'Same Game Multi'*, which facilitates accumulator betting and is proving very popular with AFL and NRL customers, driving incremental accumulator staking.

Our marketing, such as the controversial 'Putting the roid in Android' ad, continues to focus on highlighting our key products and leading promotions while deepening the distinctive position of Sportsbet. We commenced key marketing partnerships in recent months, including sponsorship of free-to-air TV coverage of AFL to complement our continued sponsorship of the equivalent NRL coverage and a new *Racing.com* partnership. This means that Sportsbet now benefits from key marketing assets in all major sports.

Underlying EBITDA increased by 52% to £54m. Total operating costs decreased by 5%, reflecting continued operating efficiencies.

Retail

	H1 2017 £m	**H1 2016 £m**	**Change %**
Sportsbook stakes	**934**	**851**	**+10%**
Sportsbook net revenue %	*11.6%*	*11.6%*	*Flat*
Sports revenue	108	100	+9%
Machine gaming revenue	52	47	+10%
Total revenue	**160**	**147**	**+9%**
Cost of sales	(34)	(32)	+5%
Gross profit	**126**	**115**	**+10%**
Sales and marketing	(3)	(4)	-16%
Product and technology	(3)	(3)	-5%
Operations	(83)	(77)	+8%
Total operating costs	(89)	(84)	+6%
Underlying EBITDA[3,4]	**37**	**31**	**+20%**
Depreciation and amortisation	(9)	(8)	+14%
Underlying[4] operating profit	**28**	**23**	**+23%**
Shops at period end	620	603	+3%

The Retail division operates 620 Paddy Power betting shops across the UK and Ireland. The business continues to take market share, leading to revenue growth of 9% to £160m (cc +5%). This, along with careful cost control, drove a 23% increase in underlying operating profit to £28m (cc +19%).

Revenues from UK shops increased by 6% and Irish shop revenues were up 3% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like[9] revenues increased by 3% and operating costs increased by 1%. The like-for-like[9] revenue growth was comprised of a 2% increase in both sportsbook stakes and revenues, and a 7% increase in machine gaming growth, primarily driven by growth from B3 slots content.

Our high quality retail estate has been built around providing a fun, social environment focused around live sport and we are continually investing in further improving the leading experience offered customers. For example, in May we launched our Paddy Power TV channels that enable us to control and showcase our leading content. In addition, Betfair customers can deposit funds into their accounts at Paddy Power shops, a facility that has proved popular for Paddy Power online customers for a number of years.

During the first half we were able to selectively identify additional shop locations which could further enhance the quality and coverage of our estate and we opened five new shops in the UK and two in Ireland.

US[1,6]

		Proforma[2]		
	H1 2017 £m	**H1 2016 £m**	**Change % £**	**Change % US$**
Sports revenue	46	38	+21%	+6%
Gaming revenue	9	5	+66%	+46%
Total revenue	**55**	**43**	**+26%**	**+11%**
Cost of sales	(12)	(10)	+22%	+7%
Gross profit	**43**	**33**	**+28%**	**+12%**
Sales and marketing	(12)	(9)	+33%	+18%
Product and technology	(5)	(3)	+48%	+31%
Operations	(18)	(14)	+31%	+16%
Total operating costs	(35)	(27)	+34%	+19%
Underlying EBITDA[3,4]	**7.2**	**6.9**	**+5%**	**-11%**
Depreciation and amortisation	(4.7)	(4.0)	+18%	+4%
Underlying[4] operating profit	**2.5**	**2.9**	**-13%**	**-30%**
Active customers (000's)[11]	136	118	+15%	

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

Revenue increased by 11% to £55m, driven by a 6% increase in TVG revenues and strong revenue growth at the Betfair New Jersey business, which is now operating at breakeven EBITDA.

EBITDA decreased by 11% to £7 million net of the impact of £1 million losses from DRAFT incurred post its acquisition in May.

Regulatory update

UK

From 25 April 2017, the statutory Horserace Betting Levy was extended to cover online betting at a rate of 10% of gross winnings from all customers in Great Britain betting on British racing. The net incremental impact of the new scheme for the Group on an annualised basis is approximately £10m.

From 1 August 2017, the changes to the treatment of free bets for online gaming point of consumption tax announced in the Government's March 2016 budget came into effect. We estimate the annualised impact of this change to the Group is approximately £6m.

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

In June 2016, the UK Competition and Markets Authority ("CMA") announced an update on its investigation into UK online gambling operators, indicating that they are taking enforcement action against several online gambling firms. The Group was not one of the companies subject to this enforcement action. The CMA also extended their investigation to include a new line of enquiry looking further into obstacles that consumers may face when they try to withdraw their money after gaming or betting online. The CMA have indicated that they will be providing a further update in December 2017.

Australia

From July 2017, the State of South Australia (which represents approximately 7% of our total Australia revenues) introduced a place of consumption state tax at 15% of gross revenue. At current revenue levels, the additional cost would be approximately £4m per annum.

In March 2017, the Federal Treasurer announced that a nationally consistent approach to a point of consumption tax on online gambling will be considered, along with potential federal regulation. In May and June, the governments in Victoria and New South Wales committed to work on a national wagering tax solution. No expected timelines or details of any potential changes in taxation have been announced.

In June 2017, the House of Representatives of the Federal Government approved the Interactive Gambling Amendment Bill which will prohibit credit betting and introduce a series of measures to enhance consumer protection and to reduce wagering with offshore operators. The Bill will now go to the Senate of the Federal Government for their approval prior to being implemented. We do not expect the prohibition of credit betting to have a material impact on our Australian division and we welcome the move to reduce the activity of illegal offshore operators.

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

The Federal Government is working with State and Territory Governments on the design of a National Consumer Protection Framework for online wagering. Measures being considered include the establishment of a national self-exclusion register and nationally consistent standards with regards a variety of areas including pre-commitment, activity statements and sign-up offers. Outcomes are expected to be announced later in the year.

Ireland

On 19 May 2017, the Government announced the launch of the Betting Tax Review. It will review the roll out of the betting regime to remote bookmakers and betting exchanges in 2015, as well as looking at the likely impact of an increase in the rates of betting duty on both exchequer revenues and the bookmaking industry.

Responsible gambling

Operating responsibly is crucial to the sustainability of our business. All our customers, across all of our brands and regions, must be able to bet in a safe and enjoyable manner and have access to tools and information that reduce the risk of harm. Since the merger, we have standardised our player protection systems and have taken a best of both approach. Since January 2017, any customer self-excluding on either Paddy Power or Betfair is now automatically excluded from the other brand.

We also continue to play a leading role within a wide range of industry and government initiatives to further evolve the culture of responsible gambling. We participate in the SENET group, whose recent activity includes TV advertising and further commitments around responsible gambling messages on social media. Further to this we are members of the task group for the National Online Self Exclusion Scheme (recently rebranded to GamSTOP), which is due to launch next year and complements the Multi Operator Self Exclusion Scheme ("MOSES") used in the retail sector.

In Australia, Sportsbet is a leading member of Responsible Wagering Australia, which has worked closely with the Government to introduce a comprehensive package of reforms that will reduce the exposure of children to gambling advertising.

Separately disclosed items

	H1 2017 £m	*Proforma*[2] **H1 2016 £m**
Merger deal expenses	-	(50)
Merger integration expenses	-	(49)
Non-cash merger related items:		
Intangible asset amortisation	(70)	(79)
Fair value adjustment for replacement share-based payment awards	(5)	(13)
Impairment of assets	-	(4)
Total separately disclosed items	(75)	(195)

All the separately disclosed items relate specifically to the merger and therefore are excluded from underlying profits. In 2017 all the items are non-cash charges, comprising the amortisation of intangible assets recognised on accounting for the merger (£70m) and a fair value adjustment on the replacement of legacy Betfair share-based payment awards for equivalent awards in the Group on completion (£5m).

Taxation

The Group's underlying effective tax rate in the period was 14.4% (proforma[2] H1 2016: 16.0%). The full-year 2017 effective tax rate is now expected to be between 13% and 15% (proforma[2] FY 2016: 15.5%).

Capital expenditure

The Group had £50m of capital expenditure in the period (H1 2016: £34m[10]). Approximately 13% of the expenditure related to our retail business with the remainder primarily related to technology projects and product development. For the full year we now expect total capital expenditure to be approximately £90m.

Cash flow and financial position

	H1 2017 £m	*Proforma*[2] H1 2016 £m
Underlying EBITDA[2, 3]	220	181
Capex[10]	(50)	(34)
Working capital and tax	3	(7)
Underlying free cash flow	**172**	**140**
Cash flow from separately disclosed items	(8)	(63)
Free cash flow	164	77
Dividends paid	(95)	(145)
DRAFT acquisition	(14)	-
Interest	(0)	(1)
Proceeds from issue of new shares	2	1
Net increase/(decrease) in cash	**57**	**(69)**
Net cash at start of period	**36**	**84**
Foreign currency exchange translation	(6)	(13)
Net cash at period end[8]	**87**	**2**

The Group's profits convert strongly into cash flow, with underlying free cash flow of £172m representing 113% of underlying profit after tax in the period.

As at 30 June 2017, the Group had net cash of £87m, excluding customer balances.

Dividend and capital structure

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 65p per share (2016: 40p per share, or 52p including the pre-merger stub dividend). This will be paid on 22 September 2017 to shareholders on the register at the close of business on 25 August 2017.

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

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

[2] The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016 and is accounted for as an acquisition of Betfair by Paddy Power on that date. The reported statutory comparative period results for six months ended 30 June 2016 reflect this accounting treatment in accordance with generally accepted accounting principles (GAAP) and only include Betfair results since the merger completion on 2 February 2016. This announcement includes comparative period results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which

combine the full six month results of Paddy Power and Betfair for 30 June 2016. The directors consider that comparing the reported 2017 results against the proforma comparative period is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the year-on-year results are discussed versus the proforma comparatives. A reconciliation between the statutory and the non-GAAP proforma, underlying comparative financials is included in Appendix 2 (page 17)

[3] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 17).

[4] The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see note 5 and page 33 to the financial statements and Appendix 2 on page 17)

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

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

[7] Constant currency ("cc") growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of H1 2016 at H1 2017 exchange rates (see Appendix 4)

[8] Net cash at 30 June 2017 is comprised of gross cash excluding customer balances of £232m and borrowings of £145m. The comparative balance shown as at 30 June 2016 is comprised of gross cash excluding customer balances of £213m and borrowings of £211m (see Appendix 3)

[9] Like-for-like growth rates are in constant currency[7] and are calculated by only including in the H1 2017 results, financial results from shops open prior to 2016 plus the financial results from shops opened during 2016 only from the anniversary of their opening date

[10] Capital expenditure for the H1 2016 comparative is on a proforma[2] basis and excludes the intangible assets which were recognised under the accounting for the Merger

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

Appendix 1: Divisional Key Performance Indicators

Half yearly, H1 2016 is proforma

£m	Online			Australia				Retail			US				Group			
	H1 2017	**H1 2016**	**% Change**	**H1 2017**	**H1 2016**	**% Change**	**A$ % Change**	**H1 2017**	**H1 2016**	**% Change**	**H1 2017**	**H1 2016**	**% Change**	**US$ % Change**	**H1 2017**	**H1 2016**	**% Change**	**CC[1]% Change**
Sportsbook stakes	2,962	2,700	+10%	1,699	1,259	+35%	+16%	934	851	+10%					5,594	4,810	+16%	+9%
- Online	2,780	2,481	+12%	1,546	1,053	+47%	+26%								4,326	3,533	+22%	+15%
- Dial-a-bet / Phone	182	219	-17%	152	207	-26%	-37%								335	426	-21%	-28%
- Retail								934	851	+10%					934	851	+10%	+4%
Sportsbook net rev %	*6.2%*	*6.7%*	*-0.5%*	*10.2%*	*10.3%*	*-0.1%*	*-0.1%*	*11.6%*	*11.6%*	*Flat*					*8.3%*	*8.5%*	*-0.2%*	*-0.2%*
Sports revenue	318	316	+1%	173	129	+34%	+15%	108	100	+9%	46	38	+21%	+6%	646	582	+11%	+4%
Gaming revenue	120	124	-3%	-	-	-	-	52	47	+10%	9	5	+66%	+46%	181	177	+2%	+2%
Total revenue	**439**	**440**	**Flat**	**173**	**129**	**+34%**	**+15%**	**160**	**147**	**+9%**	**55**	**43**	**+26%**	**+11%**	**827**	**759**	**+9%**	**+3%**
Regulated markets	399	404	-1%	173	129	+34%	+15%	160	147	+9%	55	43	+26%	+11%	787	723	9%	+3%
Unregulated markets	40	36	+11%	-	-	-	-	-	-	-	-	-	-	-	40	36	+11%	+4%
Total revenue	**439**	**440**	**Flat**	**173**	**129**	**+34%**	**+15%**	**160**	**147**	**+9%**	**55**	**43**	**+26%**	**+11%**	**827**	**759**	**+9%**	**+3%**
Cost of sales	(97)	(100)	-4%	(46)	(32)	+43%	+23%	(34)	(32)	+5%	(12)	(10)	+22%	+7%	(189)	(175)	+8%	+2%
Gross Profit	**342**	**339**	**+1%**	**127**	**97**	**+31%**	**+13%**	**126**	**115**	**+10%**	**43**	**33**	**+28%**	**+12%**	**638**	**584**	**+9%**	**+4%**
Sales & marketing	(113)	(108)	+4%	(38)	(34)	+10%	-5%	(3)	(4)	-16%	(12)	(9)	+33%	+18%	(166)	(156)	+7%	Flat
Product & technology	(46)	(58)	-20%	(13)	(12)	+5%	-9%	(3)	(3)	-5%	(5)	(3)	+48%	+31%	(66)	(75)	-12%	-19%
Operations	(35)	(33)	+6%	(23)	(20)	+15%	-2%	(83)	(77)	+8%	(18)	(14)	+31%	+16%	(160)	(144)	+11%	+3%
Unallocated central costs															(27)	(28)	-4%	-8%
Operating costs	**(194)**	**(199)**	**-2%**	**(73)**	**(66)**	**+11%**	**-5%**	**(89)**	**(84)**	**+6%**	**(35)**	**(27)**	**+34%**	**+19%**	**(419)**	**(403)**	**+4%**	**-3%**
Underlying EBITDA	**148**	**140**	**+6%**	**54**	**30**	**+77%**	**+52%**	**37**	**31**	**+20%**	**7**	**7**	**+5%**	**-11%**	**220**	**181**	**+21%**	**+20%**
Depreciation & amortisation	(19)	(17)	+11%	(7)	(4)	+73%	+48%	(9)	(8)	+14%	(5)	(4)	+18%	+4%	(40)	(33)	+20%	+10%
Underlying operating profit	**129**	**123**	**+5%**	**46**	**26**	**+78%**	**+52%**	**28**	**23**	**+23%**	**3**	**3**	**-13%**	**-30%**	**180**	**148**	**+22%**	**+22%**
Separately disclosed items															(75)	(195)	n/a	n/a
Operating profit															**104**	**(48)**	**n/a**	**n/a**

[1] Constant currency (“cc”) growth is calculated by retranslating non-sterling denominated component of H1 2016 at H1 2017 exchange rates (see Appendix 4)

Notes:

- Sportsbook stakes includes amounts staked via SSBTs and excludes the exchange, gaming, US advance deposit wagering and business-to-business activities.
- Sportsbook net revenue % is calculated after deduction of costs for customer promotions and bonuses.
- Sports net revenue includes sportsbook net revenues, exchange and US advance deposit wagering commissions and revenues from business-to-business activities.
- ‘Online’ segment includes UK/Ireland telephone business.
- Regulated markets currently include UK, Australia, Ireland, US, Italy, Bulgaria, Denmark, Gibraltar, Malta, Romania, Spain and business-to-business activities.

Appendix 1: Divisional Key Performance Indicators (continued)

Quarterly, unaudited, Q1 2016 is proforma

£m	Online			Australia				Retail			US				Group			
	Q1 2017	**Q1 2016**	**% Change**	**Q1 2017**	**Q1 2016**	**% Change**	**A$ % Change**	**Q1 2017**	**Q1 2016**	**% Change**	**Q1 2017**	**Q1 2016**	**% Change**	**US$ % Change**	**Q1 2017**	**Q1 2016**	**% Change**	**CC[1] % Change**
Sportsbook stakes:	1,424	1,305	+9%	819	577	+42%	+17%	456	407	+12%					2,699	2,289	+18%	+9%
- Online	*1,337*	*1,186*	*+13%*	*742*	*486*	*+53%*	*+26%*								*2,079*	*1,672*	*+24%*	*+15%*
- Dial-a-bet / Phone	*88*	*119*	*-27%*	*77*	*92*	*-16%*	*-31%*								*164*	*211*	*-22%*	*-29%*
- Retail								*456*	*407*	*+12%*					*456*	*407*	*+12%*	*+5%*
Sportsbook net rev %	*6.7%*	*5.4%*	*+1.3%*	*10.4%*	*10.0%*	*+0.4%*	*+0.4%*	*12.4%*	*10.7%*	*+1.7%*					*8.8%*	*7.5%*	*+1.3%*	*+1.3%*
Sports revenue	163	135	+21%	85	58	+47%	+21%	57	44	+30%	21	17	+21%	+5%	326	254	+28%	+18%
Gaming revenue	61	60	+2%	-	-	-	-	25	23	+10%	4	2	+95%	+68%	90	85	+6%	+6%
Total revenue	**224**	**195**	**+15%**	**85**	**58**	**+47%**	**+21%**	**82**	**67**	**+23%**	**25**	**20**	**+29%**	**+12%**	**416**	**339**	**+23%**	**+15%**
Regulated markets	205	177	+15%	85	58	+47%	+21%	82	67	+23%	25	20	+29%	+12%	397	321	+24%	+16%
Unregulated markets	19	17	+9%	-	-	-	-	-	-	-	-	-	-	-	19	17	+9%	-3%
Total revenue	**224**	**195**	**+15%**	**85**	**58**	**+47%**	**+21%**	**82**	**67**	**+23%**	**25**	**20**	**+29%**	**+12%**	**416**	**339**	**+23%**	**+15%**
Underlying EBITDA															**111**	**59**	**+87%**	**+83%**
Underlying operating profit															**91**	**42**	**+114%**	**+117%**

£m	Online			Australia				Retail			US				Group			
	Q2 2017	**Q2 2016**	**% Change**	**Q2 2017**	**Q2 2016**	**% Change**	**A$ % Change**	**Q2 2017**	**Q2 2016**	**% Change**	**Q2 2017**	**Q2 2016**	**% Change**	**US$ % Change**	**Q2 2017**	**Q2 2016**	**% Change**	**CC[1] % Change**
Sportsbook stakes:	1,538	1,395	+10%	880	682	+29%	+14%	478	443	+8%					2,895	2,521	+15%	+9%
- Online	*1,443*	*1,295*	*+11%*	*804*	*567*	*+42%*	*+26%*								*2,247*	*1,862*	*+21%*	*+14%*
- Dial-a-bet / Phone	*95*	*100*	*-5%*	*76*	*115*	*-34%*	*-42%*								*170*	*215*	*-21%*	*-26%*
- Retail								*478*	*443*	*+8%*					*478*	*443*	*+8%*	*+2%*
Sportsbook net rev %	*5.7%*	*7.9%*	*-2.2%*	*10.1%*	*10.5%*	*-0.4%*	*-0.4%*	*10.9%*	*12.6%*	*-1.7%*					*7.9%*	*9.4%*	*-1.5%*	*-1.5%*
Sports revenue	155	180	-14%	89	71	+24%	+10%	52	56	-7%	25	21	+21%	+8%	321	328	-2%	-7%
Gaming revenue	60	65	-8%	-	-	-	-	26	24	+9%	4	3	+44%	+29%	90	92	-2%	-2%
Total revenue	**215**	**245**	**-12%**	**89**	**71**	**+24%**	**+10%**	**78**	**80**	**-2%**	**29**	**24**	**+24%**	**+11%**	**411**	**420**	**-2%**	**-6%**
Regulated markets	194	227	-14%	89	71	+24%	+10%	78	80	-2%	29	24	+24%	+11%	390	402	-3%	-7%
Unregulated markets	21	18	+13%	-	-	-	-	-	-	-	-	-	-	-	21	18	+13%	+11%
Total revenue	**215**	**245**	**-12%**	**89**	**71**	**+24%**	**+10%**	**78**	**80**	**-2%**	**29**	**24**	**+24%**	**+11%**	**411**	**420**	**-2%**	**-6%**
Underlying EBITDA															**109**	**122**	**-11%**	**-11%**
Underlying operating profit															**89**	**105**	**-16%**	**-15%**

[1] Constant currency ('CC'), with non-sterling denominated component in Q1 2016 and Q2 2016 retranslated at Q1 2017 and Q2 2017 exchange rates, respectively

Appendix 2: Reconciliation of Proforma comparative results to Statutory comparative results

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

£m	H1 2016 Comparatives		
	Proforma results	**Betfair results pre-merger completion**	**Statutory results**
Revenue	**759**	**50**	**709**
Cost of sales	(175)	(11)	(164)
Gross Profit	**584**	**39**	**545**
Operating costs	(403)	(26)	(377)
Underlying EBITDA	**180.9**	**13.1**	**167.8**
Depreciation & amortisation	(33.3)	(1.9)	(31.4)
Underlying operating profit	**147.6**	**11.2**	**136.4**
Net interest expense	(1.8)	(0.4)	(1.5)
Underlying profit before tax	**145.8**	**10.8**	**134.9**
Underlying taxation	(23.3)	(1.7)	(21.6)
Underlying profit for the year	**122.4**	**9.1**	**113.3**
Underlying basic earnings per share (pence)[1]	147.0	n/a	148.5
Underlying operating profit	**147.6**	**11.2**	**136.4**
Separately disclosed items	(195.1)	(14.3)	(180.8)
Operating loss	**(47.5)**	**(3.1)**	**(44.4)**
Net interest expense	(1.8)	(0.4)	(1.5)
Loss before tax	**(49.3)**	**(3.5)**	**(45.9)**
Taxation	(7.5)	(1.7)	(5.8)
Loss for the year	**(56.9)**	**(5.2)**	**(51.7)**
Basic loss per share (pence)[1]	(68.3)	n/a	(67.7)
Revenue by operating segment			
Online	440	44	396
Australia	129	-	129
Retail	147	-	147
US	43	6	37
Gross Profit by operating segment			
Online	339	34	305
Australia	97	-	97
Retail	115	-	115
US	33	4	29

[1] In the Proforma comparative results, in H1 2016 the weighted average number of shares is taken for the period from merger completion, 2 February 2016, to the end of the period, 30 June 2016 (83.3 million shares).

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

Appendix 3: Reconciliation of 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 deposits and borrowings to determine a net cash position, as reconciled in the table below. The merger of Paddy Power plc ("Paddy Power") and Betfair Group plc ("Betfair") completed on 2 February 2016, with the merger accounted for as an acquisition of Betfair by Paddy Power on that date. The Statutory comparative cash flow reflects this accounting treatment. The Proforma comparative cash flow for the Group is prepared as if Paddy Power and Betfair had always been merged and is included in the presented cash flow with the Operating and Financial Review, as it best depicts the underlying performance of the Group. The difference between the Statutory comparative cash flow and Proforma comparative cash flow is the cash flow of Betfair in the period prior to completion, as per the table below.

£m	Presented cash flow		Adjustment to comparative to exclude Betfair pre-merger completion cash flow	Adjustment to include borrowings		Reported cash flow	
	H1 2017	H1 2016 Proforma	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
Underlying EBITDA [1]	220	181	(13)	-	-	220	168
Capex[2]	(50)	(34)	1	-	-	(50)	(33)
Working capital & tax [3]	3	(7)	141	-	-	3	134
Underlying free cash flow	**172**	**140**	**129**	**-**	**-**	**172**	**269**
Cash flow from separately disclosed items	(8)	(63)	-	-	-	(8)	(63)
Free cash flow	**164**	**77**	**129**	**-**	**-**	**164**	**206**
Dividends paid	(95)	(145)	14	-	-	(95)	(131)
DRAFT acquisition	(14)	-	-	-	-	(14)	-
Interest[4]	(0)	(1)	-	-	-	(0)	(1)
Proceeds from issue of new shares	2	1	-	-	-	2	1
Net amounts drawn down on borrowings	-	-	-	(73)	48	(73)	48
Net increase / (decrease) in cash	**57**	**(69)**	**143**	**(73)**	**48**	**(16)**	**122**
Net cash at start of the period	**36**	**84**	**(141)**	**214**	**143**	**250**	**86**
Foreign currency exchange translation	(6)	(13)	(2)	4	20	(2)	5
Net cash at period end	**87**	**2**	**-**	**145**	**211**	**232**	**213**

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

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

[3] Working capital & tax includes increase in trade and other receivables, increase in trade, other payables and provisions, tax paid, cash acquired from merger with Betfair, employee equity-settled share based payments expense before separately disclosed items, and foreign currency exchange (loss) / gain. Note the H1 2016 adjustment to exclude Betfair pre-merger completion cash flow includes £147.5m of Betfair cash acquired on completion.

[4] Interest includes interest paid and interest received.

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

Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of H1 2016 at H1 2017 exchange rates as per the table below.

£m	H1 2017	Proforma H1 2016	% Change	H1 2016 FX impact	H1 2016 CC	CC% Change
Sportsbook stakes	5,594	4,810	+16%	334	5,144	+9%
- Online	4,326	3,533	+22%	245	3,778	+15%
- Dial-a-bet / Phone	335	426	-21%	38	464	-28%
- Retail	934	851	+10%	51	902	+4%
Sportsbook net rev %	*8.3%*	*8.5%*	*-0.2%*	-	*8.5%*	*-0.2%*
Sports net revenue	646	582	+11%	40	622	+4%
Gaming net revenue	181	177	+2%	-	177	+2%
Total net revenue	**827**	**759**	**+9%**	**40**	**799**	**+3%**
Regulated markets	787	723	9%	38	761	+3%
Unregulated markets	40	36	+11%	2	38	+4%
Total net revenue	**827**	**759**	**+9%**	**40**	**799**	**+3%**
Cost of sales	(189)	(175)	+8%	(10)	(185)	+2%
Gross Profit	**638**	**584**	**+9%**	**30**	**614**	**+4%**
Sales & marketing	(166)	(156)	+7%	(10)	(166)	Flat
Product & technology	(66)	(75)	-12%	(6)	(81)	-19%
Operations	(160)	(144)	+11%	(11)	(155)	+3%
Unallocated central costs	(27)	(28)	-4%	(1)	(29)	-8%
Operating costs	**(419)**	**(403)**	**+4%**	**(28)**	**(431)**	**-3%**
Underlying EBITDA	**220**	**181**	**+21%**	**2**	**183**	**+20%**
Depreciation & amortisation	(40)	(33)	+20%	(3)	(36)	+10%
Underlying operating profit	**180**	**148**	**+22%**	**(1)**	**147**	**+22%**
Revenue by division						
Online	439	440	Flat	7	447	-2%
Australia	173	129	+34%	22	151	+15%
Retail	160	147	+9%	6	153	+5%
US	55	43	+26%	6	49	+11%
Underlying EBITDA by division						
Online	148	140	+6%	(5)	136	+9%
Australia	54	30	+77%	5	35	+52%
Retail	37	31	+20%	2	33	+15%
US	7	7	+5%	1	8	-11%
Unallocated central costs	(27)	(28)	-4%	(1)	(29)	-8%

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE HALF YEARLY FINANCIAL REPORT
For the six months ended 30 June 2017

Each of the Directors confirm their responsibility for preparing the half yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority ("FCA") and with IAS 34 'Interim Financial Reporting' as adopted by the EU, and that to the best of our knowledge:

a) the condensed consolidated interim financial statements comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of 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 Notes 1 to 18 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

b) the interim management report includes a fair review of the information required by:

    i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007 and the Disclosure Guidance and Transparency Rules of the UK FCA, 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) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007 and the Disclosure Guidance and Transparency Rules of the UK FCA, 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 2016 Annual Report that could do so.

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future, a period of not less than twelve months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

On behalf of the Board

Breon Corcoran
Chief Executive Officer

Alex Gersh
Chief Financial Officer

8 August 2017

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 56 to 59 in the Group's Annual Report and Accounts 2016 (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, consumer protection or legislative environment, including interpretations or practices, applicable to the Group's activities in the various markets in which the Group operates including those markets where no regulatory framework exists and the related risks from limitation of business activities or litigation by third parties can make it commercially challenging for us to operate or restrict our ability to grow the business. Breaches of regulations can damage reputations as well as lead to fines, investigation and affect future growth. We have dedicated internal and external Legal, Compliance and Tax teams with responsibility for advising businesses 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 which they have responsibility for guiding business units in their management of compliance matters. Management reports periodically to the Audit Committee and the Risk Committee on the application of various laws and regulations by relevant jurisdiction to ensure they are appropriately understood and managed. The Group's internal and external auditors report the findings of their audit procedures to the Audit Committee on relevant compliance matters.

- 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 through software, infrastructure and system issues could result in a poor customer experience and may impact customer loyalty impacting our ability to grow the business. We continuously invest in a cost-effective technology platform to ensure stability and availability, to eliminate single points of failure and improve performance. Robust development and change management processes help reduce the risk of unplanned outages.

- Competition /Brand - The intensity of competition in the Group's markets and the Group's ability to successfully compete can impact revenue or margins. The Group has a programme of brand investment and corporate communications to maintain and enhance its market position. The Group also develops products with an emphasis on mobile products and innovative features and acquisition through marketing.

- Data 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 has made significant investment in IT security resources and partners with a variety of external security specialists to ensure security arrangements and systems are up to date with emerging threats. The Group's Information and Security function continuously assesses the risks and controls around security and IT operations. We have a number of data protection policies in place in order to protect the privacy rights of individuals in accordance with the relevant data protection legislation including working towards the new EU-wide General Data Protection Regulation which comes into force in 2018. The Group's Legal and Compliance teams ensure the business adheres to industry best practice standards and relevant laws of data protection compliance.

- Reliance on third parties and key supplier relationships - 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 the Group is protected. The Group monitors the performance of third party suppliers in order to ensure the efficiency and quality of contract performance.

- Business continuity planning and disaster recovery - The ability of the Group to maintain, develop and avoid disruption to its key information technology systems. A significant outage or unavailability of any of our products can cause reduction in revenue and loss of customers. 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.

- Key employees recruitment and retention - The ability of the Group to attract, retain and motivate passionate and highly skilled employees post-Merger in an intensely competitive environment is key. The Board reviews key positions through the Remuneration and Nominations Committees. The Executive Directors and key employees are part of medium or long term incentive plans which reward performance and loyalty. All employees are subject to regular salary review, a comprehensive benefit package and are afforded the opportunity to join (subject to local requirements) our employee save as you earn share scheme which provides an opportunity for them to participate in the Group's performance. Our HR function actively manages succession planning and the processes that are in place throughout the business to identify key roles and conduct regular appraisals, succession and talent reviews as well as career development opportunities.

- Financial exposure and financial reporting - Instances of fraud, error or misstatement in financial reporting statements could have a material impact on the Group and be damaging to our reputation. The Merger transaction was a complex, significant and highly material transaction involving valuation, taxation and accounting expertise to complete. Appropriate accounting for this transaction is critical in ensuring the Financial Statements are free from material misstatement. There are standard processes and controls in place to detect and prevent any attempted fraud or material financial errors. Both during and post the Merger professional advice was sought from a variety of advisers to ensure appropriate actions were taken. The Board and Committees received various presentations from relevant teams to gain assurance that a robust process was undertaken. The External Auditor has performed appropriate procedures to conclude on the accuracy of the valuation, taxation and accountancy work and the appropriateness of the associated disclosures.

- Health and Safety – A major health and safety incident in our retail betting shops would have a material impact upon staff and could lead to significant reputational damage as well as fines and regulatory actions. There are processes in place to manage the risks in our retail betting shops including health and safety structures, staffing rules and loss prevention and security measures. There are a number of risk assessments conducted in shops at various stages of the lifecycle. In addition, a formal incident management process and follow up procedures reduce the likelihood of repeat issues.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 30 June 2017

	Note	**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**	Before separately disclosed items Six months ended 30 June 2016 (unaudited) £m	Separately disclosed items (Note 5) Six months ended 30 June 2016 (unaudited) £m	Total Six months ended 30 June 2016 (unaudited) £m
Continuing operations							
Revenue	4	**827.0**	**-**	**827.0**	708.8	-	708.8
Cost of sales		**(188.7)**	**-**	**(188.7)**	(164.0)	-	(164.0)
Gross profit		**638.3**	**-**	**638.3**	544.8	-	544.8
Operating costs excluding depreciation and amortisation		**(418.6)**	**(5.2)**	**(423.8)**	(377.0)	(97.9)	(474.9)
EBITDA [1]		**219.7**	**(5.2)**	**214.5**	167.8	(97.9)	69.9
Depreciation and amortisation		**(40.1)**	**(70.1)**	**(110.2)**	(31.4)	(82.9)	(114.3)
Operating profit / (loss)		**179.6**	**(75.3)**	**104.3**	136.4	(180.8)	(44.4)
Financial income		**0.7**	**-**	**0.7**	0.8	-	0.8
Financial expense		**(2.7)**	**-**	**(2.7)**	(2.3)	-	(2.3)
Profit / (loss) before tax		**177.6**	**(75.3)**	**102.3**	134.9	(180.8)	(45.9)
Tax (expense) / credit	6	**(25.6)**	**9.7**	**(15.9)**	(21.6)	15.8	(5.8)
Profit / (loss) for the period – all attributable to equity holders of the Company		**152.0**	**(65.6)**	**86.4**	113.3	(165.0)	(51.7)
Earnings / (loss) per share							
Basic	7			**£1.029**			(£0.677)
Diluted [2]	7			**£1.020**			(£0.677)

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

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Note	**Six months ended 30 June 2017 (unaudited) £m**	Six months ended 30 June 2016 (unaudited) £m
Profit / (loss) for the period – all attributable to equity holders of the Company		**86.4**	(51.7)
Other comprehensive income / (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges		**-**	6.7
Fair value of foreign exchange cash flow hedges transferred to income statement		**-**	(4.5)
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated entities		**(24.4)**	15.4
Deferred tax on fair value of cash flow hedges		**-**	(0.3)
Other comprehensive (loss) / income		**(24.4)**	17.3
Total comprehensive income / (loss) for the period – all attributable to equity holders of the Company		**62.0**	(34.4)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	30 June 2017 (unaudited) £m	31 December 2016 (audited) £m
Assets			
Property, plant and equipment		**140.8**	134.0
Intangible assets		**509.0**	581.2
Goodwill	8	**3,900.8**	3,891.1
Deferred tax assets		**10.0**	8.6
Investments		**0.1**	0.1
Available-for-sale financial assets		**1.3**	1.3
Trade and other receivables		**5.4**	5.8
Total non-current assets		**4,567.4**	4,622.1
Trade and other receivables		**60.5**	55.2
Financial assets – restricted cash	10	**74.1**	64.8
Cash and cash equivalents	10	**232.0**	249.9
Total current assets		**366.6**	369.9
Total assets		**4,934.0**	4,992.0
Equity			
Issued share capital and share premium		**419.5**	417.2
Treasury shares		**(40.7)**	(40.7)
Shares held by employee benefit trust		**(19.2)**	(30.9)
Other reserves		**127.9**	173.0
Retained earnings		**3,821.9**	3,798.0
Total equity attributable to equity holders of the Company		**4,309.4**	4,316.6
Liabilities			
Trade and other payables	11	**326.5**	320.6
Derivative financial liabilities	11	**15.6**	8.6
Provisions		**3.2**	4.6
Current tax payable		**40.4**	38.8
Borrowings	13	**0.1**	0.2
Total current liabilities		**385.8**	372.8
Trade and other payables	11	**38.3**	26.9
Provisions		**1.1**	1.1
Deferred tax liabilities		**54.3**	61.0
Borrowings	13	**145.1**	213.6
Total non-current liabilities		**238.8**	302.6
Total liabilities		**624.6**	675.4
Total equity and liabilities		**4,934.0**	4,992.0

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the six months ended 30 June 2017

	Note	**Six months ended 30 June 2017 (unaudited) £m**	Six months ended 30 June 2016 (unaudited) £m
Cash flows from operating activities			
Profit / (loss) for the period – all attributable to equity holders of the Company		**86.4**	(51.7)
Separately disclosed items	5	**65.6**	165.0
Tax expense before separately disclosed items		**25.6**	21.6
Financial income		**(0.7)**	(0.8)
Financial expense		**2.7**	2.3
Depreciation and amortisation before separately disclosed items		**40.1**	31.4
Employee equity-settled share-based payments expense before separately disclosed items		**15.4**	9.5
Foreign currency exchange loss / (gain)		**0.8**	(0.9)
Loss on disposal of property, plant and equipment and intangible assets		**-**	0.2
Cash from operations before changes in working capital		**235.9**	176.6
Increase in trade and other receivables		**(5.2)**	(8.9)
Increase in trade, other payables and provisions		**14.0**	5.4
Cash generated from operations		**244.7**	173.1
Tax paid		**(22.1)**	(18.8)
Net cash from operating activities before merger fees and integration and restructuring costs		**222.6**	154.3
Merger fees and integration and restructuring costs paid		**(7.7)**	(62.9)
Net cash from operating activities		**214.9**	91.4
Purchase of property, plant and equipment		**(12.5)**	(12.9)
Purchase of intangible assets		**(27.5)**	(16.4)
Cash acquired from merger with Betfair Group plc		**-**	147.5
Purchase of businesses, net of cash acquired	9	**(14.4)**	(0.1)
Capitalised internal development expenditure		**(9.0)**	(2.1)
Payment of contingent deferred consideration	9	**(1.4)**	(1.3)
Interest received		**0.7**	0.7
Net cash (used in) / from investing activities		**(64.1)**	115.4
Proceeds from the issue of new shares		**2.2**	0.8
Dividends paid	14	**(94.7)**	(108.8)
Net amounts (repaid) / drawn down on borrowings facility		**(73.1)**	47.9
Interest paid		**(0.9)**	(1.7)
Betfair Group plc closing dividend	14	**-**	(22.6)
Net cash used in financing activities		**(166.5)**	(84.4)
Net (decrease) / increase in cash and cash equivalents		**(15.7)**	122.4
Cash and cash equivalents at start of period		**249.9**	86.1
Foreign currency exchange (loss) / gain on cash and cash equivalents		**(2.2)**	4.7
Cash and cash equivalents at end of period	10	**232.0**	213.2

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 15)	***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 14)	-	-	-	-	-	-	-	**(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**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2016

	Attributable to equity holders of the Company									
(unaudited)	*Number of ordinary shares in issue millions*	Restated Issued share capital and share premium £m	Restated Foreign exchange translation reserve £m	Restated Cash flow hedge reserve £m	Restated Other reserves £m	Restated Treasury shares £m	Restated Shares held by employee benefit trust £m	Restated Share-based payment reserve £m	Restated Retained earnings £m	Restated Total equity £m
Balance at 1 January 2016	*46.0*	8.7	(20.2)	1.5	1.7	(40.7)	(49.2)	25.5	123.6	50.9
Total comprehensive income / (loss) for the period										
Loss for the period	-	-	-	-	-	-	-	-	(51.7)	(51.7)
Foreign exchange translation	-	-	15.4	-	-	-	-	-	-	15.4
Net change in fair value of cash flow hedge reserve	-	-	-	2.2	-	-	-	-	-	2.2
Deferred tax on cash flow hedges	-	-	-	(0.3)	-	-	-	-	-	(0.3)
Total comprehensive income / (loss) for the period	-	-	15.4	1.9	-	-	-	-	(51.7)	(34.4)
Transactions with owners of the Company, recognised directly in equity										
Shares issued (Note 15)	*0.1*	0.8	-	-	-	-	-	-	-	0.8
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	16.6	-	16.6
Equity-settled transactions – vestings	-	-	-	-	-	-	11.9	(13.3)	1.7	0.3
Deferred tax on share based payments	-	-	-	-	-	-	-	-	(1.3)	(1.3)
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(0.2)	0.2	-
Shares issued as consideration for acquisition of Betfair Group plc (Note 15)	*39.6*	4,202.3	-	-	-	-	-	-	-	4,202.3
Capital reduction (Note 15)	-	(3,796.3)	-	-	-	-	-	-	3,796.3	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	(108.8)	(108.8)
Issue of replacement share options (Note 9)	-	-	-	-	-	-	-	111.4	-	111.4
Replacement share options – expense recorded in income statement (Note 5)	-	-	-	-	-	-	-	13.4	-	13.4
Total contributions by and distributions to owners of the Company	*39.7*	406.8	-	-	-	-	11.9	127.9	3,688.1	4,234.7
Balance at 30 June 2016	*85.7*	415.5	(4.8)	3.4	1.7	(40.7)	(37.3)	153.4	3,760.0	4,251.2

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 2017 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 LLP, 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 2016, 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 8 August 2017.

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 Republic of Ireland's Financial Regulator 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), assets available-for-sale, 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 2016.

Amendments to existing standards

During the period, a number of amendments to existing accounting standards became effective. These have been considered by the directors and have not had a significant impact on the Group's consolidated 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 and 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 2016.

4. Operating segments

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

Reportable business segment information
The Group'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 (including the exchange sports betting product) and gaming services provided to US customers via the internet.

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

The accounting policies in respect of operating segments reporting are the same as those described in the basis of preparation and summary of significant accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2016.

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

4. Operating segments (continued)

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

Reportable business segment information for the 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 and amortisation	**(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**
Separately disclosed items (Note 5):						
- Amortisation of merger related intangible assets						**(70.1)**
- Replacement share options						**(5.2)**
Operating profit						**104.3**

Reportable business segment information for the six months ended 30 June 2016:

	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Revenue from external customers	395.9	129.0	146.8	37.1	-	708.8
Cost of sales	(91.1)	(32.5)	(32.0)	(8.4)	-	(164.0)
Gross profit	304.8	96.5	114.8	28.7	-	544.8
Operating costs excluding depreciation and amortisation	(180.0)	(66.2)	(83.6)	(22.9)	(24.3)	(377.0)
EBITDA [1]	124.8	30.3	31.2	5.8	(24.3)	167.8
Depreciation and amortisation	(15.7)	(4.2)	(8.2)	(3.3)	-	(31.4)
Reportable segment profit / (loss) before separately disclosed items	109.1	26.1	23.0	2.5	(24.3)	136.4
Separately disclosed items (Note 5):						
- Merger fees and associated costs						(35.5)
- Integration and restructuring costs						(49.0)
- Amortisation of merger related intangible assets						(78.9)
- Replacement share options						(13.4)
- Impairment of property, plant and equipment and intangible assets						(4.0)
Operating loss						(44.4)

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

4. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Revenue		
Total revenue from reportable segments, being total Group revenue	**827.0**	708.8
Profit and loss		
Operating profit / (loss)	**104.3**	(44.4)
Unallocated amounts:		
Financial income – non-Australia [1]	**0.2**	0.4
Financial income – Australia	**0.5**	0.4
Financial expense – non-Australia [1]	**(2.6)**	(2.3)
Financial expense – Australia	**(0.1)**	-
Profit / (loss) before tax	**102.3**	(45.9)

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

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 2017 £m	Six months ended 30 June 2016 £m
Merger fees and associated costs	**-**	(35.5)
Integration and restructuring costs	**-**	(49.0)
Amortisation of merger related intangible assets	**(70.1)**	(78.9)
Replacement share options	**(5.2)**	(13.4)
Impairment of property, plant and equipment and intangible assets	**-**	(4.0)
Operating profit / (loss) impact of separately disclosed items	**(75.3)**	(180.8)
Tax credit on separately disclosed items	**9.7**	15.8
Total separately disclosed items	**(65.6)**	(165.0)

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

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

Amortisation of merger related intangible assets
Non-cash amortisation of £70.1m has been incurred in the period (six months ended 30 June 2016: £78.9m) primarily as a result of intangible assets separately identified under IFRS 3 as a result of the Merger.

Replacement share options
Under the terms of the Merger, outstanding unvested share option awards granted under the Betfair Long Term Incentive Plan in 2013/14, 2014/15 and 2015/16 and the Betfair Sharesave Plans would not vest on completion but would be replaced by share option awards over an equivalent number of ordinary shares in the Company, calculated by reference to the exchange ratio of 0.4254. Whilst the awards will vest in line with their previous terms, the replacement of the options, under IFRS 3, requires them to be accounted for at fair value on acquisition. As a result, non-cash accounting charges of £5.2m were incurred in the period (six months ended 30 June 2016: £13.4m).

Impairment of property, plant and equipment and intangible assets
In 2016, non-cash impairments amounting to £4.0m in relation to certain property, plant and equipment and intangible assets were incurred in light of integration related activities post-Merger. There were no such impairments in the six months ended 30 June 2017.

Merger fees and associated costs, integration and restructuring costs and replacement share options are included in the Condensed Consolidated Interim Income Statement within operating costs excluding depreciation and amortisation. Amortisation of merger related intangible assets and impairment of property, plant and equipment and intangible assets are included in the Condensed Consolidated Interim Income Statement within depreciation and amortisation.

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 for the period was 14.4% (six months ended 30 June 2016: 16.0%), which compares to the standard Irish corporation tax rate of 12.5%. A tax credit on separately disclosed items amounting to £9.7m was accounted for in the period ended 30 June 2017 (six months ended 30 June 2016: £15.8m) (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 Group's Employee Benefit Trust ("EBT").

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

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Numerator in respect of basic and diluted earnings per share (£m):		
Profit / (loss) attributable to equity holders of the Company	**86.4**	(51.7)
Numerator in respect of adjusted earnings per share (£m):		
Profit / (loss) attributable to equity holders of the Company	**86.4**	(51.7)
Separately disclosed items (Note 5)	**65.6**	165.0
Profit for adjusted earnings per share calculation	**152.0**	113.3
Weighted average number of ordinary shares in issue during the period (in '000s)	**83,925**	76,275
Basic earnings / (loss) per share	**£1.029**	(£0.677)
Adjusted basic earnings per share	**£1.811**	£1.485
Adjustments to derive denominator in respect of diluted earnings per share (in '000s):		
Weighted average number of ordinary shares in issue during the period	**83,925**	76,275
Dilutive effect of share options and awards on issue	**805**	-
Adjusted weighted average number of ordinary shares in issue during the period	**84,730**	76,275
Diluted earnings / (loss) per share	**£1.020**	(£0.677)
Adjusted diluted earnings per share	**£1.794**	£1.485

The average market value of the Company's shares of £85.22 (30 June 2016: £93.16) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

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

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 2016	9.8	38.0	-	16.2	15.9	79.9
Arising on acquisitions during the period (Note 9)	3,420.9	-	324.5	0.1	0.1	3,745.6
Foreign currency translation adjustment	1.6	7.2	52.5	1.6	2.7	65.6
Balance at 31 December 2016	3,432.3	45.2	377.0	17.9	18.7	3,891.1
Arising on acquisitions during the period (Note 9)	**-**	**-**	**27.3**	**-**	**0.2**	**27.5**
Foreign currency translation adjustment	**0.3**	**0.5**	**(19.5)**	**0.2**	**0.7**	**(17.8)**
Balance at 30 June 2017	**3,432.6**	**45.7**	**384.8**	**18.1**	**19.6**	**3,900.8**

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).

9. Business combinations

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. The acquisition provides the Group with exposure to a fast-growing market and complements our other businesses in the United States. The initial cash consideration paid on completion was $19m with further cash consideration of up to $29m payable over the next four years.

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

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

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

The principal factors contributing to the goodwill relate to the differentiated product, the strong management team and the marketing and technology expertise that can be provided by the rest of the Group. Information in respect of revenue, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the period ended 30 June 2017 has not been presented on the basis of immateriality.

9. Business combinations (continued)

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

	Provisional 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**

The principal factors contributing to the Irish Retail goodwill balance is the well-established nature of the acquired business within the location in which it operates and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business within the group. Information in respect of revenue, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the period ended 30 June 2017 has not been presented on the basis of immateriality.

Six months ended 30 June 2016

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

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

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

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

9. Business combinations (continued)

	As at 2 February 2016 £m
Assets	
Property, plant and equipment	18.8
Intangible assets	680.5
Available-for-sale financial asset and Investments	1.4
Total non-current assets	700.7
Trade and other receivables	22.9
Financial assets – restricted cash	17.1
Cash and cash equivalents	147.5
Total current assets	187.5
Total assets	888.2
Liabilities	
Trade and other payables	184.9
Provisions	4.3
Current tax payable	33.2
Total current liabilities	222.4
Trade and other payables	20.9
Deferred tax liabilities	76.6
Total non-current liabilities	97.5
Total liabilities	319.9
Net assets acquired	**568.3**
Goodwill	**3,745.4**
Consideration	**4,313.7**

The consideration is analysed as:	
Issue of 39,590,574 PPB plc ordinary shares	4,202.3
Issue of replacement share options	111.4
Consideration	**4,313.7**

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

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

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

9. Business combinations (continued)

The Betfair Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements. Given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted. No contingent liabilities have been booked on acquisition. Merger and acquisition costs in respect of this acquisition can be found in Note 5.

Shop property business acquisitions

In 2016, the Group, in the absence of available comparable sites for organic shop openings, acquired a licensed bookmaking business in the UK.

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

	Fair values 30 June 2016 £m
Goodwill arising on acquisition – UK Retail	0.1
Consideration	0.1
The consideration is analysed as:	
Cash consideration	0.1

The principal factors contributing to the UK Retail goodwill balance is the well-established nature of the acquired business within the location in which it operates and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business 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 2016 has not been presented on the basis of immateriality.

Net cash outflow / (inflow) from purchase of businesses

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Cash consideration – acquisitions in the period	**14.4**	0.1
Cash consideration – acquisitions in previous periods	**1.4**	1.3
Cash and cash equivalents acquired	**-**	(147.5)
	15.8	(146.1)
Analysed for the purposes of the statement of cash flows as:		
Cash acquired from merger with Betfair Group plc	**-**	(147.5)
Purchase of businesses, net of cash acquired	**14.4**	0.1
Payment of contingent deferred consideration	**1.4**	1.3
	15.8	(146.1)

10. Financial assets and cash and cash equivalents

	30 June 2017	31 December 2016
	£m	£m
Financial assets – restricted cash	**74.1**	64.8
Cash and cash equivalents	**232.0**	249.9
	306.1	314.7

Included in financial assets – restricted cash at 30 June 2017 are bank deposits which were either (1) restricted at that date, as they represented customer funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities. These customer funds that are not held in trust are matched by liabilities of equal value.

As at 30 June 2017, £341.8m (31 December 2016: £349.2m) was held in trust in The Sporting Exchange (Clients) Limited on behalf of the Group's customers and is equal to the amounts deposited into customer accounts. These balances are not consolidated and not reported in the condensed consolidated statement of financial position for the Group.

11. Trade and other payables and derivative financial liabilities

Current liabilities

	30 June 2017	31 December 2016
	£m	£m
Trade and other payables		
Trade payables	**12.6**	9.8
Accruals and other payables	**313.9**	310.8
	326.5	320.6
Derivative financial liabilities		
Sports betting open positions	**15.6**	8.6

Non-current liabilities

	30 June 2017	31 December 2016
	£m	£m
Trade and other payables		
Accruals and other payables	**38.3**	26.9

Included in non-current accruals and other payables is deferred and contingent consideration of £31.8m due to Betfair's historical acquisition of HRTV, a horseracing television network based in the United States, and Paddy Power Betfair's acquisition of DRAFT in 2017, a daily fantasy sports operator in the United States. The amount payable at 30 June 2017 amounted to £35.5m, with £31.8m due after one year from the reporting date.

12. Financial instruments

Carrying amounts versus fair values

There are no differences between the fair values of financial assets and financial liabilities at 30 June 2017 or 31 December 2016 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.

	30 June 2017			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Available-for-sale financial assets	**-**	**1.3**	**-**	**1.3**
Derivative financial liabilities	**-**	**-**	**(15.6)**	**(15.6)**
Non-derivative financial liabilities	**-**	**-**	**(35.5)**	**(35.5)**
Total	**-**	**1.3**	**(51.1)**	**(49.8)**

	31 December 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets	-	1.3	-	1.3
Derivative financial liabilities	-	-	(8.6)	(8.6)
Non-derivative financial liabilities	-	-	(24.1)	(24.1)
Total	-	1.3	(32.7)	(31.4)

12. Financial instruments (continued)

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:

Available-for-sale financial assets
The fair value of available-for-sale financial assets is valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Derivative financial liabilities
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. The fair value calculation also includes the impact of any hedging activities in relation to these open positions.

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
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The contingent deferred consideration payable balance represents management's best estimate of the fair value of the amounts that will be payable discounted as appropriate, using a market interest rate. The fair value was estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios. The significant unobservable inputs are the performance of the acquired businesses.

The fair value of contingent deferred consideration is primarily dependent on the future performance of both the acquired businesses and the Group against predetermined targets and on management's current expectations thereof. The amount payable at the period end amounted to £35.5m, with £31.8m due after one year from the reporting date. There are no reasonably probable changes to assumptions and inputs that would lead to a material change in the fair value of the total amount payable.

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 2016.

13. Borrowings

Current liabilities

	30 June 2017	31 December 2016
	£m	£m
Accrued interest on borrowings	**0.1**	0.2

Non-current liabilities

	30 June 2017	31 December 2016
	£m	£m
Revolving credit facility	**145.1**	214.0
Less: expenses relating to revolving credit facility	**-**	(0.4)
	145.1	213.6

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300 million provided by a syndicate of banks which expires in May 2020. At 30 June 2017, €165m (£145.1m) (31 December 2016: €250m (£214.0m)) 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 EURIBOR plus a margin of between 1.10% and 1.95%. A commitment fee, equivalent to 35% of the margin, is payable in respect of available but undrawn borrowings.

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 2017, all covenants have been complied with.

14. Dividends paid on ordinary shares

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Ordinary shares:		
- final dividend of £1.13 per share for the year ended 31 December 2016 (31 December 2015: €1.20 (£0.933))	**94.7**	**40.8**
- special dividend of €1.814 (£1.411) per share	**-**	**61.9**
- Paddy Power plc closing dividend of €0.18 (£0.140) per share	**-**	**6.1**
	94.7	**108.8**

The Directors have proposed an interim dividend of 65.0 pence per share which will be paid on 22 September 2017 to shareholders on the Company's register of members at the close of business on the record date of 25 August 2017. This dividend, which amounts to approximately £55m, has not been included as a liability at 30 June 2017.

The interim dividend for the period ended 30 June 2016 was 40.0 pence per share, amounting in total to £33.5m.

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

During the period ended 30 June 2016, the Group paid the Betfair Group plc closing dividend amounting to £22.6m, which represented the period prior to Merger completion.

15. Changes in equity

During the six month period ended 30 June 2017, 341,093 ordinary shares (six months ended 30 June 2016: 79,435) were issued as a result of the exercise of share options, giving rise to a share premium of £2.3m (six months ended 30 June 2016: £0.8m).

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

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

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

A total of 1,965,600 ordinary shares were held in treasury as of 30 June 2017 and 30 June 2016. 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 2017 (30 June 2016: £40.7m). At 30 June 2017, the Paddy Power Betfair plc Employee Benefit Trust (the "EBT") held a further 276,504 of its own shares (30 June 2016: 601,769 shares), in respect of potential future awards relating to the Group's employee share plans. The Group's distributable reserves at 30 June 2017 and 30 June 2016 are further restricted by these respective amounts.

15. Changes in equity (continued)

As detailed in the condensed consolidated interim statement of changes in equity during the six month period ended 30 June 2017, 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 201,888 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 2017 (six months ended 30 June 2016: 273,121 shares).

The movement in the foreign exchange translation reserve in the six months to 30 June 2017 reflects the weakening of USD against GBP in the period, partially offset by the strengthening of AUD and EUR against GBP in the period.

The cash flow hedge reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred at that date. The Group entered into foreign exchange forward contracts to hedge a portion of GBP exposures in Euro companies expected to arise from GBP denominated revenue in the second half of 2016. The fair value gain of £3.4m at 30 June 2016 (which is stated after applicable deferred taxation of £0.5m arises as the applicable forward contract EUR-GBP rates were stronger than the relevant forward foreign exchange rate ruling at 30 June 2016). No such contracts were outstanding at 30 June 2017.

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a net wealth tax reserve.

16. 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 13, borrowings under the RCF are unsecured but are guaranteed by the Company and certain of its operating subsidiaries.

17. Related parties

There were no material transactions with related parties during the six months ended 30 June 2017 or 30 June 2016 or the year ended 31 December 2016.

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

18. Events after the reporting date

Dividend

In respect of the current period, the Directors propose that an interim dividend of 65.0 pence per ordinary share of EUR 0.09 each (2016: 40.0 pence per share) be paid to shareholders on 22 September 2017. 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 25 August 2017. The total estimated dividend to be paid amounts to £55m (2016: £33.5m).

INDEPENDENT REVIEW REPORT TO PADDY POWER BETFAIR PLC

Conclusion

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 2017 which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of 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.

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 financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, the TD regulations and the Transparency Rules of the Central Bank of Ireland and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board. 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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and 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.

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 TD Regulations and the Transparency Rules of the Central Bank of Ireland and the DTR of the UK FCA.

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 preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 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.

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 2004/109/EC) Regulations 2007 ('the TD Regulations') and The Transparency Rules of the Central Bank of Ireland and the DTR of the UK FCA. 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.

Michael Harper
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

8 August 2017