24 August 2016

Paddy Power Betfair plc

2016 Interim Results Announcement

Momentum maintained; merger integration progressing ahead of schedule

Paddy Power Betfair plc (the "Group"), one of the leading sports betting and gaming groups in the world, announces interim results for the six months ended 30 June 2016 (the "period").

H1 highlights[1]

- Revenue up 18% to £759m, with double-digit growth in all four divisions:
  - Online revenue up 20% to £440m, with sportsbook stakes up 20%;
  - Australia revenue up 17%[2] to £129m, with sportsbook stakes up 30%[2];
  - Retail revenue up 12% to £147m, with sportsbook stakes up 10%; and
  - US revenue up 16%[2] to £43m
- Operating leverage delivered underlying EBITDA growth of 31% to £181m, notwithstanding a £37m (+31%) increase in marketing spend
- Interim dividend of 40 pence per share takes total dividends for the period to 52 pence per share (closing dividends paid on merger relating to January 2016 equated to 12 pence per share)

Q2 highlights[1]

- Revenue up 20% to £420m, including a strong Euro 2016 performance
- Underlying EBITDA up 33% to £122m and underlying operating profit up 40% to £105m

Merger update and outlook

- Merger integration progressing ahead of plan with the majority of actions already completed
- Now expecting £65m of cost synergies with the full benefit to be achieved in 2017, a year earlier than originally envisaged
- Full year 2016 proforma underlying EBITDA is expected to be between £365m and £385m

Breon Corcoran, Chief Executive, commented:

"Paddy Power Betfair has sustained good momentum through a period of considerable change. The restructuring is now largely complete and the merger synergies are being delivered ahead of schedule.

We are creating a world-class operation by exploiting the unique assets and capabilities of each legacy business, particularly in the key functions of technology, marketing and trading.

While our industry remains highly competitive and is exposed to the prevailing economic and regulatory environments, our strong market positions, increased scale and enhanced capabilities position us well for sustainable, profitable growth".

Financial summary

	Proforma results			Reported results	
	H1 2016 £m	H1 2015 £m	Change %	H1 2016 £m	H1 2015 £m
Net revenue	759	642	+18%	709	387
Underlying EBITDA	181	138	+31%	168	79
Underlying operating profit	148	106	+39%	136	60
Separately disclosed items	(195)	-	n/a	(181)	-
Operating loss after merger related items	(48)	106	n/a	(44)	60
Underlying earnings per share	147.0p	107.7p	+36%	148.5p	109.3p
Earnings / (loss per share)	(68.3)p	107.7p	n/a	(67.7)p	109.3p
Interim dividends per share	52p	n/a			

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 results reflect this accounting treatment but this announcement also includes results prepared on a "Proforma" basis for the Group as if Paddy Power and Betfair had always been merged as this best reflects the performance of the Group. Proforma results have been prepared using the full 6 month results of Paddy Power and Betfair for H1 2016 and H1 2015. As the statutory results for H1 2016 only include Betfair results since the merger completion on 2 February 2016 and no Betfair results for H1 2015, it is not considered meaningful to discuss the operating results of the Group using the statutory results. Accordingly the Operating and Financial Review has been prepared using the proforma results as this best reflects the performance of the Group. A reconciliation between the statutory and proforma financials is included in Appendix 3.

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[1] Proforma basis, see appendix 3 for reconciliation to statutory results
[2] Growth rates 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 01296 311 600 from the UK, (01) 242 1074 from Ireland and +44 1296 311 600 from elsewhere. The passcode is 479 379 97

A presentation replay facility will be available later today on our corporate website: https://www.paddypowerbetfair.com/investor-relations/results-centre/2016.

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About Paddy Power Betfair

Paddy Power Betfair plc is one of the leading sports betting and gaming groups in the world.

The business was formed from the February 2016 merger of Paddy Power plc and Betfair Group plc and has four divisions:

Online, *which runs two of Europe's leading online sports betting and gaming brands, Paddy Power and Betfair, as well as a telephone based sportsbook and a number of B2B partnerships*

Australia, *consisting of Sportsbet, the market leader in the fast-growing Australian online betting market*

US, *which combines TVG, America's leading horse-racing TV and betting network, Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange*

Retail, *which operates over 600 Paddy Power betting shops across the UK and Ireland, employing 5,000 people.*

Following the successful merger, Paddy Power Betfair's strategy is to create and sustain a world class, high performing business by strengthening or developing leading positions in large regulated markets. This will be achieved by generating superior returns through scale, capability and innovation, fuelled by focussed investment in people, technology, product, risk, trading and marketing, primarily in mobile online sports betting.

Business Overview

The merger between Paddy Power and Betfair completed on 2 February 2016, creating a Group with leading positions in the largest regulated online markets as well as exposure to a number of other international markets. The Group has leading, differentiated sports betting products, a portfolio of distinctive, complementary brands, and significant in-house technology and marketing capabilities.

H1 performance[1]

The focus in the first half of the financial year has been on integrating the legacy businesses efficiently while minimising disruption to the Group's trading momentum. Revenue was up 18% with good performances across all four divisions and operating leverage resulted in a 31% increase in underlying EBITDA to £181m. At key trading events, including Cheltenham, the Grand National and Euro 2016, our marketing, technology and operations performed well despite the considerable operational change within the organisation.

Integration and delivery of cost synergies

The objectives of the integration are to achieve an optimal operational structure, to create a new corporate culture and identity, and to realise cost synergies.

The integration is progressing ahead of schedule. Key integration actions include the appointment of the senior management team, rationalisation of duplicated roles, shifting of technology resources to our existing European development centres, closure of five offices and the consolidation of our data centres. We are also realising cost synergies from procurement savings, in areas such as marketing agencies, payment providers and data feeds, and from the reduced use of third-party suppliers, in areas such as gaming content, product development, digital marketing, and risk and trading.

We now expect to realise ongoing cost synergies of £65m per annum with the full benefit to be achieved in 2017 (c.£30m benefit in 2016, of which £9m was delivered in the first half). This compares to our initial £50m target and will be delivered a year earlier than initially expected. The one-off cash implementation costs to achieve the synergies are still expected to be less than £65m (£49m of which was incurred in H1 2016).

Strategic update

Before the merger, Paddy Power and Betfair had many shared strategic priorities. Each company focussed investment in the areas of the market with the highest growth rates, prioritising investment in online, sports, mobile channels and regulated jurisdictions. Both companies recognised that investing heavily in product, marketing, technology and talent is crucial to success in online gaming. This approach will remain unchanged in the combined Group as we look to maintain, and where possible extend, our leading market positions and capabilities.

To maximise our competitive advantage and achieve sustainable profitable growth our three key areas of focus are:

- ***Combining the best assets and capabilities of each legacy business***
- ***Optimising our brand positioning in the UK and Ireland***
- ***Capitalising on our enhanced scale***

Combining the best assets and capabilities of each legacy business

The merger of two strong businesses has provided an opportunity to create an even stronger Group by combining the best people, assets and practices from each. This approach is being followed across all parts of the business, and includes:

Technology and product development

Our objective is to operate an efficient, scalable, flexible and controllable platform that supports our multiple brands, channels and geographies. This will be achieved by extending the modular, predominantly in-house architecture of Betfair's existing platform, which has demonstrated a high level of scalability as the business grew rapidly over the past few years. This platform is being enhanced with key functionality from the Paddy Power platform such as its market leading sportsbook pricing tools and proprietary gaming content, which has already been integrated into the Betfair gaming platform.

This platform will deliver a number of benefits, including significant improvements in the speed and cost of releasing new product across multiple brands, channels and geographies; enabling customisation of customer bonuses and promotions; and reducing the investment required to enter new markets. For example, with the current platform significant additional development work would be required to release the recently launched Paddy Power '*Kicker*' product across channels (e.g. onto the Paddy Power desktop) or across brands (e.g. onto the Betfair sportsbook). The new platform will allow such product roll outs with minimal further development.

Further advantages of the platform include improved pace of development, retention of knowledge and IP, as well as greater control over our development roadmap and improved efficiency (the cost of our in-house resources is approximately one third of that of typical third party development services).

Risk and trading

Paddy Power has historically developed a wide range of proprietary sportsbook pricing and risk management tools. The sharing of these pricing models, combined with the greater volume of bets taken across the combined operations and the use of the Betfair exchange, will improve the accuracy of our price formation.

This also facilitates additional markets on our sportsbooks. For example, a significantly improved tennis offering is already available on the Betfair sportsbook.

Exchange pricing will also be used to enhance our sportsbooks, including increasing the availability of Cash Out offers to customers when a sportsbook price is unavailable (e.g. when the market is suspended following a goal), and providing pricing information for markets that are otherwise difficult to price, such as in-running horseracing. The exchange also provides a low-cost way of hedging unwanted exposures.

Our customer risk management capability is also being enhanced through the sharing of data, models and processes between our brands.

Marketing

In digital marketing, we have found that the legacy companies had different strengths in, for example, the key areas of CRM, paid search and display advertising. We have selected the best technology systems and processes from each and this will result in both brands having access to stronger digital marketing capability than they had previously.

We are using analytics data from the two brands in econometric modelling and this is giving us greater insight into the effectiveness of marketing activity and leading to improved optimisation of spend.

Returns are also being improved through the sharing of media assets. For example, the Betfair brand is now using advertising slots on Channel 4 racing that were originally acquired by Paddy Power, giving it access to a key audience that it wasn't previously addressing.

Operations

The pooling of resources means that we can optimise our customer services. For example, during Euro 2016 our agents provided customer support across both brands which resulted in faster response times and increased first contact resolution during peak periods.

Sharing of information can help to improve the customer sign-up journey. By pooling our customer verification data and processes we will be able to increase the proportion of new customers whose identification is verified automatically, which leads to improved conversion rates.

Our fraud teams are also sharing information on fraud patterns and potential attacks, allowing for a more responsive and efficient fraud management approach.

We are similarly sharing knowledge across Responsible Gambling functions, enabling us to improve reporting and training across the Group. We are also aligning Responsible Gambling site tools across both brands.

Optimising our brand positioning in the UK and Ireland

Paddy Power and Betfair are two of the leading brands in the UK and Irish markets. To maximise growth we have the opportunity to optimise the positioning of both brands. We segment the sports betting market on consumers' level of spend, attitude to gambling and sports preference. The market consists of clearly differentiated customer groups with distinct reasons for choosing a brand.

Our two brands currently over-index in distinct market segments. For example, Betfair attracts customers whose gambling motivations are primarily money-centric whilst Paddy Power attracts customers who say that social interaction and entertainment is their primary motivation. Accordingly, the customer overlap of the brands is limited. In 2015, only 9% of our combined UK online customers were active on both brands.

We are continuing to review how best to use our two brands, but we have identified opportunities to improve efficiency by adopting a more targeted approach to the customer proposition and messaging for each brand. Betfair will primarily target customers whose motivations to bet are money-centric with a brand approach that emphasises a strong value proposition on both the exchange and sportsbook. Paddy Power will target customers whose primary motivations are social interaction and entertainment.

We believe this focussed approach will both strengthen our positions in the segments where the brands are already performing well, as well as allowing us to better target segments where both brands are currently under-indexing.

Capitalising on our enhanced scale

Having greater scale reduces the average cost of service and provides an opportunity to increase our returns on investment in product and marketing, which can in turn lead to a virtuous circle and drive long term revenue growth.

Substantial ongoing investment in product is essential for acquiring and retaining customers and to maximise our share of their total spend. We can now put even more resources into product development and generate higher returns on this spend by making these products available to a larger customer base. The Group now has approximately 1,000 in-house product specialists, significantly more than either legacy business.

In marketing, we can now acquire the most attractive assets due to both our substantial firepower and the ability to share assets across brands and/or geographies. For instance, for the 2016/17 football season we have the top advertising packages across Sky Sports and BT Sport and in the last few months we have signed a five-year sponsorship deal with the NRL in Australia, and have become the official global partner of FC Barcelona for the next three years.

Outlook

The second half of the year has started in line with our expectations and for the full year we expect proforma underlying EBITDA to be between £365m and £385m (2015: £296m).

Our industry remains highly competitive and exposed to external factors including the economic and regulatory environment. However our scale, market positions and leading capabilities position us well for sustainable profitable growth and we look forward to the future with confidence.

Operating and Financial Review[1]

Group

Proforma	H1 2016 £m	H1 2015 £m	Change %
Sportsbook stakes	**4,810**	**3,989**	**+21%**
Sportsbook net revenue %	*8.5%*	*8.4%*	*+0.1%*
Sports net revenue	582	492	+18%
Gaming net revenue	177	150	+17%
Total net revenue	**759**	**642**	**+18%**
Cost of sales	(175)	(149)	+17%
Gross profit	**584**	**493**	**+19%**
Sales & marketing	(156)	(119)	+31%
Product & technology	(75)	(70)	+7%
Operations	(144)	(134)	+7%
Central costs	(28)	(31)	-12%
Total operating costs	(403)	(355)	+14%
Underlying EBITDA	**180.9**	**138.0**	**+31%**
Underlying EBITDA margin %	*23.8%*	*21.5%*	*+2.3%*
Depreciation & amortisation	(33.3)	(31.5)	+6%
Underlying operating profit	**147.6**	**106.5**	**+39%**
Separately disclosed items	(195.1)	-	n/a
Operating (loss) / profit	**(47.5)**	**106.5**	**n/a**
Underlying earnings per share	**147.0p**	**107.7p**	**+36%**
Interim dividends per share	**52p**	**n/a**	
Net cash at period end[2]	**£2m**	**£12m**	

Note divisional key performance indicators and quarterly information are included in the Appendix.

Group revenue increased by 18% to £759m with good growth in both sports and gaming revenues and double-digit revenue growth in each of our divisions. On a constant currency[3] basis, revenue growth was 16%. Within this, we saw a strong Euro 2016 performance, generating £22m revenues across the Group in June (and £38m for the full tournament, which concluded in July). Sportsbook revenues in the first quarter were affected by adverse sports results, most notably at the Cheltenham Festival. Accordingly, the overall group sportsbook net revenue percentage for the half year was approximately 50 basis points lower than our normal expectations. Revenue from regulated markets represented 95% of total revenues in the period.

The revenue growth combined with operational leverage led to a 31% increase in underlying EBITDA to £181m (H1 2015: £138m) and underlying operating profit increased by 39% to £148m (H1 2015: £106m). There was a small foreign exchange translation benefit in the period and on a constant currency basis underlying EBITDA and operating profit increased by 30% and 38% respectively.

Cost of sales were adversely impacted by £6m of new taxes and product fees. Total operating costs increased by 14%, with 31% growth in sales and marketing costs (driven by Euro 2016, increased competitive intensity and continued asset inflation) and 5% growth in other operating costs. Operating cost growth in the period benefitted from £9m of merger synergies but was adversely impacted by £8m from year-on-year foreign exchange movements.

After deduction of separately disclosed items, which related entirely to the merger, the Group recorded an operating loss of £48m for the period (H1 2015: profit of £106m).

Online

Proforma	H1 2016 £m	H1 2015 £m	Change %
Sportsbook stakes	**2,700**	**2,242**	**+20%**
Sportsbook net revenue %	*6.7%*	*6.1%*	*+0.6%*
Sports net revenue	316	262	+21%
Gaming net revenue	124	103	+20%
Total net revenue	**440**	**365**	**+20%**
Cost of sales	(100)	(87)	+16%
Gross profit	**339**	**278**	**+22%**
Sales & marketing	(108)	(82)	+32%
Product & technology	(58)	(56)	+2%
Operations	(33)	(35)	-6%
Total operating costs	(199)	(174)	+14%
Underlying EBITDA	**140.1**	**104.3**	**+34%**
Depreciation & amortisation	(17.0)	(16.6)	+3%
Underlying operating profit	**123.1**	**87.7**	**+40%**
Active customers (000's)*	3,061	2,614	+17%

Online division includes the UK/Ireland telephone business.

** 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 active customer numbers have not been adjusted for customers who were active on both the Paddy Power and Betfair brands.*

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

Online revenue increased by 20% to £440m. Within this, revenue from regulated markets was up 25% and unregulated market revenues fell by 13%, mostly due to the impact of exiting from Portugal in July 2015. Active customers increased by 17% driven by strong sportsbook acquisition growth from regulated markets across both our brands, including at Euro 2016.

Sports revenue increased by 21% to £316m. This was comprised of a 20% increase in sportsbook stakes, improved year-on-year sports results and 3% growth in exchange and B2B revenues. Mobile continues to be the key driver of sportsbook growth, representing 76% of revenues in the period.

We continue to launch innovative new betting features such as Paddy Power's *'Kicker'*, which suggests an additional bet to football customers on the bet slip, giving them the chance to earn an escalating pay-out based on their backed team's margin of victory. We are also making incremental improvements to our exchange product, for example in July, ahead of The Open, we added each-way betting on Golf.

Our marketing is focussed on highlighting our new product releases and also on maximising our exposure around key events such as Euro 2016 and the Brexit vote. Paddy Power's *'Vive La Bantz'* Euro 2016 TV ad rounded up a host of Scottish 'icons', created some cross border tension and was voted 'Best Euros Advert' by a leading UK marketing magazine. Betfair used the exchange's transparency and liquidity (with £127m traded) to generate the highest Brexit-related PR coverage in the industry, over the campaign.

Gaming revenue increased 20% to £124m driven by increased cross selling from sports and strong growth in mobile revenues. Betfair gaming customers are now benefiting from exclusive Paddy Power proprietary content.

Underlying EBITDA increased by 34% to £140m (H1 2015: £104m) and underlying operating profit increased by 40% to £123m (H1 2015: £88m). Within this cost of sales was adversely impacted by £5m of Irish point of consumption tax, which has been payable on sports betting since August 2015. Total operating costs increased by 14% versus the 20% revenue growth, with 32% growth in sales and marketing costs, driven by continued asset inflation and Euro 2016, offset by low growth in other cost categories.

Regulatory update
In the UK budget in March, it was announced that from August 2017 the treatment of free bets for eGaming point of consumption tax will change to bring it in line with their non-deductibility for sports. While we await the precise details of how this will calculated, at current revenue levels, we estimate the gross impact will be approximately £6m per annum. The Government also announced its intention to replace the Horserace Betting Levy with a new funding arrangement from April 2017.

Australia[4]

Proforma	H1 2016 £m	H1 2015 £m	Change % £	Change % A$
Sportsbook stakes	**1,259**	**973**	**+29%**	**+30%**
Sportsbook net revenue %	*10.3%*	*11.4%*	*-1.1%*	*-1.1%*
Net revenue	**129**	**111**	**+17%**	**+17%**
Cost of sales	(32)	(26)	+25%	+25%
Gross profit	**97**	**85**	**+14%**	**+14%**
Sales & marketing	(34)	(26)	+35%	+34%
Product & technology	(12)	(9)	+27%	+28%
Operations	(20)	(16)	+25%	+25%
Total operating costs	(66)	(51)	+30%	+30%
Underlying EBITDA	**30.3**	**33.8**	**-10%**	**-10%**
Depreciation & amortisation	(4.2)	(4.1)	+3%	+3%
Underlying operating profit	**26.1**	**29.8**	**-12%**	**-12%**
Active customers (000's)	610	465	+31%	

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

Stakes continued to grow strongly in 2016, up 30% to £1.3 billion, despite the intensified level of competition versus the prior year, driven by 31% growth in active customers. Revenue, up 17% to £129m, was impacted by adverse sports results, in particular in horseracing where over half of the top 50 races were loss making.

Mobile revenues represented 78% of online revenues. Telephone betting grew strongly with in-play betting contributing 15% of stakes and 8% of revenues in the period versus approximately 8% and 4% respectively in the full year 2015. This increase was driven by our 'Bet Live' product which was released in December 2015 but will be switched off in the next few weeks, as required under our licence from the Northern Territory Racing Commission.

We continue to invest heavily in Sportsbet's product and marketing to maintain our online market leadership position. Key product releases in the first half included *'Multibuilder',* which enhances the ease with which customers can place accumulator bets, and *'Quick Bet'*, which allows a bet to be placed in just two steps. In the last few weeks we launched *'Same Game Multi'*, an innovative new feature allowing customers to build a custom multiple bet on a single AFL match with the recalculated odds displaying as they combine their selections. We also renewed our partnership with the NRL in May, becoming their official wagering partner until 2020.

Underlying EBITDA, which was impacted by the adverse sports results, decreased by 10% to £30m (H1 2015: £34m). Cost of sales growth in the period was adversely affected by 5% due to product fee rate increases previously announced and applying from the second half of 2015. Sales and marketing cost growth of 34% reflects our ongoing substantial investment in media assets, as well as cost inflation driven by the increasingly competitive environment. Other operating cost growth reflects a significant level of new hires during the second half of 2015 with cost growth therefore expected to moderate from the second half of 2016.

Regulatory update

In April, the Federal Government published its response to the *Review of the Impact of Illegal Offshore Wagering* in which it announced that it does not intend to enable the offering of online in-play betting and also stated that it intends legislating to ban 'click to call' type in-play betting services. The Federal Government's response also stated its intention to ban credit betting and announced a series of consumer protection measures. We do not anticipate that the impact of a credit betting ban would be material to our business, given the limited use of credit by our customers. We lead the industry in responsible gambling and accordingly do not expect a material impact on our business from the announced consumer protection measures.

In June, the South Australia Government announced that it will introduce a 15% place of consumption tax in the state, effective from July 2017. In the first half of 2016, revenues from South Australian customers represented 7% of our total revenues.

In July, the New South Wales Government announced that it is banning greyhound racing in the state from 1 July 2017. NSW greyhound racing staking currently contributes approximately 4% of our total revenues and we anticipate that a significant proportion of this staking will be substituted to other products including greyhound racing from other states.

Whilst the industry is clearly facing increased regulatory headwinds impacting growth and profitability, we believe that, over the longer term, our brand strength and scale enables us to better withstand these regulatory pressures.

Retail

Proforma	**H1 2016 £m**	**H1 2015 £m**	**Change %**
Sportsbook stakes	**851**	**773**	**+10%**
Sportsbook net revenue %	*11.6%*	*11.5%*	*+0.1%*
Sports net revenue	100	89	+12%
Machine gaming net revenue	47	43	+11%
Total net revenue	**147**	**132**	**+12%**
Cost of sales	(32)	(29)	+11%
Gross profit	**115**	**103**	**+12%**
Sales & marketing	(4)	(3)	+8%
Product & technology	(3)	(3)	+10%
Operations	(77)	(70)	+10%
Total operating costs	(84)	(76)	+10%
Underlying EBITDA	**31.1**	**26.9**	**+16%**
Depreciation & amortisation	(8.2)	(7.9)	+4%
Underlying operating profit	**23.0**	**19.0**	**+21%**
Shops at period end	603	584	+3%

The Retail division operates 603 Paddy Power betting shops across the UK and Ireland. The business continues to take market share and good like-for-like revenue growth coupled with shop maturity, careful cost control and a foreign exchange translation benefit drove a 21% increase in operating profit to £23m (up 14% excluding currency benefit).

Total revenues increased by 12% to £147m (or 9% excluding currency). Revenues from UK shops increased by 11% and Irish shop revenues were up 6% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like revenues increased by 4% and operating costs increased by 3%. The like-for-like revenue growth was comprised of a 4% increase in sportsbook revenues, on 2% stakes growth, and a 5% increase in machine gaming growth, primarily driven by growth from B3 content.

In sports betting, we continue to benefit from our leadership position in Self Service Betting Terminals ("SSBTs") both through having the greatest density of terminals per shop and from our unique content and features, such as our exclusive 'Track My Bet' service. Our UK machine gaming terminals continue to benefit from carrying sector leading content including our in-house developed games, which also help to deliver consistency of gaming content across online and retail channels. Other initiatives with which we are successfully targeting multi-channel customers include in-store self-service online sign-up tablets and our cash card.

We opened six new shops in the first half (three in each of Ireland and the UK) and closed one UK shop. Whilst increased taxes and regulations, coupled with our greater estate size, mean that the rate at which we are opening new units has declined versus prior years, we are still selectively identifying locations which can further enhance the quality of our estate.

US[4]

Proforma	H1 2016 £m	H1 2015 £m	Change % £	Change % US$
Sports net revenue	38	31	+23%	+16%
Gaming net revenue	5	4	+23%	+16%
Total net revenue	**43**	**35**	**+23%**	**+16%**
Cost of sales	(10)	(8)	+19%	+12%
Gross profit	**33**	**27**	**+25%**	**+17%**
Sales & marketing	(9)	(7)	+26%	+19%
Product & technology	(3)	(2)	+49%	+41%
Operations	(14)	(13)	+7%	+2%
Total operating costs	(27)	(23)	+17%	+11%
Underlying EBITDA	**6.9**	**4.2**	**+65%**	**+50%**
Depreciation & amortisation	(4.0)	(3.0)	+31%	+23%
Underlying operating profit	**2.9**	**1.2**	**+153%**	**+110%**
Active customers (000's)	118	114	+4%	

The US division combines TVG, America's leading horse-racing TV and betting network (operating in 32 states), Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange.

Revenues increased by 16% to £43m, driven by growth in both our TVG and Betfair New Jersey businesses, and EBITDA increased by 50% to £6.9m.

In TVG, handle and revenue increased by 17% and 16%, respectively, as the business continues to increase its market share.

In May, under the Betfair brand we launched the US market's first online exchange wagering platform for horseracing in New Jersey. Whilst the size of that market is limited, it is a good opportunity to test consumer demand for exchange betting and show that it can contribute additional growth to the overall betting market.

Responsible gambling

Ensuring our customers bet safely and responsibly is of the highest importance to our business. Following the merger, the Betfair brand has become part of the Senet Group and its advertising now includes Senet's "When the Fun Stops Stop" messaging. The Group continues to support a range of initiatives, including a project aimed at standardising self-exclusion procedures across the industry.

We recently participated in 'Gamble Aware' week, with our UK retail sites running responsible gambling messages across all shop windows and staff joining a range of initiatives aimed at raising awareness of processes and tools amongst customers. We have also participated in industry initiatives to increase the frequency of alerts being seen by customers on gaming machines.

Sportsbet leads the Australian industry in responsible gambling. In February, we supported Responsible Gambling Awareness Week in New South Wales through on-site and in-app digital assets, social media posts and on-air segments during the live telecast of National Rugby League matches.

Separately disclosed items

Proforma	H1 2016 £m	H1 2015 £m
Merger deal costs	(50)	-
Merger integration costs	(49)	-
Non-cash merger related items:		
Intangible asset amortisation	(79)	-
Fair value adjustment for replacement share-based payment awards	(13)	-
Impairment of assets	(4)	-
Total separately disclosed items	(195)	-

All the separately disclosed items relate specifically to the merger and therefore are excluded from underlying profits. Merger deal costs include costs, fees and stamp duty incurred to complete the merger. These costs totalled £56m and are fully incurred, with £6m included in the second half of 2015. Merger integration costs are one-off cash costs incurred to achieve recurring cost synergies. Total integration costs are expected to be less than £65m with £49m incurred in the period.

The merger is accounted for as an acquisition of Betfair by Paddy Power with the accounting treatment therefore resulting in the recognition of a number of non-cash items. These include amortisation of intangible assets (£79m in the period), a fair value adjustment on the replacement of legacy Betfair share-based payment awards for equivalent awards in the Group on completion (£13m in the period) and asset impairments of £4m in relation to assets impaired as a result of integration actions taken.

Taxation

The Group's underlying effective tax rate in the period was 16.0% (H1 2015: 15.7%).

Dividend

The Board continues to target a payout ratio for the Group's dividend of approximately 50% of underlying profits after tax. The Board has declared a second interim dividend of 40 pence per share. This is in addition to the stub dividends paid to both Betfair Group and Paddy Power shareholders on merger completion, which in part represented dividends for January 2016 equating to 12 pence per share. The second interim dividend will be paid on 30 September to shareholders on the register at the close of business on 9 September.

Capital expenditure

The Group incurred £34m of capital expenditure in the period, primarily related to technology spend for product development and retail shop expenditure. For the full year we expect total capital expenditure to be between £70m and £80m.

Cash flow and financial position

Proforma	**H1 2016 £m**	**H1 2015 £m**
Underlying EBITDA	181	138
Capex (including retail & HRTV acquisitions)	(34)	(53)
Working capital & tax	(7)	15
Underlying free cash flow	**140**	**100**
Cash flow from separately disclosed items	(63)	-
Free cash flow	77	100
Dividends paid	(145)	(46)
Return of capital (including fees)	-	(482)
Interest & other borrowing costs	(1)	(1)
Other	1	(5)
Net decrease in cash	**(69)**	**(433)**
Net cash at start of period	**84**	**453**
Foreign currency exchange translation	(13)	(8)
Net cash at period end[2]	**2**	**12**

The Group's profits convert strongly into cash flow, with the underlying free cash flow representing 114% of underlying profit after tax in the period. Free cash flow in the period increased 39% to £140m (H1 2015 £100m), driven by increased EBITDA and reduced capital expenditure due to less shop openings and the HRTV acquisition by Betfair in the comparative period.

As at 30 June 2016, the Group had net cash of £2m, excluding customer balances.

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] Note throughout this Operating & Financial Review results are reported on a Proforma basis as if the merger completed on 1 January 2015. Appendix 3 contains a reconciliation of the proforma results to the statutory results

[2] Net cash at 30 June 2016 is comprised of gross cash excluding customer balances of £213m and borrowings of £211m. The comparative balance shown as at 30 June 2015 is comprised of gross cash excluding customer balances of £67m, borrowings of £174m and Betfair's net cash of £120m (see Appendix 4)

[3] Non-sterling denominated component in H1 2015 retranslated at H1 2016 exchange rates

[4] Growth rates in commentary are in local currency

Appendix 1: Half-yearly Divisional Key Performance Indicators
Proforma

£m	Online			Australia				Retail			US				Group		
	H1 2016	H1 2015	% Change	H1 2016	H1 2015	% Change	A$ % Change	H1 2016	H1 2015	% Change	H1 2016	H1 2015	% Change	US$ % Change	H1 2016	H1 2015	% Change
Sportsbook stakes	2,700	2,242	+20%	1,259	973	+29%	+30%	851	773	+10%					4,810	3,989	+21%
Sportsbook net revenue %	*6.7%*	*6.1%*	*+0.6%*	*10.3%*	*11.4%*	*-1.1%*	*-1.1%*	*11.6%*	*11.5%*	*+0.1%*					*8.5%*	*8.4%*	*+0.1%*
Sports net revenue	316	262	+21%	129	111	+17%	+17%	100	89	+12%	38	31	+23%	+16%	582	492	+18%
Gaming net revenue	124	103	+20%	-	-	-	-	47	43	+11%	5	4	+23%	+16%	177	150	+17%
Total net revenue	**440**	**365**	**+20%**	**129**	**111**	**+17%**	**+17%**	**147**	**132**	**+12%**	**43**	**35**	**+23%**	**+16%**	**759**	**642**	**+18%**
Regulated markets revenue	404	324	+25%	129	111	+17%	+17%	147	132	+12%	43	35	+23%	+16%	723	601	+20%
Unregulated markets revenue	36	41	-13%	-	-	-	-	-	-	-	-	-	-	-	36	41	-13%
Total net revenue	**440**	**365**	**+20%**	**129**	**111**	**+17%**	**+17%**	**147**	**132**	**+12%**	**43**	**35**	**+23%**	**+16%**	**759**	**642**	**+18%**
Cost of sales	(100)	(87)	+16%	(32)	(26)	+25%	+25%	(32)	(29)	+11%	(10)	(8)	+19%	+12%	(175)	(149)	+17%
Gross Profit	**339**	**278**	**+22%**	**97**	**85**	**+14%**	**+14%**	**115**	**103**	**+12%**	**33**	**27**	**+25%**	**+17%**	**584**	**493**	**+19%**
Sales & marketing	(108)	(82)	+32%	(34)	(26)	+35%	+34%	(4)	(3)	+8%	(9)	(7)	+26%	+19%	(156)	(119)	+31%
Product & technology	(58)	(56)	+2%	(12)	(9)	+27%	+28%	(3)	(3)	+10%	(3)	(2)	+49%	+41%	(75)	(70)	+7%
Operations	(33)	(35)	-6%	(20)	(16)	+25%	+25%	(77)	(70)	+10%	(14)	(13)	+7%	+2%	(144)	(134)	+7%
Unallocated central costs															(28)	(31)	-12%
Operating costs	**(199)**	**(174)**	**+14%**	**(66)**	**(51)**	**+30%**	**+30%**	**(84)**	**(76)**	**+10%**	**(27)**	**(23)**	**+17%**	**+11%**	**(403)**	**(355)**	**+14%**
Underlying EBITDA	**140.1**	**104.3**	**+34%**	**30.3**	**33.8**	**-10%**	**-10%**	**31.1**	**26.9**	**+16%**	**6.9**	**4.2**	**+65%**	**+50%**	**180.9**	**138.0**	**+31%**
Depreciation & amortisation	(17.0)	(16.6)	+3%	(4.2)	(4.1)	+3%	+3%	(8.2)	(7.9)	+4%	(4.0)	(3.0)	+31%	+23%	(33.3)	(31.5)	+6%
Underlying operating profit	**123.1**	**87.7**	**+40%**	**26.1**	**29.8**	**-12%**	**-12%**	**23.0**	**19.0**	**+21%**	**2.9**	**1.2**	**+153%**	**+110%**	**147.6**	**106.5**	**+39%**
Separately disclosed items															(195.1)	-	n/a
Operating (loss) / profit															**(47.5)**	**106.5**	n/a

Notes:

- Sportsbook stakes includes amounts staked via SSBTs and excludes the exchange, gaming 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 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.
- Cost of sales primarily comprises betting and gaming taxes, customer payment transaction fees, software supplier costs, sporting levies and other data rights charges.
- Sales & Marketing costs include all marketing costs including affiliate commissions and people costs for employees working in marketing roles.

Appendix 2: Quarterly Divisional Key Performance Indicators

Q1 2016 Divisional Key Performance Indicators

Proforma

£m	Online			Australia				Retail			US				Group		
	Q1 2016	Q1 2015	% Change	Q1 2016	Q1 2015	% Change	A$ % Change	Q1 2016	Q1 2015	% Change	Q1 2016	Q1 2015	Change %	US$ % Change	Q1 2016	Q1 2015	% Change
Sportsbook stakes	1,305	1,059	+23%	577	454	+27%	+31%	407	375	+9%					2,289	1,888	+21%
Sportsbook net revenue %	*5.4%*	*5.3%*	*+0.1%*	*10.0%*	*10.5%*	*-0.5%*	*-0.5%*	*10.7%*	*11.3%*	*-0.6%*					*7.5%*	*7.7%*	*-0.2%*
Sports net revenue	135	116	+17%	58	47	+22%	+25%	44	42	+3%	17	14	+26%	+19%	254	219	+16%
Gaming net revenue	60	51	+17%	-	-	-	-	23	21	+8%	2	1	+62%	+53%	85	74	+16%
Total net revenue	**195**	**167**	**+17%**	**58**	**47**	**+22%**	**+25%**	**67**	**64**	**+5%**	**20**	**15**	**+29%**	**+22%**	**339**	**293**	**+16%**
Regulated markets revenue	177	146	+21%	58	47	+22%	+25%	67	64	+5%	20	15	+29%	+22%	321	273	+18%
Unregulated markets revenue	17	20	-14%	-	-	-	-	-	-	-	-	-	-	-	17	20	-14%
Total net revenue	**195**	**167**	**+17%**	**58**	**47**	**+22%**	**+25%**	**67**	**64**	**+5%**	**20**	**15**	**+29%**	**+22%**	**339**	**293**	**+16%**
Underlying EBITDA															**59.1**	**46.7**	**+27%**
Underlying operating profit															**42.5**	**31.2**	**+36%**

Q2 2016 Divisional Key Performance Indicators

Proforma

£m	Online			Australia				Retail			US				Group		
	Q2 2016	Q2 2015	% Change	Q2 2016	Q2 2015	% Change	A$ % Change	Q2 2016	Q2 2015	% Change	Q2 2016	Q2 2015	Change %	US$ % Change	Q2 2016	Q2 2015	% Change
Sportsbook stakes	1,395	1,183	+18%	682	519	+31%	+29%	443	399	+11%					2,521	2,101	+20%
Sportsbook net revenue %	*7.9%*	*6.7%*	*+1.2%*	*10.5%*	*12.2%*	*-1.7%*	*-1.7%*	*12.6%*	*11.7%*	*+0.9%*					*9.4%*	*9.0%*	*+0.4%*
Sports net revenue	180	146	+24%	71	63	+13%	+10%	56	47	+20%	21	17	+21%	+13%	328	273	+20%
Gaming net revenue	65	53	+23%	-	-	-	-	24	21	+13%	3	3	+5%	-2%	92	77	+19%
Total net revenue	**245**	**198**	**+23%**	**71**	**63**	**+13%**	**+10%**	**80**	**68**	**+18%**	**24**	**20**	**+19%**	**+11%**	**420**	**349**	**+20%**
Regulated markets revenue	227	177	+28%	71	63	+13%	+10%	80	68	+18%	24	20	+19%	+11%	402	328	+22%
Unregulated markets revenue	18	21	-13%	-	-	-	-	-	-	-	-	-	-	-	18	21	-13%
Total net revenue	**245**	**198**	**+23%**	**71**	**63**	**+13%**	**+10%**	**80**	**68**	**+18%**	**24**	**20**	**+19%**	**+11%**	**420**	**349**	**+20%**
Underlying EBITDA															**121.8**	**91.3**	**+33%**
Underlying operating profit															**105.1**	**75.3**	**+40%**

Appendix 3: Reconciliation of Proforma results to Statutory 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 results reflect this accounting treatment. Proforma results for the Group are prepared as if Paddy Power and Betfair had always been merged and are included in these Interim Results, as they best depict the underlying performance of the Group. The difference between the Statutory results and Proforma results is the results of Betfair in the period prior to completion as per the table below.

£m	Proforma results		Betfair results pre-merger completion		Statutory results	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Revenue	**759**	**642**	**50**	**255**	**709**	**387**
Cost of sales	(175)	(149)	(11)	(60)	(164)	(89)
Gross Profit	**584**	**493**	**39**	**195**	**545**	**298**
Operating costs	(403)	(355)	(26)	(136)	(377)	(219)
Underlying EBITDA	**180.9**	**138.0**	**13.1**	**58.8**	**167.8**	**79.2**
Depreciation & amortisation	(33.3)	(31.5)	(1.9)	(12.3)	(31.4)	(19.2)
Underlying operating profit	**147.6**	**106.5**	**11.2**	**46.5**	**136.4**	**60.0**
Net interest (expense) / income	(1.8)	(0.3)	(0.4)	(0.6)	(1.5)	0.3
Underlying profit before tax	**145.8**	**106.2**	**10.8**	**45.9**	**134.9**	**60.3**
Underlying taxation	(23.3)	(16.6)	(1.7)	(7.7)	(21.6)	(8.9)
Underlying profit for the period	**122.4**	**89.6**	**9.1**	**38.2**	**113.3**	**51.4**
Underlying basic earnings per share (pence)[1]	147.0	107.7	n/a	n/a	148.5	109.3
Underlying operating profit	**147.6**	**106.5**	**11.2**	**46.5**	**136.4**	**60.0**
Separately disclosed items	(195.1)	-	(14.3)	-	(180.8)	-
Operating (loss) / profit	**(47.5)**	**106.5**	**(3.1)**	**46.5**	**(44.4)**	**60.0**
Net interest (expense) / income	(1.8)	(0.3)	(0.4)	(0.6)	(1.5)	0.3
(Loss) / profit before tax	**(49.3)**	**106.2**	**(3.5)**	**45.9**	**(45.9)**	**60.3**
Taxation	(7.5)	(16.6)	(1.7)	(7.7)	(5.8)	(8.9)
(Loss) / profit for the period	**(56.9)**	**89.6**	**(5.2)**	**38.2**	**(51.7)**	**51.4**
Basic (loss) / earnings per share (pence)[1]	(68.3)	107.7	n/a	n/a	(67.7)	109.3
Revenue by operating segment						
Online	440	365	44	221	396	144
Australia	129	111	-	-	129	111
Retail	147	132	-	-	147	132
US	43	35	6	35	37	-
Gross Profit by operating segment						
Online	339	278	34	168	305	110
Australia	97	85	-	-	97	85
Retail	115	103	-	-	115	103
US	33	27	4	27	29	-

[1] In the Proforma 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). For the H1 2015 Proforma results comparative the weighted average number of shares is taken as the number of shares on merger completion, 2 February 2016, adjusted for shares held in treasury, shares held by long term incentive plan trust and unexercised vested share options (83.2 million shares).

Appendix 4: Reconciliation of Proforma cash flow to Statutory cash flow

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 cash flow reflects this accounting treatment. The Proforma cash flow for the Group is prepared as if Paddy Power and Betfair had always been merged and is included in these Interim Results, as it best depicts the underlying performance of the Group. The difference between the Statutory cash flow and Proforma cash flow is the cash flow of Betfair in the period prior to completion and the inclusion of deposits and borrowings to determine a net cash position, as per the table below.

£m	Proforma cash flow		Adjustment to exclude Betfair pre-merger completion cash flow		Adjustment to include deposits & borrowings		Reported cash flow	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Underlying EBITDA [1]	181	138	(13)	(59)	-	-	168	79
Capex (including retail & HRTV acquisitions) [2]	(34)	(53)	141	30	-	-	107	(23)
Working capital & tax [3]	(7)	15	1	(14)	-	-	(6)	1
Underlying free cash flow	**140**	**100**	**129**	**(43)**	**-**	**-**	**269**	**57**
Cash flow from separately disclosed items	(63)	-	-	-	-	-	(63)	-
Free cash flow	**77**	**100**	**129**	**(43)**	**-**	**-**	**206**	**57**
Dividends paid	(145)	(46)	14	9	-	-	(131)	(36)
Return of capital (including fees)	-	(482)	-	201	-	-	-	(281)
Interest & other borrowing costs [4]	(1)	(1)	-	-	-	-	(1)	(1)
Other [5]	1	(5)	-	(3)	-	-	1	(8)
Transfers from financial assets - deposits	-	-	-	-	-	15	-	15
Net amounts drawn down on borrowings	-	-	-	-	48	176	48	176
Net (decrease) / increase in cash	**(69)**	**(433)**	**143**	**163**	**48**	**192**	**122**	**(77)**
Net cash at start of period	**84**	**453**	**(141)**	**(283)**	**143**	**(16)**	**86**	**153**
Foreign currency exchange translation	(13)	(8)	(2)	-	20	(1)	5	(9)
Net cash at period end	**2**	**12**	**-**	**(120)**	**211**	**174**	**213**	**67**

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

[2] Capex (including retail & HRTV acquisitions) includes profit on disposal of PPE, purchase of property, plant & equipment, purchase of intangible assets, capitalised internal development expenditure, payment of contingent deferred consideration and purchase of businesses, net of cash acquired. Note the H1 2016 adjustment to exclude Betfair pre-merger completion cash flow includes £139.9m of Betfair cash acquired on completion.

[3] Working capital & tax includes increase in trade and other receivables, increase in trade, other payables and provisions, income taxes paid and movements in restricted cash balances.

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

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

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE HALF YEARLY FINANCIAL REPORT
For the six months ended 30 June 2016

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 20 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 2015 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	**Alex Gersh**
Chief Executive Officer	*Chief Financial Officer*

24 August 2016

Understanding and managing our principal risks

The Board continuously assesses and monitors the key risks of the business. The key risks that could affect the Group's performance and the factors that mitigate those risks have not significantly changed from those set out on pages 47 to 50 in the Group's Annual Report and Accounts 2015 (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:

- Macro-economic conditions - The economic, demographic, technological, consumer behaviour and other macro factors affecting demand for the Group's products. The Group monitors developments closely to ensure changes in the macro-economic climate are identified and adequately addressed. The Group's geographical diversity also helps mitigate this risk. The Group's financial position is strong with significant cash generation capabilities. The recent UK decision to exit the European Union has created considerable economic and political uncertainty. To date however, the Group has not noted any material adverse impacts on any of its businesses or the financial results of the Group overall. The market uncertainty created by the prospect of Brexit is likely to continue for the foreseeable future until more clarity emerges on the mechanics of the proposed exit. The Group will continue to monitor related developments and how these might impact.

- Competition - The intensity of competition in the Group's markets and the Group's ability to successfully compete. The Group has a programme of brand investment and product innovation to maintain and enhance its market position. The Group also monitors competitors and their promotional offers.

- New business/acquisitions - The ability of the Group to enter new markets, launch new products or introduce new technologies or systems in a successful, cost effective and / or timely manner, either organically or via acquisition. The Group rigorously assesses any potential acquisitions, new products and / or new technologies.

- Merger and integration - The combination of the resources of Paddy Power and Betfair that rely upon different technology platforms. Difficulties in combining the operations, technology and resources could result in additional costs to the Group and synergies not being fully realised. A highly professional integration team has been established to ensure the groups are combined effectively and that the benefits of the merger will be achieved on a timely basis. External advisors are being retained as required.

- Taxation - Changes in current tax law, interpretation or practice in the areas of betting tax, value-added tax, payroll, corporation or other taxes. Increased payment obligations to racing and sporting bodies either directly or indirectly through related obligations to government authorities. The Group has its own internal tax function which has responsibility for all tax compliance matters. The Group also engages external tax advisors for guidance on matters of compliance where appropriate. The Group engages proactively in relevant consultations with government authorities with respect to taxation of betting and gaming or payments to sporting bodies.

- 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 or the Group. The Group has a central Compliance and Regulatory function which has responsibility for guiding business units in their management of compliance matters. This function reports periodically to the Audit Committee. 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.

- Data security - The ability to adequately protect customer and other key data and information. The Group has 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. The Group's Legal and Compliance teams ensure the business adheres to industry best practice standards and relevant laws of data protection compliance. 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.

- 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. 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-to-business customer relationships - Managing relationships with and performance for business-to-business customers. The Group has good commercial relationships with its key business-to-business customers. Contracts and agreements are in place and are regularly reviewed.

- Business continuity planning and disaster recovery - The ability of the Group to maintain, develop and avoid disruption to its key information technology systems. The Group has an information security function that monitors controls to maintain the integrity and efficiency of the Group's technology systems. An IT disaster recovery plan exists and is tested regularly with specific arrangements in place for alternative data centres (live replication) for the online sportsbook.

- Bookmaking risk – The performance of the Group in managing bookmaking risk so as to achieve gross win margins within expected percentage ranges. The Group's Risk & Trading function has responsibility for the compilation of bookmaking odds and for sportsbook risk management. Predefined limits have been set for the acceptance of sportsbook bet risks. These limits are subject to formal approval by the Risk Committee.

- Disruption to sporting calendar - Disruption to the sporting calendar or the broadcasting of major sporting events due to weather or other factors. Geographical diversification, with operations in Europe, North America and Australia, is helping to mitigate this risk. Diversification of products also helps mitigate this risk via gaming (gaming machines, games, casino, bingo and poker), and business to business activities.

- Key employees - The ability of the Group to attract and retain key employees. Succession planning, management training and development and competitive remuneration structures have been established by the Group and are actively managed with the support of the Group Human Resources function.

- Brand and reputation - Negative social, media or political sentiment towards the Group, its brands, reputation and its businesses. The Group has a programme of corporate communications, brand investment and product innovation to maintain and enhance its market position.

- Intellectual property - The ability of the Group to successfully defend its intellectual property rights or claims alleging infringement of the intellectual property rights of others. Protecting the intellectual property rights of the Group is key to its operations. The Group has invested significantly in its brand and new technologies to maintain and enhance its market position. Similarly, the Group understands and abides by the intellectual property rights of others in order to mitigate the risk of litigation and related costs.

- Foreign exchange risk - Changes in the exchange rates between pound sterling and the foreign currencies in which the Group transacts business, primarily the euro, US dollar and the Australian dollar. It is Group policy to maintain a naturally hedged balance sheet by ensuring that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits. The Group uses forward contracts (subject to Investment Committee approval), to manage foreign currency exposures on expected future cash flows.

- Credit risk - The performance of the Group in managing credit risk arising from treasury activities. The Group has an established treasury policy which places limits on cash deposits and foreign exchange forward contracts with its banking counterparts. These must typically hold a Moody's (or equivalent) long-term credit rating of A3 or higher and a Moody's (or equivalent) short-term credit rating of P1 unless otherwise specifically approved by the Investment Committee. The Group carefully measures counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and takes action to mitigate such risks as are identified.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 30 June 2016

	Note	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	Restated (Notes 19 & 20) Six months ended 30 June 2015 (unaudited) £m
Continuing operations					
Revenue	4	**708.8**	**-**	**708.8**	386.6
Cost of sales		**(164.0)**	**-**	**(164.0)**	(88.9)
Gross profit		**544.8**	**-**	**544.8**	297.7
Operating costs		**(377.0)**	**(97.9)**	**(474.9)**	(218.5)
EBITDA [1]		**167.8**	**(97.9)**	**69.9**	79.2
Depreciation and amortisation		**(31.4)**	**(82.9)**	**(114.3)**	(19.2)
Operating profit / (loss)		**136.4**	**(180.8)**	**(44.4)**	60.0
Financial income		**0.8**	**-**	**0.8**	0.7
Financial expense		**(2.3)**	**-**	**(2.3)**	(0.4)
Profit / (loss) before tax		**134.9**	**(180.8)**	**(45.9)**	60.3
Income tax (expense) / credit	6	**(21.6)**	**15.8**	**(5.8)**	(8.9)
Profit / (loss) for the period – all attributable to equity holders of the Company		**113.3**	**(165.0)**	**(51.7)**	51.4
(Loss) / earnings per share					
Basic	7			**(£0.677)**	£1.093
Diluted [2]	7			**(£0.677)**	£1.087

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 2016

	Note	**Six months ended 30 June 2016 (unaudited) £m**	Restated (Note 20) Six months ended 30 June 2015 (unaudited) £m
(Loss) / profit for the period – all attributable to equity holders of the Company		**(51.7)**	51.4
Other comprehensive income / (expense)			
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**	(7.7)
Fair value of foreign exchange cash flow hedges transferred to income statement		**(4.5)**	4.5
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated subsidiaries		**15.4**	(19.4)
Deferred tax on fair value of cash flow hedges		**(0.3)**	0.4
Other comprehensive income / (expense)		**17.3**	(22.2)
Total comprehensive (expense) / income for the period – all attributable to equity holders of the Company		**(34.4)**	29.2

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Note	**30 June 2016 (unaudited) £m**	Restated (Note 20) 30 June 2015 (unaudited) £m	Restated (Note 20) 31 December 2015 (unaudited) £m
Assets				
Property, plant and equipment		**120.3**	90.0	92.0
Intangible assets		**667.5**	57.6	60.3
Goodwill	8	**3,852.2**	76.1	79.9
Deferred tax assets		**24.6**	6.2	6.7
Trade and other receivables		**0.1**	0.8	-
Available-for-sale financial assets		**1.3**	-	-
Total non-current assets		**4,666.0**	230.7	238.9
Trade and other receivables		**64.2**	27.3	22.7
Derivative financial assets		**4.0**	-	1.8
Financial assets – restricted cash	10	**92.3**	54.2	60.2
Cash and cash equivalents	10	**213.2**	66.9	86.1
Total current assets		**373.7**	148.4	170.8
Total assets		**5,039.7**	379.1	409.7
Equity				
Issued share capital and share premium		**415.5**	38.6	8.7
Treasury shares		**(40.7)**	(40.7)	(40.7)
Shares held by employee benefit trust		**(37.3)**	(38.8)	(49.2)
Other reserves		**153.7**	(5.8)	8.5
Retained earnings		**3,760.0**	53.8	123.6
Total equity attributable to equity holders of the Company		**4,251.2**	7.1	50.9
Liabilities				
Trade and other payables	11	**392.4**	167.1	184.1
Derivative financial liabilities	11	**19.3**	14.9	12.5
Provisions		**6.4**	0.5	0.4
Tax payable		**41.1**	9.8	10.9
Borrowings	13	**0.2**	-	0.2
Total current liabilities		**459.4**	192.3	208.1
Trade and other payables	11	**28.7**	3.6	5.0
Derivative financial liabilities	11	**0.4**	0.1	-
Provisions		**1.1**	0.8	1.0
Deferred tax liabilities		**89.1**	2.7	2.9
Borrowings	13	**209.8**	172.5	141.8
Total non-current liabilities		**329.1**	179.7	150.7
Total liabilities		**788.5**	372.0	358.8
Total equity and liabilities		**5,039.7**	379.1	409.7

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the six months ended 30 June 2016

	Note	**Six months ended 30 June 2016 (unaudited) £m**	Restated (Note 20) Six months ended 30 June 2015 (unaudited) £m
Cash flows from operating activities			
(Loss) / profit for the period – all attributable to equity holders of the Company		**(51.7)**	51.4
Separately disclosed items	5	**165.0**	-
Income tax expense before separately disclosed items		**21.6**	8.9
Financial income		**(0.8)**	(0.7)
Financial expense		**2.3**	0.4
Depreciation and amortisation before separately disclosed items		**31.4**	19.2
Employee equity-settled share-based payments expense before separately disclosed items		**9.5**	2.5
Foreign currency exchange gain		**(0.9)**	(1.9)
Loss on disposal of PPE and intangible assets		**0.2**	0.1
Cash from operations before changes in working capital		**176.6**	79.9
Increase in trade and other receivables		**(8.9)**	(5.0)
Increase in trade, other payables and provisions		**27.9**	19.2
Cash generated from operations		**195.6**	94.1
Income taxes paid		**(18.8)**	(10.8)
Net cash from operating activities		**176.8**	83.3
Purchase of property, plant and equipment		**(12.9)**	(10.5)
Purchase of intangible assets		**(16.4)**	(10.8)
Purchase of businesses, net of cash acquired	9	**139.8**	(1.4)
Capitalised internal development expenditure		**(2.1)**	-
Payment of contingent deferred consideration	9	**(1.3)**	(0.8)
Transfers from financial assets – deposits		**-**	15.4
Interest received		**0.7**	0.8
Net cash from / (used) in investing activities		**107.8**	(7.3)
Proceeds from the issue of new shares		**0.8**	0.3
Merger fees and integration costs paid		**(62.9)**	-
Purchase of shares by employee benefit trust		**-**	(8.1)
Dividends paid	14	**(108.8)**	(36.1)
Return of capital to shareholders (incl. associated costs)		**-**	(281.3)
Net amounts drawn down on borrowings facility		**47.9**	176.4
Fees in respect of borrowings facility		**-**	(1.5)
Interest paid		**(1.7)**	(0.3)
Betfair Group plc closing dividend	14	**(22.6)**	-
Movements in restricted cash balances		**(14.9)**	(2.8)
Net cash used in financing activities		**(162.2)**	(153.4)
Net increase / (decrease) in cash and cash equivalents		**122.4**	(77.4)
Cash and cash equivalents at start of period		**86.1**	153.3
Foreign currency exchange gain / (loss) on cash and cash equivalents		**4.7**	(9.0)
Cash and cash equivalents at end of period	10	**213.2**	66.9

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*	Issued share capital and share premium £m	Foreign exchange translation reserve £m	Cash flow hedge reserve £m	Other reserves £m	Treasury shares £m	Shares held by employee benefit trust £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016	*46.0*	8.7	(19.8)	1.2	1.6	(40.7)	(49.2)	25.5	123.6	50.9
Total comprehensive income / (expense) 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 / (expense) 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	(4.4)	3.1	1.6	(40.7)	(37.3)	153.4	3,760.0	4,251.2

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

(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
	Attributable to equity holders of the Company									
Balance at 1 January 2015	*51.1*	39.0	-	(1.8)	1.0	(44.8)	(47.9)	28.0	327.9	301.4
Total comprehensive income / (expense) for the period										
Profit for the period	-	-	-	-	-	-	-	-	51.4	51.4
Foreign exchange translation	-	-	(19.4)	-	-	-	-	-	-	(19.4)
Net change in fair value of cash flow hedge reserve	-	-	-	(3.2)	-	-	-	-	-	(3.2)
Deferred tax on cash flow hedges	-	-	-	0.4	-	-	-	-	-	0.4
Total comprehensive (expense) / income for the period	-	-	(19.4)	(2.8)	-	-	-	-	51.4	29.2
Transactions with owners of the Company, recognised directly in equity										
Shares issued	-	0.3	-	-	-	-	-	-	-	0.3
Own shares acquired by employee benefit trust	-	-	-	-	-	-	(8.1)	-	-	(8.1)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	2.5	-	2.5
Equity-settled transactions – vestings	-	-	-	-	-	-	17.2	(14.0)	(2.5)	0.7
Return of capital to shareholders (including related costs)	-	-	-	-	-	-	-	-	(282.8)	(282.8)
Capital reduction	*(5.1)*	(0.7)	-	-	0.7	4.1	-	-	(4.1)	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	(36.1)	(36.1)
Total contributions by and distributions to owners of the Company	*(5.1)*	(0.4)	-	-	0.7	4.1	9.1	(11.5)	(325.5)	(323.5)
Balance at 30 June 2015	*46.0*	38.6	(19.4)	(4.6)	1.7	(40.7)	(38.8)	16.5	53.8	7.1

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 2016 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 page 52.

During the period ended 30 June 2016, the Company completed an all share merger with Betfair Group plc (the "Merger") – see Note 9 for further information on the Merger. The results of Betfair Group plc prior to completion of the Merger are not included in these condensed consolidated interim financial statements.

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 2015, 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 by the Board of Directors of Paddy Power Betfair plc on 24 August 2016.

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 2015, except as set out below.

<u>Changes in accounting policies and restatement of comparatives</u>

The Group has reviewed and amended its accounting policies in light of the Merger. The changes do not impact the Group's reported operating profit, or amounts reported in the statement of financial position. The treatment of these items has developed over the past few years and the Group has reviewed its presentation of these items to align reporting for the Group subsequent to the Merger and to bring treatment in line with current industry practice for comparability purposes. Where adjustments have been made to comparative information in respect of the six months ended 30 June 2015 the relevant financial statement or note is headed up as 'Restated'.

The revised accounting policy for revenue is:

Revenue
The services provided by the Group comprise sports betting (sportsbook, the exchange sports betting product and pari-mutuel betting products), fixed odds games betting, online games and casino, peer-to-peer games including online bingo and poker and business-to-business services. Revenue is stated exclusive of value-added tax. Revenue also includes amounts received from the management and investment of customer funds.

The Group's betting and gaming activities, with the exception of the exchange sports betting product and pari-mutuel betting products on which commission income is earned, peer-to-peer games on which commission income and tournament fees are earned, and business-to-business services on which fees are earned, are classified as derivative financial instruments.

2. Basis of preparation and accounting policies (continued)

Revenue from sportsbook betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the revenue line as this represents the Group's principal activity. Customer promotions (including free bets) and bonuses are deducted from sportsbook betting revenue.

Revenue from the exchange sports betting product represents commission earned on betting activity and is recognised on the date the outcome for an event is settled.

Revenue from pari-mutuel betting products represents a percentage of stake and is recognised on settlement of the event, and is stated net of customer promotions and bonuses in the period.

Revenue from fixed odds games and the online casinos represents net winnings ('customer drop'), being amounts staked net of customer winnings, and is stated net of customer promotions and bonuses incurred in the period. Revenue from peer-to-peer games represents commission income ('rake') and tournament fees earned from games completed by the period end, and is stated net of the cost of customer promotions and bonuses incurred in the period. Revenue from business-to-business services represents fees charged for the services provided in the period.

There are no changes to revenue recognition for prior year comparatives as per the new accounting policy outlined above.

The Group has adopted the following accounting policy for cost of sales:

Cost of sales
Cost of sales principally comprises betting and gaming taxes, software supplier costs, customer payment transaction fees, sporting levies and other data rights charges.

The revised accounting policy for operating segment reporting is:

Operating segment reporting
Operating segments are distinguishable components of the Group that have been established based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker (the Board of Directors) in order to assess each segment's performance and to allocate resources to them. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its operating segments of Online, Australia, US and Retail are its reportable segments. See Note 4 for further information on operating segments.

The revised accounting policy for other non-derivative financial instruments is:

Other non-derivative financial instruments
Other non-derivative financial instruments comprise cash and cash equivalents, restricted cash, deposits, trade and other receivables and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash and call deposits with an original maturity of three months or less.

2. Basis of preparation and accounting policies (continued)

Restricted cash represents cash held by the Group but which is ring fenced, or used as security for specific arrangements (such as cash held in client fund accounts or as collateral for a bank guarantee), and to which the Group has restricted access for a period of time. It includes funds held to cover monies owed to customers, as per the terms of the Australian corporate sports book making licenses issued to Sportsbet and IAS. Restricted cash is classified as held to maturity and carried at amortised cost. Restricted cash balances are further classified as current or non-current depending on when the restriction first ends.

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7, 'Statement of Cash Flows', these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired losses.

Subsequent to initial recognition, cash and cash equivalents, deposits and trade and other payables are measured at amortised cost.

The revised accounting policy for bank and credit card charges is:

Bank and credit card charges

Bank and credit card charges and fees that are considered integral to the operations of the Group's business are recognised in 'cost of sales' in the consolidated income statement. Bank charges and fees that are related to the Group's financing activities are recognised in 'financial expense' in the consolidated income statement.

The impact of the changes, by reporting segment, on the major components of operating profit (before separately disclosed items), on the consolidated statement of financial position, and on the major components of the consolidated statement of cash flows, for the six months ended 30 June 2015 is disclosed in Note 19 to the condensed consolidated interim financial statements.

Following the Merger with Betfair Group plc, the Group changed its presentation currency from euro to pounds sterling. The change in presentation currency has been applied retrospectively.

The revised accounting policy for functional and presentation currency is:

Functional and presentation currency

Pounds sterling represents the primary currency for transactions and as such the Group has chosen to present its financial statements in pounds sterling, a change from the previous presentation currency of euro. The Company's functional currency is euro. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which are primarily pounds sterling, euro, Australian dollar and US dollar.

Further information on the procedures used to restate comparative information is provided in Note 20 to the condensed consolidated interim financial statements.

<u>Amendments to existing standards</u>

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 2015.

In addition to those disclosed in the consolidated financial statements, the Merger has resulted in a number of other significant judgements as noted below:

Valuation of tax provisions and liabilities
Judgement and estimation is required to interpret international tax laws and the way that they interact within each jurisdiction, in order to identify and value provisions in relation to gaming taxes as applicable. In addition to gaming taxes, judgement is required in relation to international tax laws including transfer pricing and controlled foreign companies.

Acquisition accounting and value of acquired assets and liabilities
The acquisition method of accounting is used to account for all business combinations. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Judgement and estimation is required in particular in the identification and valuation of separable intangible assets and determining appropriate useful economic lives for these assets. If the purchase consideration exceeds the fair value of the net assets acquired then the difference is recognised as goodwill.

The Group has one year from the acquisition date to re-measure the fair values of the acquired assets and liabilities and the resulting goodwill if new information is obtained relating to conditions that existed at the acquisition date.

Acquisition related costs are expensed as incurred. The business combinations entered into during the period are disclosed in Note 9.

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
Subsequent to the Merger, 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 Group has restated the operating segment information for the six months ended 30 June 2015 accordingly.

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 previous reportable segments of Online (ex Australia) and Telephone are included in the Online segment. 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 Australia segment was previously called Online Australia.

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 previous reportable segments of UK Retail and Irish Retail are included in the Retail segment.

4. Operating segments (continued)

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) which 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 summary of significant accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2015 with the exception of the changes in accounting policies as detailed in Note 2 to the condensed consolidated interim financial statements. There was no inter-segment trading in the six months ended 30 June 2016 and in the six months ended 30 June 2015.

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

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

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

	Online	**Australia**	**Retail**	**US**	**Corporate**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£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	**(180.0)**	**(66.2)**	**(83.6)**	**(22.9)**	**(24.3)**	**(377.0)**
EBITDA	**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)**
- Merger integration costs						**(49.0)**
- Amortisation of merger related intangible assets						**(78.9)**
- Replacement share options						**(13.4)**
- Impairment of PPE and intangible assets						**(4.0)**
Operating loss						**(44.4)**

Reportable business segment information for the six months ended 30 June 2015:

	Restated Online	**Restated Australia**	**Restated Retail**	**Restated US**	**Restated Corporate**	**Restated Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue from external customers	144.4	110.7	131.5	-	-	386.6
Cost of sales	(34.2)	(25.9)	(28.8)	-	-	(88.9)
Gross profit	110.2	84.8	102.7	-	-	297.7
Operating costs	(74.4)	(50.9)	(75.8)	-	(17.4)	(218.5)
EBITDA	35.8	33.9	26.9	-	(17.4)	79.2
Depreciation and amortisation	(7.2)	(4.1)	(7.9)	-	-	(19.2)
Reportable segment profit / (loss)	28.6	29.8	19.0	-	(17.4)	60.0

4. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	Six months ended 30 June 2016 £m	Restated Six months ended 30 June 2015 £m
Revenue		
Total revenue from reportable segments, being total Group revenue	**708.8**	386.6
Profit and loss		
Operating (loss) / profit	**(44.4)**	60.0
Unallocated amounts:		
Financial income – non-Australia [1]	**0.4**	0.2
Financial income – Australia	**0.4**	0.5
Financial expense – non-Australia [1]	**(2.3)**	(0.3)
Financial expense – Australia	**-**	(0.1)
(Loss) / profit before tax	**(45.9)**	60.3

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

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 2016 £m	Six months ended 30 June 2015 £m
Merger fees and associated costs	**(35.5)**	-
Merger integration 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 impact of separately disclosed items	**(180.8)**	-
Income tax credit on separately disclosed items	**15.8**	-
Total separately disclosed items	**(165.0)**	-

Merger fees and associated costs
Merger fees and associated costs relate to costs incurred in the period directly as a result of the Merger. This includes stamp duty of £20.7m and professional fees of £14.8m which were subject to completion of the Merger. This does not include any professional fees incurred by Betfair Group plc prior to the Merger.

Merger integration costs
Integration costs relate to incremental, one-off costs incurred post-Merger as a result of integration and restructuring related activities.

Amortisation of merger related intangible assets
Non-cash amortisation of £78.9m has been incurred in the period solely 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 £13.4m were incurred in the period.

Impairment of property, plant and equipment and intangible assets
Non-cash impairments amounting to £4.0m in relation to certain property, plant and equipment and intangible assets has also been incurred in light of integration related activities post-Merger.

Merger fees and associated costs, merger integration costs and replacement share options are included in the Condensed Consolidated Interim Income Statement within operating costs. 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. Income tax (expense) / credit

Income 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 income tax rate is applied to the taxable income of the interim period.

The Group’s underlying effective tax rate for the period was 16.0% (six months ended 30 June 2015: 15.0%), which compares to the standard Irish corporation tax rate of 12.5%. An income tax credit on separately disclosed items amounting to £15.8m was accounted for in the period ended 30 June 2016 (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, which include awards under the Long Term Incentive Plan and share options granted to employees.

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2016	Restated Six months ended 30 June 2015
Numerator in respect of basic and diluted earnings per share (£m):		
(Loss) / profit attributable to equity holders of the Company	**(51.7)**	51.4
Numerator in respect of adjusted earnings per share (£m):		
(Loss) / profit attributable to equity holders of the Company	**(51.7)**	51.4
Add: Separately disclosed items (Note 5)	**165.0**	-
Profit for adjusted earnings per share calculation	**113.3**	51.4
Weighted average number of ordinary shares in issue during the period (in '000s)	**76,275**	46,981
Basic (loss) / earnings per share	**(£0.677)**	£1.093
Adjusted basic earnings per share	**£1.485**	£1.093
Adjustments to derive denominator in respect of diluted earnings per share (in '000s):		
Weighted average number of ordinary shares in issue during the period	**76,275**	46,981
Dilutive effect of share options and awards on issue	**1,581**	265
Adjusted weighted average number of ordinary shares in issue during the period	**77,856**	47,246
Diluted earnings per share	**(£0.677)**	£1.087
Adjusted diluted earnings per share	**£1.455**	£1.087

The average market value of the Company's shares of £93.16 (30 June 2015: £54.90) 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 2015	10.4	40.5	-	16.3	12.9	80.1
Arising on acquisitions during the period (Note 9)	-	-	-	0.3	1.4	1.7
Foreign currency translation adjustment	(0.9)	(2.8)	-	(0.8)	(1.2)	(5.7)
Balance at 30 June 2015	9.5	37.7	-	15.8	13.1	76.1
Arising on acquisitions during the period	-	-	-	0.4	3.8	4.2
Foreign currency translation adjustment	0.3	0.3	-	-	(1.0)	(0.4)
Balance at 31 December 2015	9.8	38.0	-	16.2	15.9	79.9
Arising on acquisitions during the period (Note 9)	**3,420.9**	**-**	**321.4**	**0.1**	**-**	**3,742.4**
Foreign currency translation adjustment	**1.2**	**4.7**	**20.7**	**1.2**	**2.1**	**29.9**
Balance at 30 June 2016	**3,431.9**	**42.7**	**342.1**	**17.5**	**18.0**	**3,852.2**

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 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.

9. Business combinations (continued)

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

	As at 2 February 2016 £m
Assets	
Property, plant and equipment	18.8
Intangible assets	680.5
Available-for-sale financial asset and Investments	1.4
Total non-current assets	700.7
Trade and other receivables	30.5
Financial assets – restricted cash	17.1
Cash and cash equivalents	139.9
Total current assets	187.5
Total assets	888.2
Liabilities	
Trade and other payables	181.8
Provisions	4.3
Current tax payable	33.2
Total current liabilities	219.3
Trade and other payables	20.9
Deferred tax liabilities	76.6
Total non-current liabilities	97.5
Total liabilities	316.8
Net assets acquired	**571.4**
Goodwill	**3,742.3**
Consideration	**4,313.7**

Consideration satisfied by:	
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 8 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.

9. Business combinations (continued)

Receivables acquired amounted to £30.5m. 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 Betfair Group's customers and is equal to amounts deposited into customer accounts. The Sporting Exchange (Clients) Limited is a fully owned subsidiary of the Betfair Group.

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

Total revenue and total profit of the combined entities is disclosed in the operating and finance review on page 8. Betfair Group's statutory revenue and profit cannot be readily defined due to the integration of the two business during the period post-Merger.

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:

	Provisional 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 business in respect of the period from acquisition and for the period ended 30 June 2016 has not been presented on the basis of immateriality.

Six months ended 30 June 2015

Shop property business acquisitions

In 2015, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in the UK and Ireland.

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

	Restated Fair values 30 June 2015 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.3
	0.3
Goodwill arising on acquisition – UK Retail and Irish Retail	1.7
Consideration	2.0
The consideration is analysed as:	
Cash consideration	1.4
Contingent deferred consideration	0.6
	2.0

9. Business combinations (continued)

The principal factors contributing to the UK and Irish Retail goodwill balance are the well-established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the group. Information in respect of revenue, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the period ended 30 June 2015 has not been presented on the basis of immateriality. Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed targets for the next 12 months following the date of acquisition. The contingent deferred consideration amount of £0.6m at 30 June 2015 represents management's best estimate of the fair value of the amounts that will be payable.

Net cash (inflow) / outflow from purchase of businesses

	Six months ended 30 June 2016 £m	Restated Six months ended 30 June 2015 £m
Cash consideration – acquisitions in the period	**0.1**	1.4
Cash consideration – acquisitions in previous periods	**1.3**	0.8
Cash and cash equivalents acquired	**(139.9)**	-
	(138.5)	2.2
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	**(139.8)**	1.4
Payment of contingent deferred consideration	**1.3**	0.8
	(138.5)	2.2

10. Cash and cash equivalents and financial assets – restricted cash

	30 June 2016 £m	Restated 30 June 2015 £m	Restated 31 December 2015 £m
Financial assets – restricted cash	**92.3**	54.2	60.2
Cash and cash equivalents	**213.2**	66.9	86.1
	305.5	121.1	146.3

Included in financial assets – restricted cash at 30 June 2016 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 2016, £305.5m (31 December 2015: £Nil and 30 June 2015: £Nil) was held in trust in The Sporting Exchange (Clients) Limited on behalf of the Group's customers and is equal to the amounts deposited into customer accounts.

11. Trade and other payables and derivative financial liabilities

Current liabilities

	30 June 2016	Restated 30 June 2015	Restated 31 December 2015
	£m	£m	£m
Trade and other payables			
Trade payables	**11.9**	13.8	12.1
Accruals and other payables	**380.5**	153.3	172.0
	392.4	167.1	184.1
Derivative financial liabilities			
Foreign exchange forward contracts – cash flow hedges	**-**	4.8	-
Sports betting open positions	**19.3**	10.1	12.5
	19.3	14.9	12.5

Non-current liabilities

	30 June 2016	Restated 30 June 2015	Restated 31 December 2015
	£m	£m	£m
Trade and other payables			
Accruals and other payables	**28.7**	3.6	5.0
Derivative financial liabilities			
Sports betting open positions	**0.4**	0.1	-

Included in non-current accruals and other payables is deferred and contingent consideration of £21.7m payable to the Stronach Group, which will be settled more than 12 months after the reporting date. This liability was acquired as part of the Merger.

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 2016, 30 June 2015 and 31 December 2015 and the 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 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Available-for-sale financial assets	**-**	**1.3**	**-**	**1.3**
Derivative financial assets	**-**	**4.0**	**-**	**4.0**
Derivative financial liabilities	**-**	**-**	**(19.7)**	**(19.7)**
Non-derivative financial liabilities	**-**	**-**	**(23.6)**	**(23.6)**
Total	**-**	**5.3**	**(43.3)**	**(38.0)**

	30 June 2015			
	Restated Level 1	Restated Level 2	Restated Level 3	Restated Total
	£m	£m	£m	£m
Derivative financial liabilities	-	(4.8)	(10.2)	(15.0)
Non-derivative financial liabilities	-	-	(0.9)	(0.9)
Total	-	(4.8)	(11.1)	(15.9)

	31 December 2015			
	Restated Level 1	Restated Level 2	Restated Level 3	Restated Total
	£m	£m	£m	£m
Derivative financial assets	-	1.8	-	1.8
Derivative financial liabilities	-	-	(12.5)	(12.5)
Non-derivative financial liabilities	-	-	(0.8)	(0.8)
Total	-	1.8	(13.3)	(11.5)

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, which arose due to the Merger, is valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1.

Derivative financial instruments
Derivative financial instruments comprise foreign exchange forward contracts and sports betting open positions.

The fair value of foreign exchange forward contracts (Level 2 above) is determined using quoted forward foreign currency exchange rates at the balance sheet date.

The fair value of open sports bets at the period end (Level 3 above) 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 is estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios.

Contingent deferred consideration
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.

Additional contingent deferred consideration of £22.0m was acquired as a result of the Merger. This is payable to the Stronach Group due to Betfair's historical acquisition of HRTV, a horseracing television network based in the US. The amount payable at the period end amounted to £22.8m, with £21.7m 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 2015.

13. Borrowings

Current liabilities

	30 June 2016	Restated 30 June 2015	Restated 31 December 2015
	£m	£m	£m
Accrued interest on borrowings	**0.2**	-	0.2

Non-current liabilities

	30 June 2016	Restated 30 June 2015	Restated 31 December 2015
	£m	£m	£m
Revolving credit facility	**210.8**	174.3	143.1
Less: expenses relating to revolving credit facility	**(1.0)**	(1.8)	(1.3)
	209.8	172.5	141.8

The Group avails of 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 2016, €255m (£210.8m) 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.

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

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

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

- Consolidated net borrowings shall not be more than 3.0 times underlying consolidated EBITDA.
- Underlying consolidated EBITDA shall not be less than 4.0 times net finance charges.

14. Dividends paid on ordinary shares

	Six months ended 30 June 2016 £m	Restated Six months ended 30 June 2015 £m
Ordinary shares:		
- final dividend of €1.20 (£0.933) per share for the year ended 31 December 2015 (31 December 2014: €1.02)	**40.8**	36.1
- special dividend of €1.814 (£1.411) per share (31 December 2014: Nil)	**61.9**	-
- Paddy Power plc closing dividend of €0.18 (£0.140) per share (31 December 2014: Nil)	**6.1**	-
	108.8	36.1

The Directors have proposed an interim dividend of 40.0 pence per share which will be paid on 30 September 2016 to shareholders on the Company's register of members at the close of business on the record date of 9 September 2016. This dividend, which amounts to approximately £33.5m, has not been included as a liability at 30 June 2016. The interim dividend for the period ended 30 June 2015 was 60.0 cent per share, amounting in total to £19.3m.

The Paddy Power plc closing dividend represented the period from 1 January 2016 to 1 February 2016.

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 2016, 79,435 ordinary shares were issued as a result of the exercise of share options, giving rise to a share premium of £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.

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 2016 and 30 June 2015. 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 2016 (30 June 2015: £40.7m). At 30 June 2016, the Paddy Power Betfair plc EBT held a further 601,769 of its own shares (30 June 2015: 747,891 shares), in respect of potential future awards relating to the Group's employee share plans. The Group's distributable reserves at 30 June 2016 and 30 June 2015 are further restricted by these respective amounts.

15. Changes in equity (continued)

As detailed in the condensed consolidated interim statement of changes in equity, 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, the vesting of LTIP awards and the issue of replacement share based payments awards due to the Merger during the six month period ended 30 June 2016. A total of 273,121 shares in respect of LTIP awards and related dividends were vested from the EBT to certain staff during the six months ended 30 June 2016 (six months ended 30 June 2015: 410,499 shares).

The movement in the foreign exchange translation reserve in the six months to 30 June 2016 reflects the strengthening of the USD, AUD and Euro 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 has 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 £3.5m at 30 June 2016 (30 June 2015: fair value loss of £4.2m), which is stated after applicable deferred taxation of £0.5m (30 June 2015: £0.6m), arises as the applicable forward contract EUR-GBP rates were stronger than the relevant forward foreign exchange rate ruling at 30 June 2016 (30 June 2015: applicable forward contract EUR-GBP rates were weaker).

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 2016 or 30 June 2015 or the year ended 31 December 2015.

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 40.0 pence per ordinary share of EUR 0.09 each (2015: 60.0 cent per share) be paid to shareholders on 30 September 2016. 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 9 September 2016. The total estimated dividend to be paid amounts to £33.5m (2015: £19.3m).

19. Changes in accounting policies

Under the new Group accounting policy as outlined in Note 2, certain amounts previously accounted for as operating expenses are accounted for as cost of sales, and certain amounts previously accounted for as cost of sales are accounted for as operating expenses. In addition, certain amounts previously reported within the Online, Australia and Retail operating segments are reported within the Corporate operating segment. The impact of the changes, by reporting segment, on the major components of operating profit in the six months ended 30 June 2015 are as follows:

	Six months ended 30 June 2015					
	Online	**Australia**	**Retail**	**US**	**Corporate**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Cost of sales						
As reported under previous accounting policies	(38.5)	(27.2)	(28.7)	-	-	(94.4)
Restatement	4.3	1.3	(0.1)	-	-	5.5
As reported under new accounting policies	(34.2)	(25.9)	(28.8)	-	-	(88.9)
Operating expenses						
As reported under previous accounting policies	(84.6)	(51.6)	(76.8)	-	-	(213.0)
Restatement	10.2	0.7	1.0	-	(17.4)	(5.5)
As reported under new accounting policies	(74.4)	(50.9)	(75.8)	-	(17.4)	(218.5)
Impact on operating profit	14.5	2.0	0.9	-	(17.4)	-

The total restatement between cost of sales and operating expenses in the six months ended 30 June 2015 amounted to £5.5m (€7.6m).

Under the new Group accounting policy as outlined in Note 2, certain amounts previously accounted for as cash and cash equivalents and included in the statement of cash flows are accounted for as financial assets – restricted cash and are excluded from the statement of cash flows. The impact of the changes on the major components of the consolidated statement of cash flows in the six months ended 30 June 2015 are as follows:

	Six months ended 30 June 2015 As reported under previous accounting policies £m	Six months ended 30 June 2015 As reported under new accounting policies £m
Net cash from operating activities	83.3	83.3
Net cash used in investing activities	(7.3)	(7.3)
Net cash used in financing activities	(149.6)	(153.4)
Net decrease in cash and cash equivalents	(73.6)	(77.4)
Cash and cash equivalents at start of period	176.4	153.3
Foreign currency exchange loss on cash and cash equivalents	(11.1)	(9.0)
Cash and cash equivalents at end of period	91.7	66.9

The impact of the changes on the consolidated statement of financial position as at 30 June 2015 and 31 December 2015 are as follows:

	30 June 2015 As reported under previous accounting policies £m	30 June 2015 As reported under new accounting policies £m	31 December 2015 As reported under previous accounting policies £m	31 December 2015 As reported under new accounting policies £m
Financial assets – restricted cash	29.4	54.2	34.5	60.2
Cash and cash equivalents	91.7	66.9	111.8	86.1

20. Change in presentation currency

In restating the Group financial statements for 2015, the reported information was converted to pounds sterling from euro using the following procedures:

- assets and liabilities of foreign operations where the functional currency is other than pounds sterling were translated into pounds sterling at the relevant closing rates of exchange, namely 1 January 2015, 30 June 2015 and 31 December 2015. Non-sterling trading results were translated into sterling at the actual rates of exchange for the transactions (or the relevant average rates of exchange where this was a reasonable approximation). Differences arising from the retranslation of the opening net assets and the results for the year have been taken to the foreign currency translation reserve;

- the cumulative foreign currency translation reserve was set to nil at 1 January 2015, the date at the beginning of the prior year comparative period. All subsequent movements comprising differences on the retranslation of the opening net assets of non-sterling subsidiaries have been taken to the foreign currency translation reserve. Share capital, share premium and other reserves were translated into pounds sterling at the rate of exchange at 1 January 2015 and at the historic rates prevailing at the dates of transactions thereafter; and

- all exchange rates used were extracted from the Group's underlying financial records.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Six months ended 30 June 2015 As restated in EUR (unaudited) €m	Six months ended 30 June 2015 As restated in GBP (unaudited) £m
Continuing operations		
Revenue	527.8	386.6
Cost of sales	(121.9)	(88.9)
Gross profit	405.9	297.7
Operating costs	(299.8)	(218.5)
EBITDA	106.1	79.2
Depreciation and amortisation	(26.0)	(19.2)
Operating profit	80.1	60.0
Financial income	0.9	0.7
Financial expense	(0.5)	(0.4)
Profit before tax	80.5	60.3
Income tax expense	(12.1)	(8.9)
Profit for the period – all attributable to equity holders of the Company	68.4	51.4

20. Change in presentation currency (continued)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2015 As originally reported (unaudited) €m	Six months ended 30 June 2015 As restated in GBP (unaudited) £m
Profit for the period – all attributable to equity holders of the Company	68.4	51.4
Other comprehensive income / (expense)		
Effective portion of changes in fair value of cash flow hedges	(10.3)	(7.7)
Fair value of foreign exchange cash flow hedges transferred to income statement	6.1	4.5
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated subsidiaries	6.4	(19.4)
Deferred tax on fair value of cash flow hedges	0.5	0.4
Other comprehensive income / (expense)	2.8	(22.2)
Total comprehensive income for the period – all attributable to equity holders of the Company	71.2	29.2

20. Change in presentation currency (continued)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	30 June 2015 As restated in EUR (unaudited) €m	30 June 2015 As restated in GBP (unaudited) £m	31 December 2015 As restated in EUR (audited) €m	31 December 2015 As restated in GBP (unaudited) £m
Assets				
Property, plant and equipment	126.6	90.0	125.4	92.0
Intangible assets	81.0	57.6	82.1	60.3
Goodwill	107.0	76.1	108.9	79.9
Deferred tax assets	8.7	6.2	9.1	6.7
Trade and other receivables	1.1	0.8	-	-
Total non-current assets	324.4	230.7	325.5	238.9
Trade and other receivables	38.3	27.3	30.9	22.7
Derivative financial assets	-	-	2.4	1.8
Financial assets – restricted cash	76.2	54.2	81.9	60.2
Cash and cash equivalents	94.1	66.9	117.3	86.1
Total current assets	208.6	148.4	232.7	170.8
Total assets	533.0	379.1	558.1	409.7
Equity				
Issued share capital and premium	49.5	38.6	6.8	8.7
Treasury shares	(51.8)	(40.7)	(51.8)	(40.7)
Shares held by employee benefit trust	(48.8)	(38.8)	(63.1)	(49.2)
Other reserves	22.9	(5.8)	40.9	8.5
Retained earnings	38.1	53.8	136.5	123.6
Total equity attributable to equity holders of the Company	10.0	7.1	69.3	50.9
Liabilities				
Trade and other payables	234.9	167.1	250.8	184.1
Derivative financial liabilities	20.9	14.9	17.0	12.5
Provisions	0.6	0.5	0.6	0.4
Tax payable	13.8	9.8	14.9	10.9
Borrowings	-	-	0.3	0.2
Total current liabilities	270.2	192.3	283.5	208.1
Trade and other payables	5.1	3.6	6.8	5.0
Derivative financial liabilities	0.1	0.1	0.1	-
Provisions	1.2	0.8	1.3	1.0
Deferred tax liabilities	3.8	2.7	3.9	2.9
Borrowings	242.5	172.5	193.2	141.8
Total non-current liabilities	252.7	179.7	205.3	150.7
Total liabilities	523.0	372.0	488.8	358.8
Total equity and liabilities	533.0	379.1	558.1	409.7

20. Change in presentation currency (continued)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June 2015 As restated in EUR (unaudited) €m	Six months ended 30 June 2015 As restated in GBP (unaudited) £m
Cash flows from operating activities		
Profit for the period – all attributable to equity holders of the Company	68.4	51.4
Income tax expense	12.1	8.9
Financial income	(0.9)	(0.7)
Financial expense	0.5	0.4
Depreciation and amortisation	26.1	19.2
Employee equity-settled share-based payments expense	3.6	2.5
Foreign currency exchange gain	(2.5)	(1.9)
Loss on disposal of property, plant and equipment and intangible assets	0.2	0.1
Cash from operations before changes in working capital	107.4	79.9
Increase in trade and other receivables	(6.8)	(5.0)
Increase in trade and other payables and provisions	25.0	19.2
Cash generated from operations	125.6	94.1
Income taxes paid	(14.6)	(10.8)
Net cash from operating activities	111.0	83.3
Purchase of property, plant and equipment	(14.3)	(10.5)
Purchase of intangible assets	(14.8)	(10.8)
Purchase of businesses, net of cash acquired	(1.9)	(1.4)
Payment of contingent deferred consideration	(1.1)	(0.8)
Proceeds from disposal of property, plant and equipment and intangible assets	0.1	-
Transfers from financial assets – deposits	21.0	15.4
Interest received	1.1	0.8
Net cash used in investing activities	(9.9)	(7.3)
Proceeds from the issue of new shares	0.4	0.3
Purchase of shares by employee benefit trust	(11.0)	(8.1)
Dividends paid	(49.9)	(36.1)
Return of capital to shareholders (including associated costs)	(390.0)	(281.3)
Net amounts drawn down on borrowings facility	245.0	176.4
Fees in respect of borrowings facility	(2.1)	(1.5)
Interest paid	(0.4)	(0.3)
Movements in restricted cash balances	(3.9)	(2.8)
Net cash used in financing activities	(211.9)	(153.4)
Net decrease in cash and cash equivalents	(110.8)	(77.4)
Cash and cash equivalents at start of period	196.8	153.3
Foreign currency exchange gain / (loss) on cash and cash equivalents	8.1	(9.0)
Cash and cash equivalents at end of period	94.1	66.9

INDEPENDENT REVIEW REPORT TO PADDY POWER BETFAIR PLC

Introduction

We have been engaged by Paddy Power Betfair plc ('the Company') to review the condensed consolidated interim financial statements in the half yearly financial report for the six months ended 30 June 2016, which comprise 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. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

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 Disclosure Guidelines and Transparency Rules of the UK's Financial Conduct Authority ('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.

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 report in accordance with the TD Regulations and the Transparency Rules of the Central Bank of Ireland and the Disclosure Guidance and Transparency Rules of the UK FCA.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Our responsibility

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

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. 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half yearly financial report for the six months ended 30 June 2016 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland and the Disclosure Guidelines and Transparency Rules of the UK FCA.

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

24 August 2016